

from

WELFARE STATE *to*

CIVIL

SOCIETY

Dr David G. Green

*Towards
Welfare
that Works
in New Zealand*

NEW ZEALAND BUSINESS ROUNDTABLE

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P R E F A C E

The purpose of this study, which was supported by the New Zealand Business Roundtable, is to suggest the guiding principles for the reform of the welfare state. Plainly any such task involves taking a view about the ideal of a free society. The report, therefore, undertakes two main tasks. First, it describes what I take to be the true liberal ethos and differentiates it from some modern doctrines which seem initially to resemble it. And second, it describes the ideal of private welfare which, before the development of the welfare state, permitted the government an essential but limited role whilst the chief burden was assumed by the unpoliticised community.

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David G. Green

S U M M A R Y

1. I N T R O D U C T I O N

- 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.

2. T H E I D E A L O F L I B E R T Y : A R E - S T A T E M E N T

- 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.

3. 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.

- 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 co-operation 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.

4. 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-judgementalism: 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.

5. A WELFARE ETHOS FOR A FREE PEOPLE

- Three requirements for a welfare ethos are suggested:
 - we need to begin the de-politicisation 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.

6. 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.

7. 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.

8. 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.

9. 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 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.

1. INTRODUCTION

The terms of the welfare debate have changed in recent years. For much of this century, especially since the Second World War, the ruling ethos has been welfare from the cradle to the grave. This approach began to be criticised in the late 1970s on three main grounds. First, consumers of services such as health and education were being forced to endure public sector monopolies which were providing bad service and denying choice. Second, it was producing harmful effects on the economy, including a weakening of the incentive to increase earnings because of higher taxes; higher unemployment because of the increased cost of social insurance for employers; and increased government debt due to irresponsible borrowing to meet welfare expenditure. Third, the interaction of the social security and tax systems was creating incentives to avoid work, with the effect that more people had become dependent on welfare.

During the 1980s in Britain, the United States and New Zealand, governments came to power convinced of the necessity for radical reform to restore the market economy and cut government spending. However, by the end of the decade, it was obvious that progress in welfare reform had been very slight. Despite the many successes of 'Reaganomics' in the United States, 'Thatcherism' in Britain and 'Rogernomics' in New Zealand, the state remained a pervasive presence in all three countries, still disposing of a similar proportion of national income in 1990 as that being disposed 10 years earlier. By the mid-1990s the welfare states in all three countries, despite professed fears that they would be dismantled, had remained intact.

In New Zealand successive governments since 1984 have controlled the expansion of welfare spending. The increasing cost of National Superannuation was held in check by limiting increases in benefits and raising the pension age. Most other benefits were cut in 1991 by amounts varying from 5 to 25 percent and eligibility criteria were tightened. Absconding parents came under more pressure to support their children instead of expecting the benefit system to pick up the bill. A new system of tertiary education funding was introduced in 1990, public housing rents have been increased to market levels and housing subsidies reformed. All told, these measures have prevented increases that would otherwise have occurred, but the thrust of policy has been the imposition of expenditure constraints, not radical reform. This focus reflects the underlying cause of the policy changes, namely the financial crisis of the mid-1980s.

Why was progress so small in the 1980s, despite the known sympathies of the Thatcher and Reagan governments as well as successive New Zealand administrations after 1984? One common explanation is that powerful vested interests, such as public-sector trade unions, resisted change. The medical profession, for instance, fought health reform and the teachers' unions opposed educational change. Yet the British and New Zealand governments both introduced health and education reforms despite the hostility of the medical and teaching professions, who contrived to be upset even though the measures were limited in scope. So resistance by vested interests does not alone account for the lack of progress. It is also necessary to explain the limited ambitions of 1980s free-market governments.

The underlying problem is that the majority of people still think of the welfare state as innately decent and have not yet understood the serious, long-lasting harm it has caused. Not long ago I was listening to a British radio phone-in programme about services for the blind. A caller rang in to say that it was a scandal in a civilised society that a voluntary organisation, the Royal National Institute for the Blind, provided the bulk of services for blind people. His attitude is widely shared in New Zealand. But isn't the exact opposite true? That is, the more civilised the society, the *more* it will be able to count on spontaneous efforts to help people in need, and the *less* it will need coercive intervention by the state.

Too many people still see the state as the only certain way to discharge our obligation to the poor and unfortunate. But this view disregards our own history, and it disregards the harm that we are now discovering the welfare state does to fundamental institutions, such as the family and voluntary associations.

The history of welfare has typically been written by partisans of the expanding state who discounted the multiplicity of private activities as a patchwork of overlapping but inadequate efforts which ought to be replaced by a single, comprehensive scheme. But new studies are now beginning to show that the reality of welfare before the welfare state in Britain, the United States, Australia and New Zealand was very different from the image fostered by partisan historians. Marvin Olasky, for instance, has described the huge extent of American philanthropy in *The Tragedy of American Compassion*;¹ my earlier *Reinventing Civil Society*² describes welfare in Britain before the welfare state; *Mutual Aid or Welfare State*,³ written with my colleague Larry Cromwell, re-interprets Australian history; and David Thomson has re-appraised New Zealand's welfare provision before 1938 (his study is produced as a companion to *From Welfare State to Civil Society*).⁴ There are two main lessons from such studies. First, there was less justification for government

welfare than partisan historians have claimed. And second, the record of voluntary welfare helps us to understand what is possible today. If people living in the nineteenth century at a much lower standard of life could evolve such fine institutions, then similar achievements ought not to be beyond us as we approach the next century.

There was an older ethos of 'community without politics' which, until the twentieth century, was an indispensable element of classical liberalism. In short, champions of liberty divided responsibility three ways: first, there was individual or family responsibility; second, there was the community as distinct from the state; and third, the government. The majority of the population assumed responsibility for fostering a 'public but not political domain' of duties to care for all those who were not succeeding for one reason or another.

Some of those who read the first draft of this report thought it a mistake to devote so much of the report to 'ideas' rather than policies. But the welfare problem faced by New Zealand is shared by other Western countries, not least Britain and the United States, and many of the ideas which are at the root of welfare failure have been imported. New Zealand's own home-grown tradition was abandoned under the influence of ideas from overseas, especially the United States since the late 1960s. These intellectual errors, as I see them, are the chief cause of the failure of welfare statism and for this reason I have concentrated on combating them and on re-stating the ideal of a free society and its associated ethos of private welfare.

Organisation of the Study

The first difficulty in proposing the reform of any modern institution is that the protagonists are frequently affected by partisan politics and the language used is riddled with ambiguity. There is no agreed meaning even for fundamental terms such as freedom, equality, justice, democracy and community. Some clearing of the ground is, therefore, indispensable if confusion is not to reign. But the task is not merely one of defining terms, though it obviously helps if protagonists use the same words to mean the same things. It is more a matter of explaining the historical tradition of thought from which my arguments emerge. Chapter 2, therefore, begins with a description of what I take to be the mainstream tradition of liberty.

Chapter 3 offers an explanation of the continued strength of collectivist thought, describing its historical roots and modern-day counterparts.

Then, armed with what I hope will be agreed is an accurate and helpful method of looking at the ideal of freedom, I turn to more specific issues. Chapter 4 assesses the welfare problem as it is being perceived in Britain, the United States and New Zealand. Chapter 5 suggests how we could create

a new division of responsibility between the state and civil society, and describes the ethos of 'community without politics' which is central to the ideal of civil association.

The remaining chapters each deal with one issue. Chapter 6 proposes alternative methods of relieving poverty, Chapter 7 advocates health care reform, Chapter 8 deals with education and Chapter 9 is concerned with savings, including pension provision.

2. THE IDEAL OF LIBERTY: A RE-STATEMENT

I will follow the philosopher Michael Oakeshott in contending that modern European states can best be understood as torn between two contradictory methods of association. The first type of association he calls 'civil association' and the second 'enterprise association'. The use of the term 'enterprise association' to describe collectivism may strike some readers as counter-intuitive because 'enterprise' is usually taken to be a desirable quality. Oakeshott's point is that, whilst *private* enterprise is desirable, it is dangerous for the state to act as if it were a private corporation. To avoid confusion, I will speak of 'corporate association' rather than Oakeshott's 'enterprise association'.

Each type of association is based on different assumptions about two other fundamental questions: the character of the people comprising the association (human nature); and the tasks and limits of government. Together, the principle of association, the conception of human nature and the attitude to the role of government constitute what Oakeshott calls the 'three inseparables'.¹ All political philosophies make assumptions about all three elements, whether explicitly or not.

A 'corporate association' is composed of persons united in pursuit of a common interest or objective. A nation might comprise many such corporate associations, including commercial companies, but here I am concerned with nation-states. In the pure form of a nation as a corporate association, there is but one overriding national objective.

In a nation of 'civil associates' 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. Respect for the authority of the law does not imply that every person supports every law. Since the law changes, respect is given both to the law as it stands and to the law-reforming process. People are united not because they share the same wants, but because they accept that no person should exempt himself from the law as each pursues his own goals.² Each accepts the obligation to act justly towards others, and each enjoys equal status under the jurisdiction. This legal ethos is different from that in a corporate association. 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 the common aim. In the pure form of civil association, the laws are moral stipulations, not instrumental commands.³

The task of government under a corporate association is to manage the pursuit of the common goal and to direct individuals as appropriate. Individuals are seen primarily as performers of allotted tasks, under guidance. The task of the state under a civil association is to maintain and enforce the laws, and to supply services such as defence, which must be financed from taxation. The role of government is limited and subject to the law. Its task is not to manage people but to create the conditions in which people can freely associate for self-management.

Civil association also rests on a distinctive view of human nature. Individuals are seen not as role players under leadership but as intelligent agents understanding or not understanding their predicament, guided by beliefs, choices, sentiments or habits. The freedom this entails is seen as a pleasure, not a burden. It is valued for its own sake, not simply because it may lead to wanted outcomes. Indeed, it is seen as central to the dignity of men and women. The individual is autonomous, not isolated; that is, he (or she) has command of material resources and personal skills and acts in accordance with his self-conception, including an awareness of his own limits, and in pursuit of his own aims.⁴ Individuals so conceived are the carriers of a moral compass: in short, each is a person with a character rather than an individual with a role.⁵

Thus, a civil association is not a mere collectivity of disparate individuals. It implies a strong bond of solidarity, but one very different from the unity typical of a corporate association. In a civil association the sense of solidarity of the people derives from the shared sense that the social system gives all of us a chance to do the best we can in our self-chosen sphere of life. No less important, it depends on awareness that the continuance of liberty rests on everyone doing his best to uphold the personal virtues indispensable in a free society. The sense that we are all pulling our weight is a powerful unifying force.

The sense of solidarity in a corporate association, however, derives from the belief that each person is part of a single grand scheme, perhaps to modernise or develop the nation's resources or to mould human character in a new direction. Thus, in a nation organised as a corporate association individuals are instruments of the government, whereas in a civil association the government is an instrument of the people, charged with keeping in good order the institutions that allow people to pursue their self-chosen ideals. But the individuals comprising a free society are united in a real sense. They cannot be understood as isolated individuals, a caricature which Hayek called the "silliest of the common misunderstandings".⁶ The phrase 'civil association' stresses acceptance of shared conditions as the theme which unites people.

Other scholars have made a similar point by emphasising that liberty is a word which describes a *process*, not an end result.⁷ It is indeed a process, but Oakeshott's focus is more helpful in concentrating on what makes a free system work: namely the acceptance of shared conditions, legal and moral; the assumption of personal responsibility for maintaining them; and a government which sees liberty, in the words of the second American president John Adams, as "its end, its use, its designation, drift and scope", and no more.⁸

It is this conception of liberty as civil association that I will assume in my use of the term throughout this book.

CLASSICAL LIBERAL ASSUMPTIONS ABOUT HUMAN CHARACTER AND THE MORAL ORDER

One of the most powerful criticisms directed against enthusiasts for free markets is that they are immoral. In a variation of this argument, John Gray contends that a market system undermines the cultural foundations of society: the "paleo-liberal celebration of consumer choice and market freedom as the only undisputed values has become a recipe for *anomie*, social breakdown and ultimately economic failure".⁹

Thomas Carlyle, in *Past and Present*, published in 1843, set the tone of much later anti-capitalist rhetoric. His caricature of capitalism as based on the "cash nexus" alone was embraced by Marx and is still repeated today. John Gray, for instance, refers to "a view of society, explicit in Hayek and before him in Herbert Spencer, in which it is nothing but a nexus of market exchanges".¹⁰ Professor Raymond Plant, now a prominent Labour member of the British House of Lords, claims that under what he calls individualist conservatism: "What matters is the result of a person's endeavours and whether others are prepared to pay for it. This is the *only* criterion of value applicable in a free society." "Markets", he goes on to say, "must be kept in their place", because they encourage "egoism over altruism, and rational calculation of advantage over trust".¹¹

In an attack on "conservatism" Ted Honderich, a professor of philosophy at the University of London, writes that:

Conservatives remain fond of Adam Smith's pious discerning of a hidden hand in our affairs. This is the speculation ... that if each of us seeks selfishly our own personal profit, this may somehow and mysteriously serve a general end.

The conclusion he reaches is that the conservative rationale for such politics is "selfishness":

Their selfishness alone is what explains their various and more important commitments in connection with property and a market, commitments to such things as reward. It explains their resistance to ... decent lives for those who lack them.¹²

This caricature of liberty bears no resemblance to the arguments of classical-liberal writers such as Adam Smith, J.S. Mill, de Tocqueville, Acton and Alfred Marshall, nor to modern champions, such as Hayek, Arthur Seldon and James Buchanan. Let me begin with an explanation of the views of Adam Smith on markets and morality.

Human beings, in Smith's view, were inclined to seek the approval of others, which meant that the greatest happiness came from acting in a manner considered virtuous, and the greatest misery from infringing the moral expectations of other people. This tendency rested on "sympathy", an emotion described in the opening sentence of *The Theory of Moral Sentiments*:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.¹³

What were the implications of this view for the design of the good society? Smith rejected the view, associated with Hobbes, that people are bad and that the only way to secure order is for the government to exercise control over them. Law was necessary, in Smith's view, but the desire of men for praise meant that we could place considerable reliance on civil society for the maintenance of high moral standards.

Good conduct was not spontaneous, however. It had to be worked at by each individual struggling to be a better person and by each citizen taking an interest in the civil institutions which foster the best in people, notably the family and voluntary associations such as the church, charities and mutual aid associations. Smith believed there were three moral "tribunals", the first two of which work with the grain of human nature:

Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren. She taught him to feel pleasure in their favourable, and pain in their unfavourable regard.

But, he continues, the desire for approbation and the aversion to disapprobation do not alone make man fit for society. Accordingly, nature has endowed him "not only with a desire of being approved of, but with a desire of being what *ought* to be approved of".¹⁴

That is, the first tribunal was based on the desire for “actual praise, and in the aversion to actual blame”; whereas the jurisdiction of the second—the “man within”—was founded on the desire for:

... praiseworthiness, and in the aversion to blameworthiness; in the desire of possessing those qualities, and performing those actions, which we love and admire in other people; and in the dread of possessing those qualities, and performing those actions, which we hate and despise in other people.¹⁵

The term “impartial spectator” is used repeatedly. Smith stressed the importance of the “impartial and well-informed spectator” or “the man within the breast”, because he believed that people were inclined to over-value their own preferences. It is, therefore, important to take into account how others see us, because it makes us moderate our own beliefs and feelings, and temper our view of our own importance. The great law of Christianity, he says, is to love our neighbour as we love ourselves. And, he continues, “it is the great precept of nature to love ourselves only as we love our neighbour, or, what comes to the same thing, as our neighbour is capable of loving us”.¹⁶

Smith’s first tribunal may be understood as encouraging moral conformity; the second as promoting moral autonomy. Acton also emphasised moral autonomy in his discussion of liberty: “By liberty I mean the assurance that every man shall be protected in doing what he believes his duty against the influence of authority and majorities, custom and opinion.”¹⁷

According to Smith, there was also a third, “still higher tribunal”, that of the “all-seeing Judge of the world, whose eye can never be deceived, and whose judgements can never be perverted”.¹⁸

This language may strike those only familiar with the Adam Smith of *The Wealth of Nations* as strange, but in his own day he was equally well known for *The Theory of Moral Sentiments*. He began as a moral philosopher, wrote *The Wealth of Nations* because of his concern to discover how best to release the majority of people from poverty, and returned to moral philosophy on its completion. *The Theory of Moral Sentiments* was his first book, originally published in 1759, and was revised constantly during his lifetime. There were six editions and the final edition of 1790 was published only a year before his death. The alterations made to successive editions were substantial, whereas *The Wealth of Nations* underwent comparatively minor revision. The organisation of his lecture course at the University of Glasgow, where he was professor of moral philosophy, offers further insights. It was divided into four parts: natural theology, ethics, justice (or jurisprudence) and expediency. The fourth part, on expediency, formed the basis of *The Wealth of Nations*. The third section on justice was intended to be a book, but remains available

only as *Lectures on Jurisprudence*. The second section on ethics was the basis for *The Theory of Moral Sentiments*, which was also influenced by his lectures on natural theology.¹⁹

Smith's view is consistent with that of Aristotle. Moral goodness "is the result of habit" and none of the moral virtues is natural, said Aristotle. They are engendered in us: "neither *by* nor *contrary to* nature; we are constituted by nature to receive them, but their full development in us is due to habit". We acquire virtues by performing actions that give rise to moral challenges. Just as people become builders by building, musicians by playing instruments, we become "just by performing just acts, temperate by performing temperate ones, brave by performing brave ones". So, he continues, "it is a matter of no little importance what sort of habits we form from the earliest age—it makes a vast difference". Good habits dispose us to act in just ways, hence, Aristotle says, the importance of having been trained "from infancy to feel joy and grief at the right things". True education is "precisely this".²⁰

Such a morality demands a lot of the family, for it is in the family that children spend time with adults sufficiently committed to them to devote long hours to improving their character. For Adam Smith too, the family was fundamental. If it failed, he said, little could be done to make up for lost ground. Children went through a long period of dependence which required the support of both parents. This lengthy reliance of children on their parents was productive of the most salutary effects:

During all this time the child being dependent on the parents is obliged in many instances to yield its will to theirs, to bring down its passions and curb its desires to such a pitch as they can go along with, and by this means learns in its very infancy a chief and most essential part of education.

Without learning to adjust to others, Smith thought, it is impossible for a person to "have any peace or enjoyment in society".²¹ In keeping with his view that family life depends on regular close contact, he urged parents not to send their children away to boarding schools because, by living at home, "[r]espect for you must always impose a very useful restraint upon their conduct; and respect for them may frequently impose no useless restraint upon your own".²²

James Q. Wilson has offered an updated assessment of Smith's views in the light of what the modern social and biological sciences have taught us. He argues that the modern challenge is to understand how best to nourish the moral sense identified by Smith. Some conservatives, says Wilson, argue that the schools should impress upon their pupils particular moral maxims, and they take issue with leftists who argue that schools should merely 'clarify'

the value choices the pupils might make. But, according to Wilson, children do not learn morality by either learning maxims or clarifying values:

They enhance their natural sentiments by being regularly induced by families, friends, and institutions to behave in accord with the most obvious standards of right conduct—fair dealing, reasonable self-control, and personal honesty. A moral life is perfected by practice more than by precept; children are not taught so much as habituated. In this sense the schools inevitably teach morality, whether they intend to or not, by such behaviour as they reward or punish.²³

And echoing Smith, he continues:

We learn to cope with the people of this world because we learn to cope with the members of our family. Those who flee the family flee the world; bereft of the former's affection, tutelage, and challenges, they are unprepared for the latter's tests, judgements, and demands.²⁴

But what should be made of Adam Smith's apparent endorsement of self-love? The observation that self-interest motivates people does not reflect cynicism, nor merely realism, on Smith's part. He not only believed that it was perfectly proper for people to pursue their self-interest, but also pointed out that regard for others must always be built on self-interest because we have no other way of judging how others feel. The first precept of Christianity is "to love the Lord our God with all our heart, with all our soul, and with all our strength, so it is the second to love our neighbour as we love ourselves". And we love ourselves, he says, "surely for our own sakes, and not merely because we are commanded to".²⁵

Smith believed that we can achieve much by pursuing our legitimate self-interest through mutual adjustment to others, but that any worthy human being should also seek to do right according to his sense of duty. According to Christian teaching, the sense of duty is not the "sole" principle of our conduct, but it should be the "ruling and the governing one", as both philosophy and common sense direct.²⁶ And Smith was in no doubt about where our duty lay:

... to feel much for others, and little for ourselves, that to restrain our selfish, and to indulge our benevolent, affections, constitutes the perfection of human nature; and can alone produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety.²⁷

Thus, Smith did emphasise the importance of harnessing self-interest, but for him self-interest was not enough. We have a duty to pursue our self-interest unselfishly.

To sum up: in Adam Smith's view, the good society was one in which people took personal responsibility for making the world a better place. The law was there to mark out the sphere of personal responsibility and to foster the key institutions, such as the family. The central virtue was self-command. The major task for each generation in teaching the young was to encourage support for the good habits and duties which make life tolerable. But the whole edifice rested on the natural sociability of man, that is, on our innate moral sense.

Such were the arguments of Adam Smith. But liberals have not all followed Smith's lead. We can identify at least three views, the first two of which are vulnerable to criticism and very different from Smith's line of reasoning. The first is that markets are morally neutral, and the second that the market is morally self-sufficient. A third, and more defensible, argument is that the market is morally educational.

1. The Market is Amoral?

The first view treats the market as an exchange process which can be abstracted from its moral setting, a view I propose only to mention in passing. The historian Paul Johnson has expressed it as clearly as anyone:

I prefer to see the entrepreneurial spirit, of which capitalism is the result, not as positively virtuous, or for that matter as intrinsically sinful, but as morally neutral. It seems to me that capitalism is an impersonal force and therefore incapable of moral choices Focused solely on its own materialistic objectives, it has no room for idealism In a way it is like a marvellous natural computer. But it cannot make distinctions for which it is not programmed. Acutely responsive to market factors, it is blind to all others—blind to class, race, and color, to religion and sex, to nationality and creed, to good and evil.²⁸

The blindness of market exchange to personal attributes can be one of its strengths, but competitive markets did, as a matter of historical record, emerge within a particular moral order and not elsewhere. Moreover, as I will argue below, it is erroneous to separate the system of voluntary exchange from its moral setting. To do so permits collectivists to argue that they can adopt the market technique for their own ends, namely to enjoy the prosperity it brings, without also embracing the personal responsibility and limited government with which it has historically been associated.

2. The Market is Morally Self-Sufficient?

Some enthusiasts for the market contend that the free play of enlightened self-interest produces a harmonious result. But is it enough to appeal to

enlightened self-interest? One of the best discussions of this question can be found in *A Humane Economy* by Wilhelm Röpke, a close associate of Hayek and a founder member of the Mont Pelerin Society, whose resistance to the Nazis led to him being forced out of his job at the University of Marburg in 1933.

The answer to the question, “Is enlightened self-interest enough?” is “decidedly in the negative”, he said. For him, market ethics are on an intermediate plane: “It is not the summit of heroes and saints ... selfless dedication, and contemplative calm, but neither is it the lowlands of open or concealed struggle in which force and cunning determine the victor and the vanquished.”²⁹

Its ethical climate is lukewarm, but is favourable to an atmosphere of “minimal consideration” and “a certain correspondence of give and take”, quite apart from its encouragement of productive energy. This energy is applied “not in building pyramids for the glory of emperors, but to improving the well-being of the masses”. Even if we find only bare material advantage, the man who decently provides for himself and his family does no mean thing. His is a higher morality than that of those who pride themselves on their generosity at others’ expense.

But Röpke did not conclude that the market is self-sufficient. He was intolerant of “economically ignorant moralism” which “always wills the good and works the bad”, but he equally repudiates “morally callous economism”.³⁰ The market economy, he said, is not enough. Economic life does not go on in a moral vacuum. It is constantly in danger of “straying from the ethical middle level unless it is buttressed by strong moral supports which must simply be there” and, no less important, must “constantly be impregnated against rot”. Otherwise, any free economic system must ultimately collapse.³¹ Lest his view is in doubt, he said:

The market, competition, and the play of supply and demand do not create these ethical reserves; they presuppose them 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.³²

Frank Knight, founder of the Chicago school, took a not dissimilar view. Business behaviour, he said, ought to be constrained by moral limits. There is much truth, said Knight, in the idea that the desire to “get ahead”, and especially to “get ahead of other people, is the primary sin to be avoided”.³³

For economists not to recognise these obvious truths is fatal, argued Röpke: “The market’s asymmetry opens a gap which has to be closed from without, from beyond the market, and it would be sheer suicide on the part of the market economy’s friends to leave to others the cheap triumph of this discovery.”³⁴

3. The Market is Morally Educational?

Röpke argued vigorously against the self-sufficiency of enlightened self-interest, but defended the educational role of competition. The market and competition are far from generating their moral prerequisites autonomously. But 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. The view of de Tocqueville was similar. American preachers in the 1830s taught “self-interest rightly understood”, an ethos that demanded fewer acts of romantic self-sacrifice but suggested daily small acts of self-denial: it disciplined people in habits of regularity, temperance, moderation, foresight and self-command.³⁵

We can, then, credit capitalism, the market, competition, voluntary exchange, the system of natural liberty, the play of supply and demand—however the system is characterised—with educational influences. Moreover, voluntary exchange is based on trade by mutual consent rather than force. It is based, therefore, on respect for other people and this alone is a powerful argument in its favour. But there is more.

The claim that free marketeers foster selfishness finds no support in the writings of the leading classical-liberal thinkers. Nor can it rightly be claimed that a market economy automatically undermines the moral order. From Adam Smith onwards there has been a rich tradition of writing about the moral underpinnings of liberty.

THREE ARGUMENTS THAT PLAY INTO THE HANDS OF COLLECTIVISM

Before turning to the rationales for corporate association, it is important to note three arguments, commonly deployed by friends of liberty, which are not consistent with the view I am taking and which, if widely accepted, would make it impossible to erect the rationale for reform I am advocating.

1. Belief in Innate Goodness

Some libertarians build their case for freedom on the ‘natural right’ to be free from all interference. People are assumed to have certain innate qualities which will shine forth if the government gets out of the way. This is how Rousseau—not usually thought of as an libertarian thinker—put it:

... compassion is a natural feeling, which by moderating the activity of love of self in each individual, contributes to the preservation of the whole species. It is this compassion that hurries us without reflection to the relief of those who are in distress: it is this which in a state of nature supplies the place of laws, morals, and virtues.³⁶

Superficially, Rousseau may seem to be advancing the same argument as Smith. However, Smith thought that “sympathy” was the basis of virtue, not a substitute for it. According to the view taken by Rousseau, all influences from outside the individual should be treated with suspicion as invasions of rights. Even the weight of opinion is so regarded, an attitude in sharp contrast to that of Adam Smith. Smith’s argument was not that we should sweep away institutions to set loose raw nature. His fundamental concern was to understand how best to nourish the institutions that worked with the grain of human nature.

As Adam Smith taught, we are social animals and, therefore, our attitudes, habits and dispositions—our nature, for practical purposes—reflect the institutions which make up a society. There is no core human nature we can get back to, because we can never eradicate all the influences upon us. The human condition *is* social. This is also Hayek’s argument when he observes that the moral order at any moment is the product of an evolutionary process.³⁷

As Hayek pointed out, the very concepts we use to express our ideas have evolved over time. They emerge from political, economic and social circumstances. Some natural-rights theorists, however, postulate a pre-existing world. They attempt to ‘start again’ from scratch by imagining what people are really like. But they overestimate their capacity to stand aside from the world. As Hayek argued, the ideas contained in our brains are not fully our own because they are part of the common heritage which has evolved over many centuries.³⁸

Some defenders of ‘natural rights’ seem to treat every action by the state as subtracting from the total of potential individual actions. This view fails to recognise that rights require enforcement and that even to conceive of rights presupposes an enforcement agency. Not every scholar who has spoken of natural rights believed that there could be rights without law. William Blackstone, for instance, referred to natural rights, but he plainly understood

that law was central to liberty.³⁹ As Hayek argued, the Western tradition of freedom has been concerned with the creation of a personal domain protected by law. The state ensures that individuals are secure in what they earn and that lawful agreements will be enforced, and leaves them otherwise free to bring about improvements in the way they believe best. Adam Smith put it this way:

Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay.⁴⁰

He repeatedly stressed the importance of law. The factor which contributes above all to prosperity is, he said:

... that equal and impartial administration of justice which renders the rights of the meanest British subject respectable to the greatest, and which, by securing to every man the fruits of his own industry, gives the greatest and most effectual encouragement to every sort of industry.⁴¹

Some natural rights theorists do not fully recognise that rights assume the presence of law and have no reality without it. It is, of course, possible to argue without self-contradiction that a particular right *should* be recognised in law. The campaigners for independence in the American colonies used the language of natural rights to defend their resistance to the imposition of an unjust tax. Their concern, like that of an earlier generation of English writers including Locke, was to justify rebellion against the established order in the name of a higher moral code. Locke was concerned to make the moral case for deposing an unjust king, James II. The American revolutionaries had a similar concern in severing their connection with George III: they appealed to natural rights to assert that there were higher moral principles than those acknowledged by the powers that be. This contention, which asserts that human affairs should be guided by a higher morality, is very different from the claim inherent in Rousseau's argument, quoted earlier, that both legal requirements and moral principles are invasions of individual freedom. Such a view recognises no moral claims on individual conduct, but asserts the superiority of personal (natural) preferences.

2. Concern with Morals is Authoritarian

Closely associated with natural rights theories is the claim that it is authoritarian to raise moral issues. The reasoning goes something like this. The champion of liberty should be consistent; he should be against coercion of all types; all morals are coercive, and, therefore, the true believer in freedom should not moralise. There should be no control of the economy by government and no control of personal lifestyles. Such libertarians appear to believe that all values should be personal. Of course, some libertarians favour leading a moral life, but they insist that it is for everyone to choose his own good life. We are each equal judges of what is good or right.

A libertarian capitalist view has been consistently advocated by Samuel Brittan since the 1960s, first in *Left or Right: The Bogus Dilemma* (1968), then in *Capitalism and the Permissive Society* (1973), *A Restatement of Economic Liberalism* (1988) and *Capitalism with a Human Face* (1995). Thatcherite economic policies, says Brittan, took place against a background of “obsessive secrecy, petty authoritarianism and a highly illiberal rhetoric on social and personal issues”. He cites an American survey which discovered that “moral conservatives” saw divorce, cohabitation, homosexuality and abortion as evidence of “moral decay”, whilst libertarians believed they showed “greater social tolerance”.⁴² Brittan’s sympathies lie with the libertarians. Assessing the Thatcher years up to mid-1987, he writes:

There is more understanding of markets as a form of co-ordination superior to collectivist compulsion. But belief in personal freedom, on which the ultimate justification of the whole approach rests, has taken some knocks, which I hope will prove temporary. People may make many mistakes in the use of freedom, and nature or society may have many unforeseen snags in store. But in the end the dangers from freedom are far, far less than the dangers from heeding those on the left and right who deign to tell their fellow citizens how to live.

He proceeds to lump together “moral authoritarians” and “economic collectivists” whom he finds guilty of “arrogance” and “absurdities”.⁴³

Adherents to this line of reasoning sometimes contrast the free marketeers of 1980s with those of the 1990s. In the 1980s, it is said, the New Right meant free markets plus free lifestyles, whereas increasingly in the 1990s free marketeers are combining a commitment to a competitive market economy with attachment to moral virtue. This trend is exemplified by William Bennett’s *The Book of Virtues*⁴⁴ in the United States, where it has become a best seller.

Thus, some libertarians object to the linking of markets and morals, claiming that to do so is authoritarian. Their mistake is to fail to distinguish

between external control and internal self-restraint. Internal restraint can mean measuring up to standards that are not purely personal. Accepted codes of behaviour are part of the cultural heritage which is our lot at birth. Some libertarians, however, see no difference between measuring up to an inherited standard, such as the Christian tradition, and being controlled by someone. They object to any effort to pressurise someone into right conduct. Samuel Brittan, quoted above, speaks of “deigning” to tell people what to do. But the person who advocates virtue or good character need not be ‘telling’ anybody anything. He or she offers a view of the good life for others to accept or reject. But it is *offered* and, while it may be offered vigorously, that is quite different from imposing it.

Some libertarians insist that it is repressive, even unhealthy, to restrain instincts. Adam Smith was in no doubt that self-command was fundamental: “Self-command is not only itself a great virtue, but from it all the other virtues seem to derive their principal lustre.”⁴⁵ But the self-restraint he had in mind was very different from the annihilation of instincts recommended by some in the early Christian tradition. Efforts to annihilate, rather than restrain, natural desires have typically led to preoccupation with the next world, perhaps in the manner of monks and hermits, or in some cases in the guise of (real) authoritarianism.

When speaking of morals, libertarians think in terms of two categories: government and individual. And the government, they say, should not dictate morals. Consequently, they are reluctant to engage in moral criticism because they believe that to do so is to open up a role for government. They do not consider the third category of culture or community and lack a sense that we have a *shared* responsibility for the moral order, not under the leadership of government. They are right to worry about the government stipulating a new morality, but wrong to think that, therefore, we must leave it to individuals acting alone. As de Tocqueville warned, a powerful state is content that people should think of nothing but pleasure, in order that the élite is left free to rule.

Nobel prize winner Professor James Buchanan wrote in the mid-1970s about the danger of neglecting the moral basis of freedom: “those of us who do sense the vulnerability of social order to what seem to us to be gradual but unmistakable changes in the moral bases of this order would be derelict in our own duty if we did not raise warning flags”. The problem of social order is faced eternally, he said, by men who realise that to live together “they must impose *upon themselves* social rules”. Economists “cannot evade their responsibility in the continuing discourse over such rules and institutions”.⁴⁶

Hayek also recognised the centrality of moral order. In his final book, *The Fatal Conceit*, he offered an evolutionary explanation for human culture, stressing how freedom rests on a moral framework, and arguing that the virtues essential to a free society “are not transmitted automatically”.⁴⁷ We must take pains, he said, to pass our values from generation to generation through teaching, historically a task carried out by churches. He singled out private or “several” property and the family as the main institutions that have shaped and furthered Western civilisation.⁴⁸ Hayek had also emphasised the importance of religious movements during his address to the first meeting of the Mont Pelerin Society in 1947. He went so far as to say that unless the breach between “true liberal and religious convictions” could be healed, there was “no hope for a revival of liberal forces”.⁴⁹

To sum up: as Adam Smith and mainstream classical liberals understood, a free society depends on personal responsibility. That is, it depends on virtue; and virtue is nourished in the family and in voluntary associations. For the libertarian-collectivist élite, the family is a source of guilt-stained, hypocritical moral codes and should be dispensed with, and the responsibilities of voluntary welfare associations should be assumed by the state.

The argument of libertarian free marketeers like Samuel Brittan is directed at these leftist enthusiasts for the counter culture. He urges them to hang on to their desire to be liberated from ‘authoritarian’ moral codes, but at the same time to abandon their desire for the government to control personal spending on health, education and pensions. To be consistent, he says, they should demand free lifestyles and freedom from government control of personal expenditure.

His argument seems to be that if they want freedom from *one* constraint, they should also want freedom from *all* constraints. In essence he accepts the underlying philosophical premise of the libertarian-collectivist intelligentsia. He does not embrace their wish to transfer wealth from the rich to the poor, but he does share their underlying error, namely their mistaken and egoistic view of freedom as power. As Hayek argued, it is dangerous to define freedom as “the absence of obstacles to the realisation of our desires”, as Bertrand Russell did, or to claim that “liberty is power, the effective power to do specific things”, as John Dewey did.⁵⁰ This confusion has been fostered as part of the campaign for socialism, but once this identification of freedom with power is admitted, says Hayek, “there is no limit to the sophisms by which the attractions of the word ‘liberty’ can be used to support measures which destroy individual liberty”, and no end to the tricks by which people can be “exhorted in the name of liberty to give up their liberty”.⁵¹

This, however, is precisely the confusion which explains the ideology of the libertarian collectivists who link, on the one hand, freedom from moral restraint with, on the other, freedom (for the poor) from wanting material goods they cannot afford. And it is also the trap into which libertarian free marketeers like Brittan have fallen. He wants freedom from (some but not all) moral restraints and freedom from (some but not all) government controls. We do, however, grow to adulthood within a cultural heritage which, in every society so far known to history, has taken a view about matters such as the family and the obligations owed by biological parents to their own children. To label efforts to uphold a given moral view as 'authoritarian' ignores the inevitability of shared moral concern in any social order and telescopes the valid distinction between the *external* enforcement of standards and *self*-control in the light of the moral tradition into which we are born.

Toleration and Taboo

But let me, even at the risk of labouring the point, persist a little further in trying to understand the moral climate that is consistent with, and necessary to, a free society. For there is, admittedly, a sense in which a morality, though not strictly coercive, might be suffocating and therefore a legitimate concern.

Again, Oakeshott has captured the essence of the problem. Morality, he says (in the tradition of Aristotle), can be "practical" or "intellectual". An "intellectual" moral system erects rules or ideals to guide conduct. A certain amount of difficulty arises because the ideals are abstractions, so that there is a constant problem of how to apply them in practice. But a particular weakness of an intellectual morality, says Oakeshott, is that it tends to require "perfection as the crow flies", particularly where it is embodied in the form of an ideal rather than a rule. His point is that the pursuit of righteousness has been known to harden many a heart. We can, for example, see this contradiction in those political activists who pursue with passion the ideal of 'social justice', whilst having no command of the ordinary face-to-face decencies.⁵² Moral behaviour, says Oakeshott, is conduct to which there is an alternative, but this does not mean that a conscious choice must always be made. A man may act morally out of habit, and his conduct may be recognisably good or bad, despite his lack of reflection.⁵³

It is this 'practical' or habit-based morality which is consistent with civil association, because it is evolving and tolerant of defiance. It offers a clear view about right and wrong, so that children can be given unequivocal guidance, but it can change with circumstances and avoids the danger of rigidity.

Oakeshott's interpretation of habitual moral systems is not the most prevalent among classical liberals. Habitual moralities are more usually associated with superstition. We should not overestimate, however, the tendency of habitual moral systems to degenerate into taboo. As Oakeshott writes:

... the appearance of changelessness in a morality of traditional behaviour is an illusion which springs from the erroneous belief that the only significant change is that which is either induced by self-conscious activity or is, at least, observed on the occasion. The sort of change which belongs to this form of the moral life is analogous to the change to which a living language is subject: nothing is more habitual or customary than our ways of speech, and nothing is more continuously invaded by change.⁵⁴

Moreover, intellectual moral systems substitute their own rigidity, that of doctrinal purity. A good measure of the tolerance and adaptability of a moral system is its attitude to eccentrics. Moral eccentricity, says Oakeshott, is of value to a society whose morality is one of habit of behaviour. Within a habitual moral system, the attitude to moral eccentricity is ambiguous. It is "admired but not copied, revered but not followed, welcomed but ostracized".⁵⁵ In a system based on ideals formulated in words, precisely because of the constant negotiation and re-negotiation of the wording of the ideals and their application, defiance has a tendency to be less welcome.

We need to renew our understanding of the tolerant, adaptive moral system which leaves room for the eccentric. A morality for freedom should offer a clear guide to conduct against which we can judge ourselves, and there must be tolerance of defiance and tolerance of critics of defiance. If the moral system most appropriate to a free society is habitual, then the importance of the family and other intermediate associations becomes easier to see. An habitual morality is essentially a practical way of living which is learnt or acquired by copying or emulating others. No moral system is ever purely devoid of reflection, nor could it be, but moral systems—in the same manner as language—work well without the participants being able to articulate the rules governing their conduct, just as most people cannot articulate the grammatical rules they follow when speaking. In this manner parents use stories to convey moral truths to their children. To explain a moral principle in the abstract is difficult, but to tell a story with a 'moral' to it has proved far more effective.

Above all, such a moral system is the possession of the people, that is, of civil society. It stands or falls by the efforts of each person going about his or her daily life, upholding or not upholding the virtues it embodies. And

this is its relevance for liberty. Because such a moral system rests on daily face-to-face practice, it is less prone to manipulation by the authorities. Typically, authoritarian governments bent on re-moralising their people have formulated their morals as ideals and sought to impose righteousness. Communism certainly assumed this character, as did the Islamic fundamentalism which followed the overthrow of the Shah of Iran. A people wishing to be free should nourish those institutions which foster the practical morals that guide conduct whilst simultaneously remaining open to influence. It is no coincidence that modern tyrannies, from the French Revolution through to twentieth century fascism and communism, have sought to reduce the influence not only of the family but also of the voluntary associations which nourish virtue and give individuals the unified strength to resist the unwelcome intrusions of governments that would exceed those proper but limited duties necessary to uphold liberty.

Libertarians in the Samuel Brittan mould contend that no one should criticise lifestyle choices of certain kinds (in practice mainly to do with sex and the family) but they have lost the sense that it is mutually respectful to be part of a community in which we each help each other to discover what is right through our demonstrations of approval or disapproval. We need to re-learn older attitudes reflected in outdated words such as chiding, upbraiding, rebuking and reproaching. These imply the gentle disapproval of a father or mother towards a much-loved son or daughter, rather than the stern or harsh censure of the Dickensian schoolmaster with cane in hand. The state of mind of the would-be critic or upholder of values is not 'moral dudgeon', but sadness combined with that sympathy for the wrongdoer that flows from knowledge of one's own weaknesses.

To summarise: the idea underlying the criticisms of the self-styled anti-authoritarians is that man is naturally good and that, consequently, we need to clear the way for nature. However, as Aristotle and Adam Smith understood, nature prepares us for morality, but does not supply us with a ready-made product. Individuals are communal creatures. Our moral system is a shared responsibility, but this recognition does not imply leadership or control. There can be responsibility without control; authority without commands; and respect for our common heritage without central direction.

3. Hard-Boiled Economism:

Man as a Rational Satisfaction Seeker

I turn now to a related question which has got me into a certain amount of hot water with some of my friends. In *Reinventing Civil Society* I criticised 'hard-boiled economism', the name I gave to a set of assumptions about

human nature employed by some, but by no means all, economists. I have in mind those who present economics as the study of rational economic calculation. I should say that this is also a self-criticism, for in some of my earlier work I partly adopted the approach I later came to criticise.

Professor Gary Becker has stated the hard-boiled view as clearly as anyone. He holds that the economic approach is applicable to all human behaviour:

The heart of my argument is that human behaviour is not compartmentalised, sometimes based on maximising, sometimes not, sometimes motivated by stable preferences, sometimes by volatile ones, sometimes resulting in an optimal accumulation of information, sometimes not. Rather, all human behaviour can be viewed as involving participants who maximise their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets.⁵⁶

He applies these assumptions across the board, but perhaps most famously to the study of marriage:

According to the economic approach, a person decides to marry when the utility expected from marriage exceeds that expected from remaining single or from additional search for a more suitable mate Similarly, a married person terminates his (or her) marriage when the utility anticipated from becoming single or marrying someone else exceeds the loss in utility from separation, including losses due to physical separation from one's children, division of joint assets, legal fees, and so forth.⁵⁷

Hard-boiled economism is mainly a preoccupation with scientific study: it concentrates on what can be quantified and leaves the rest out. Many economists feel they have to be useful to business leaders and governments and that consequently they must attempt to make predictions. Leading contributors to economic theory, such as Gordon Tullock, co-founder of the public choice school, know perfectly well that they simplify human motivation as a matter of methodological convenience.

Tullock discusses some of the dilemmas of the hard-boiled perspective in his study for the Institute of Economic Affairs, *The Vote Motive*:

If bureaucrats are ordinary men, they will make most of (not all) their decisions in terms of what benefits them, not society as a whole. Like other men, they may occasionally sacrifice their own well-being for the wider good, but we should expect this to be exceptional behaviour.

The theory of bureaucracy, he says, should therefore:

... be based upon the assumption that bureaucrats are as self-seeking as businessmen, and it should concern itself with the design of constraints which will make the bureaucrats' self-interest identical with the interests of society.

And what are the motivations of bureaucrats? What are their interests? Bureaucrats try to improve their own utility, which:

... like everyone else's, is partly based upon their immediate ability to consume goods and partly on their appreciation of good things happening to other people. In other words, they are partly selfish and partly public interested.⁵⁸

One of the advantages of the simple profit-maximising assumption that economists use to study business is that it permits them to assume a single 'maximand' (something a person is trying to maximise) and make calculations. Tullock continues:

... if we consider the businessman as maximising his utility—Marshall's net advantages—we no longer have as easy a problem. His utility is, to him, a simple 'function' which he can maximise; but, to us as outsiders, what is observed is a number of different elements, such as his income, respect in his profession, the beauty of his secretary, other aspects of his office, etc. We would have to work out a complex function of all those variables and then attempt to maximise it; and this complex function would have to be identical to the one he uses in utility maximising.

As a result of this complexity, economists have tended to assume a simple, single goal: profit. There is a loss of accuracy, Tullock concedes, but it is "fortunately slight".⁵⁹

Is there, he asks, a similar maximand we can use for bureaucracies? The answer is, unfortunately 'No', if the economist wants to formulate general laws. But, if economists confine their studies to the type of bureaucracy typical of Western countries, there is a simple criterion similar to 'profit', namely the 'size of the bureaucracy'. We can, "[a]ssume the bureaucrats are simply attempting to maximise the size of their bureaucracies and leave aside, for the time being, their desire to consume leisure". Economists, he says, have achieved many insights with their simple, one-argument utility function for businessmen (profit-maximisation) and, though he does not expect so much progress from size-maximisation, at least he says "we should make some progress".⁶⁰

Tullock, therefore, is conscious that he is simplifying human motivations but, because of his concern with the possibility of calculation and prediction, maintains that analysis based on a simple maximand is useful. In practice, however, some economists forget the limitations and treat people as self-

serving calculators *per se*. They adopt what Ralph Harris sometimes calls a “cash-register” view of human nature.

But Adam Smith did not look upon people purely as utility maximisers (with either a broad or a narrow utility function). Neither did Marshall nor Hayek. And nor did other modern economists, like Röpke, who pulled no punches in their censure of socialism in all its strains. A particular disadvantage of hard-boiled economism, despite its obvious fruitfulness in analysing some types of behaviour, is that it can divert our attention from problems which are more urgent. As Frank Knight argued:

The idea that the social problem is essentially or primarily economic, in the sense that social action may be concentrated on the economic aspect and other aspects left to take care of themselves, is a fallacy, and to outgrow this fallacy is one of the conditions of progress toward a real solution of the social problem as a whole, including the economic aspect itself.⁶¹

And James Buchanan, in the foreword to a modern edition of Frank Knight’s *Freedom and Reform*, has written that Knight would have regarded the re-emergence of “[o]ld-fashioned *homo economicus*, or man as net-wealth maximizer”, as reflecting “retrogression into a simplistic and wrongheaded usage of the valuable insights that economic theory can offer”. Buchanan continues:

Homo economicus exists in every man, but one of Knight’s most persistent themes through all his works is that there exist all sorts of other men (the romantic fool, the sportsman who enjoys the fray, the prejudiced ignoramus, the man who wants to be a ‘better’ man) alongside the rational maximizer of economic interest.⁶²

In another work, Professor Buchanan warns against the tendency of economic theory to “force all analysable behaviour” into the straitjacket of “maximising a utility or objective function under constraints”.⁶³

The economic approach to crime provides an example. It is generally a significant improvement on the sociological approach, which typically offers deterministic explanations of criminal activity, including accounts which attribute causal influence to poverty, unemployment or genetic make-up. The economic approach, by contrast, treats crime as a choice made after calculation of the likely gain or loss from an anticipated criminal act compared with any alternative activity. A perception that a given criminal act is very likely to lead to capture, for instance, would deter a potential criminal, as might an increase in the severity of sentencing.

But this style of reasoning does not explain why some people would not commit a crime even if they thought there was a low chance of being caught

and that the punishment would be tiny in the rare event of their being detected. Many people have been brought up to do the right thing, even though no one is looking. That is, they have been trained in good habits. They do not make a conscious choice not to commit a crime. For them, crime is literally “unthinkable”. Most readers of this book, I dare say, would not break into their neighbours’ house to steal their video, even if they felt certain they would get away with it. A theory accounting for crime should, therefore, embrace not only the assumption that potential criminals calculate the risks involved in choosing between criminal and non-criminal actions, but also the functioning of those institutions which instil unthinking good habits, not least the family.

Along with its difficulty in accounting for man as a follower of unreflective good habits, the model of man as a satisfaction seeker has problems dealing with man as a self-improving character. James Buchanan writes: “Man does not want liberty in order to maximise his utility, or that of the society of which he is part. He wants liberty to become the man he wants to become.”⁶⁴ Man is both “natural and artifactual”, says Buchanan, because we are the products of both a cultural heritage and our own efforts to become better than we are.⁶⁵ By refusing to see man as “artifactual” we neglect both the “constitution of private man” (or “character”) and also the “constitution of public men”, that is, the moral underpinning of a free society.⁶⁶

As Röpke also saw, there is danger in allowing economic freedom to be separated from its moral environment. To speak of the “price mechanism” is perfectly legitimate, he said, so long as we remember that “we have narrowed our angle of vision and do not forget that the market economy is the economic order proper to a definite social structure and to a definite spiritual and moral setting”. The sphere of the market may be regarded and defended “only as part of a wider general order encompassing ethics, law, the natural condition of life and happiness, the state, politics and power”. To forget this truth is to be guilty of social rationalism which misleads us into “imagining that the market economy is no more than an ‘economic technique’ that is applicable in any kind of society and in any kind of spiritual and social climate”.⁶⁷ And to treat the economy as such a technique is precisely the error made by socialists who believe the price mechanism can be used by them. But, asked Röpke: “How could a genuine market, an area of freedom, spontaneity, and unregimented order, thrive in a social system which is the exact opposite in all respects?”⁶⁸ There is another sense in which some economists have played into the hands of socialists. It is, in the view of Röpke, by embracing what he called the “cult of the standard of living”. He criticised three ideas: economism, materialism and utilitarianism.⁶⁹ It is economism:

... to allow material gain to obscure the danger that we may forfeit liberty, variety, and justice and that the concentration of power may grow, and it is also economism to forget that people do not live by cheaper vacuum cleaners alone but by other and higher things which may wither in the shadow of giant industries and monopolies. To take one example among many, nowhere are the economies of scale larger than in the newspaper industry, and if only a few press lords survive, they can certainly sell a maximum of printed paper at a minimum of pennies or cents; but surely the question arises of what there is to read in these papers and what such an accumulation of power signifies for freedom and culture.⁷⁰

By “materialism” he meant “an attitude which misleads us into directing the full weight of our thought, endeavour, and action towards the satisfaction of sensual wants”. It is linked to utilitarianism, that is, applying a single scale of values and failing to recognise some as higher than others. He recalled Pascal’s dictum that man’s dignity resides in thought. In the post-war world, he complained, it had resided in the standard of living.⁷¹

Röpke was writing in 1958, when few imagined that the collapse of communism would be possible. He feared that the “cult of productivity” weakened the West in its battle against communism, a conflict which could only be won on moral grounds. Moreover, he thought it sowed the seeds of totalitarianism, which had prospered in Germany because of the loss of moral bearings. His warning had heightened value because he had lived through the rise of Hitler who, he believed, had succeeded in part because champions of liberty had failed to defend capitalism as a moral system. Totalitarianism is an “infernal mixture of unbridled power and deception of the masses” achieved through “spells concocted by morally unsettled and mentally confused intellectuals”. It thrives “where men, and intellectuals above all, have lost their roots and solidity and have been prised loose from the social fabric of the family, the succession of generations, neighbourliness, and other true communities”.⁷²

By neglecting such questions, the hard-boiled economists have softened up understanding of the market for the market-socialist assault. It cannot be repeated too often that a competitive market only makes sense in a particular spiritual, moral and political context. I have been calling this setting civil association. It might be called, despite Marx, bourgeois civilisation. The name does not matter. The fundamental point is that market competition is not a technique that can be transplanted into a different system based on political power, as the new socialists imagine.⁷³

CONCLUSION

To return to the theme of the three inseparables. Central to my argument is the claim that particular beliefs about “character”, the “role of government” and the type of “unity” go together. Different combinations of the elements are possible but they may not be consistent. Certain New Right schools have embraced only part of what is necessary in a civil association. Some have focused on limiting government. But while there need to be strong limits on the tasks of the state, government also has an important role in maintaining the conditions for liberty. The task for civic capitalists should, therefore, be to confine government to its proper tasks rather than to seek to reduce its scope as an end in itself. The central issue is not the size of government, but its character.

The great fear of *laissez-faire* economists who wish to see a minimal state is politicisation, that is, the concentration of power in political hands. This is an entirely justified fear in the twentieth century and no genuine enthusiast for freedom could avoid sharing this concern. But to resist the concentration of power is to advocate the dispersal of decision making to people assumed to be capable of bearing responsibility, respecting others, and making intelligent choices. It rests on a high view of human character, yet the rational utility calculators advance a low view of human motivation, based on maximising satisfactions. They should not allow their concern with prediction to obscure their understanding of the real complexity of human motivation. To do so means they have no real weapons against socialists who stress ‘active citizenship’ and service of the common good. The economist may point out that ‘active citizen’ means politically active and he would be right. He may also argue, as the public-choice school does, that claims to be benevolent may disguise naked self-interest, and he would be right. But care should be taken to offer a better alternative rather than to fall into the trap of cynicism about all human motives.

In a corporate association people are perceived as having an assigned role. In a civil association they are expected to develop their character, to think and judge and to live their lives as a struggle to be better people. The commitment to individualism needs to be tempered by an awareness of the limits of our knowledge. Hayek distinguished between two rational traditions which emerged from the eighteenth century enlightenment: one he called constructivist rationalism and the other, evolutionary rationalism. (Popper called them naive rationalism and critical rationalism, respectively.) Naive or constructivist rationalism overestimates what man can accomplish. Critical or evolutionary rationalism is, by contrast, aware of human limitations, and

its main message is that we cannot know the future and that, therefore, we should allow many people to try out their own ideas. This process has two advantages: it means that we employ more talents in discovering the truth through trial and error, and that experiments are attempted on a scale that reduces the harm which results when they are based on mistakes.

According to Hayek our knowledge is inherited. Mind is the product of cultural evolution, based more on imitation than reason. Yet we are afflicted by a “fatal conceit”, namely the “idea that the ability to acquire skills stems from reason”. Learning how to behave, he says, is the *source* of insight, not the *result* of it. What we call ‘mind’ is not like the brain, something we are born with, nor is it produced by the brain, but is something the brain helps us acquire as we grow up.⁷⁴ Hayek might have said, we *are* what we learn. We would be wise to remind ourselves from time to time of our dependence on others and on the civilisation we have been fortunate enough to inherit.

Hayek’s aim was to blend the conservative concern of writers like Burke, who emphasised that tradition was a learnable body of knowledge and morals, with classical liberal attachment to change and self-conscious improvement. We should respect tradition and recognise that we cannot start again from scratch, says Hayek. And we should recognise that the minds that some intellectuals fancy to be capable of remodelling whole societies are themselves the products of tradition. But we are not locked in. We can improve our institutions, so long as we are modest. We can become born-again persons, but we cannot devise a born-again culture.

Classical liberals should also acknowledge that their philosophy rests on a sense of community, and one that deserves the name. But it is a ‘community’ understood as a sense of unity which brings us together in creating opportunity for all, rather than combining us in pursuit of an end result. Many free marketeers have been reluctant to speak of community, because the term has been purloined by socialists who have political power on their minds. But talk of community need not be a prelude to coercive political action; it can also be justified pride in sharing responsibility for maintaining in good shape the institutions and personal virtues which give everyone a chance. To speak of our ‘social nature’ does not imply a ‘political nature’. Quite the reverse.

And it rests on a view of human character which sees people not as innately good, nor infinitely malleable through education, but which emphasises our mutual interdependence. It goes without saying that the coercive power of the state should not be employed to produce a particular character, but that supporters of liberty should in their private lives do their bit to maintain the existence of institutions that bring out the best in people—above all the

traditional family, but also the voluntary associations for helping one another which historically were part of the fabric of society. The reason for reducing the scope of the welfare state, therefore, is not only that private organisations will provide better services, but also that it will restore the role of voluntary associations whose task is character building as well as service provision.

To sum up: the system of voluntary exchange developed historically in a particular moral setting—namely bourgeois culture, for want of a better term—and it can only be understood as part of this setting. The system of voluntary exchange at agreed prices can be lifted out of context and discussed as an abstraction, but any such discussion is only dealing with a part of the reality, not the whole. 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.

3. RATIONALES FOR COLLECTIVISM

How can we explain the continued appeal of collectivism? What are the elements that make up this complex of ideas, and why does it retain its allure for so many people despite its manifest failure to produce the results expected by early enthusiasts? Historically, five main grounds for corporate association have proved powerful in retaining support for it: religion, production enhancement, majoritarian democracy, social therapy, and redistributive justice.

THE RELIGIOUS CORPORATION

Today the ethos of the Catholic Church is compatible with a free society, but in medieval times it was not. The medieval Catholic Church saw itself as the all-embracing educator and arbiter of truth. It was a corporation devoted to the worship of God and the enjoyment of His grace, with the Pope as its head, supreme legislator and judge, enunciator of doctrine, and guardian of learning. His task was to impart Christian knowledge to each successive generation.¹ In the greater part of Europe from the tenth to the thirteenth centuries, said Adam Smith, the constitution of the Church of Rome was:

... the most formidable combination that ever was formed against the authority and security of civil government, as well as against the liberty, reason, and happiness of mankind, which can flourish only where civil government is able to protect them. In that constitution the grossest delusions of superstition were supported in such a manner by the private interests of so great a number of people as put them out of all danger from any assault of human reason.²

The corporatism of the medieval Church of Rome appealed to many secular rulers, and by the fifteenth century the independent and sacred authority of the Church was being assumed by kings.³ Some monarchs had control not only of schools and universities but also of intellectual and moral guidance. The Spanish Inquisition, for instance, had begun its work by the end of fifteenth century.

States linked with Calvinism extended such doctrines into the early modern age. In sixteenth century Geneva, for example, the members of the 'corporation' were recognised to be a mixture of the 'elect' (those predestined for salvation) and the 'reprobate'. The rulers were not themselves seen as agents of salvation, but their task, according to Oakeshott:

... was to organize and direct a substantive condition of human circumstance in which the conduct of each of their subjects conformed at all times to the purpose of the enterprise: the glorification of God whose wrath would be visited upon a delinquent community. This single purpose to which all activities whatsoever were to be assimilated, was set out in instrumental rules, regulations, directives, and commands which appropriately recognized no distinction between 'public' and 'private' and allowed no divergence from the uniform purity of appearance.⁴

Such doctrines form part of the parentage of twentieth century totalitarianism.

PRODUCTION ENHANCEMENT

The purposes of the state in medieval and early modern times were typically associated with religion, but Francis Bacon, in *New Atlantis* (published in 1627, the year after his death), developed a theory of the state as 'an economy' or development corporation. According to Bacon, the purpose of life was not preparation for the life to come, but to develop the Earth's resources. His materialism, however, retained a religious inspiration: material progress was to be for the glory of God, not man.⁵

Later enthusiasts for the same doctrine, including the early utopian socialists such as St Simon, offered a version without religious faith. People were owners, managers, workers and no more, and the purpose of the state as 'an economy' was to produce and redistribute, and satisfy human wants.⁶ Brotherly love played its part in the earlier utopian schemes, though by the end of the nineteenth century it was barely visible in the more technocratic versions of socialism which came to dominate. Sidney Webb, for example, described his view of man as follows:

The perfect and fitting development of each individual is not necessarily the utmost and highest cultivation of his own personality, but the filling, in the best possible way, of his humble function in the great social machine.⁷

This view has come under effective criticism from Hayek for its failure to be aware of the limits of human knowledge. The character and fallibility of our knowledge mean that detailed central direction of economic and social life is unworkable and must always produce unexpected results. Knowledge is dispersed, and so our institutions must be decentralised.

There are, however, elements of this doctrine in the new socialism of Tony Blair, the leader of the British Labour party. The nation is to be managed as 'an economy': it does not *have* an economy; it *is* an economy. Production is to be enhanced through a government investment bank and there is to be

‘partnership’ between government and industry. Partnership and the accompanying term ‘stakeholder’ are the new code words for the corporate state, a doctrine described by Samuel Brittan:

In essence it amounts to the belief in informal directorship of our affairs by the men who run large organisations. ‘Gt Britain Ltd’ is not a bad caricature and conveys the flavour of people who really know what makes things tick, sorting things out together ‘without any ideological nonsense’.

He continues:

It is all too easy to imagine an *ersatz* populism under which a supposedly left-wing government would try to make the world safe for high technology ‘Big Business’, in which ‘Britain must be in the lead’. The representatives of the technostucture might be more than happy to accept the charade of government-appointed directors, or even of worker representatives—and have the Minister of Technology to breakfast—in return for a real insulation from market disciplines and the negative control of the Treasury.⁸

According to this view, the task of the state is to manage the economy. The market is understood as a mere technique to be harnessed and is valued because it generates more goods, not because it is the system most consistent with human dignity and based most strongly in mutual respect. The dangers inherent in tearing the market economy from its moral setting have been considered in Chapter 2.

MAJORITARIAN DEMOCRACY

One of the more perverse developments during the twentieth century has been the corruption of parliament. At one time it was a critic of the ruler and a partner in maintaining the law of the land. Gradually there have been three main changes. First, it has become a place where private interests bargain with governments for benefits. Second, it has become more like a meeting of shareholders in a corporate enterprise. National targets are set for this or that and proposals put to the vote, with the outcome rarely in doubt. And thirdly, the laws it makes have increasingly become mere management instructions.

Hayek regarded the root of the problem as the tendency for the same authority that makes the rules of justice also to direct the day-to-day affairs of government.⁹ The doctrine of the rule of law in its narrowest sense of requiring mere lawfulness is inadequate: what is crucial is the type of law, namely whether it is “moral” or “instrumental”.¹⁰ In the twentieth century, to defend more or less any action taken by a political majority it is enough to

insist on its democratic credentials, which means that the victorious party wishing to pursue a harmful or unpopular policy need only point for justification to some words it put in its manifesto. In this manner, unlimited power has crept in by the back door.

Throughout British history, parliament's task was to protect the people from the abuse of kingly power. Sixteenth century speculation focused on the origin of kingly authority, stressing in some cases the social contract and the right of citizens to depose tyrants. And there was an established tradition of deposing tyrannical kings, such as Edward II.

The natural law theorists of the seventeenth century also provided a rationale for limiting the powers of kings. There were natural or higher laws, they said, and these fundamental laws set limits to the exercise of power. Federal theories stressed the separation of powers. Others emphasised rights to be informed, to petition, remonstrate and approve but without challenging sovereign authority. Parliamentary democracy itself provided for periodic elections and debate in public. All in their own way were alternative methods of limiting the abuse of power, but later thinkers forgot the importance of such limitations.

By the Second World War, understanding of earlier theories of parliament's role had been almost forgotten. Democracy had come to mean the unlimited power of parliament, that is, the majority in parliament (which has invariably been a minority in the country). Few despots of old ever succeeded in making a reality of the divine right of kings, and would have looked with envy on the success of devotees of the divine right of parliament.

One of the notions employed to extend unlimited arbitrary political power has been the argument that market forces should be replaced by 'democracy', which more accurately reflects people's views. This amounts, in reality, to saying that 'market forces' should be replaced by 'political forces,' but such critics do not see the qualitative difference between the two. Market principles describe a *process* in which people are free to pursue their own version of the good life. In the social order desired by socialists, most spheres are to be politicised, with the result that the government will predominate in dictating how we should live. Rival visions will be suppressed or crowded out. Nor do socialists seem conscious that the poorest people are at a disadvantage in a highly politicised system. In a free society those poor people who hope for a better life can fulfil their aspirations by making a purely personal choice to work hard and save. A politicised society requires the ambitious poor to organise politically to fulfil their hopes.

Socialists frequently claim to be concerned about economic concentration which, they believe, has implications for political power. Money can buy

political power, they say. But their remedy is concentrated political power. Reverting again to the 'three inseparables', this reminds us of the importance of being suspicious of all concentrations of power, private or public. Competition and the maximum room for individual initiative encourage the wide dispersal of economic power. Egalitarians display no awareness that power concentrated in political hands is a far more menacing threat than power in private hands. Imagine that one of the leading electronics manufacturers somehow established an absolute monopoly. It would have massive income at its disposal, but the worst thing any such company could do would be to push up the price of CD players or perhaps make bad quality products. In a competitive market, competitors would soon replace any such monopolist. But consider the worst action a government could take. It has the police, prisons, tax collectors and the army, enabling it to kill, torture, imprison, confiscate possessions and disregard individual rights.

The egalitarian might retort that a monopolistic company might have so much money it could buy political power. This may be so, but then the threat would be from the abuse of *political* power, not economic power. The fundamental problem remains how to avoid the abuse of state power. The remedy is to put severe limits on the uses of political power so that no amount of economic power can buy unlimited political power. And, no less important, competition should be enforced to discourage concentrations of economic power and promote wide dispersal of resources. It does not matter how many cars or CD players or anything else a company sells; the money it accumulates does not become a threat until it is transformed into political power. The power to direct the police, the army and the prisons, and the capacity to levy taxes and manage people's lives are the chief threats to individual liberty and, therefore, the primary abuses to be prevented.

The argument that a system of democratic accountability is more representative than 'market forces' has a strong appeal to some, but it is based on three fundamental errors.

First, it assumes a political decision-making process which inevitably means that the majority view (actually the ruling view whether it is a majority or not) will prevail over the minority (non-ruling) opinion. A market system, however, allows choice and initiative. It is a daily referendum, as my colleagues Ralph Harris and Arthur Seldon argued forcefully over many years.¹¹ Politicising choice may widen the opportunities to those who benefit from the policies of the ruling party, but it suppresses the individual preferences of those who differ from the rulers of the day. Politically imposed choice always involves the enforced transfer of resources from one set of voters to another. The higher ideal is to confine the political process to preserving the conditions

for freedom and to prevent it becoming a weapon in the hands of the victorious faction.

Second, the political process has shown itself to be vulnerable to concentrated special interests. As Mancur Olson has demonstrated, lobbyists representing narrow concentrated interests are better able to exert influence than voices representing the common good.¹² The main reason is that politicians react to the people who bring themselves to political attention. Special interests have a lot to gain from hiring lobbyists and conducting publicity campaigns. The common good, or the interest of the vast majority of consumers or voters, can easily be forgotten as politicians try to be responsive to the people with whom they are in face-to-face contact. Economists have called this process 'rent seeking', that is, seeking through political manipulation a return over and above the income available in a competitive market. Arthur Seldon calls it "the privileges extracted from the political process without serving the tax-paying public".¹³

Third, those who demand that 'democracy' should replace market forces tend to assume a social system divided between the relatively poor majority and the rich minority. They intend that the majority of voters should use their political power to confiscate the ill-gotten gains of the rich. But, as Milton Friedman points out, there is more than one possible voting coalition. Yes, the poor majority may combine against the rich. But equally, the middle class may combine against both the poor and the rich. Such a voting combination is so common, says Friedman, that it has the status of a law, which he calls Director's Law: "Public expenditures are made for the primary benefit of the middle class, and financed with taxes which are borne in considerable part by the poor and rich."¹⁴

Several socialist writers have also drawn attention to middle-class capture. Julian Le Grand's *The Strategy of Equality* concludes: "Almost all public expenditure on the social services in Britain benefits the better off to a greater extent than the poor." Equality, in any sense of the term, has not been achieved. In all relevant areas "there persist substantial inequalities in public expenditure, in use, in opportunity, in access and in outcomes".¹⁵ The problem is not confined to Britain. David Thomson has shown how one generation of New Zealanders, those currently retired, secured for itself advantages at the expense of the general population.¹⁶

For these reasons, replacing market forces with political forces will not have the claimed effects, not least because voters will change their expectations once it is recognised that the political process is a scramble for benefits. At least two reactions are possible. One is to get organised to make sure your side wins. This reaction has been the norm during the twentieth century.

The other is to confine the political system to making the rules which serve all equally and forbid the law from being used to secure advantages for one class over another. This is the urgent and neglected task of the day.

The term democracy has come to be used in a very loose manner in modern times. The central issue is not whether we are governed by 'the few' or 'the many'. Of fundamental importance is the *method* of rule: specifically, is government open or closed?

A dictatorship may allow its people a wide latitude, and a democracy may narrow the scope for private initiative in favour of political decisions. Moreover, the majority in a democracy may discriminate against the minority. It is possible, therefore, for a system of 'rule by the few' to conduct affairs in an open, democratic spirit and for majority rule to function in a closed, secretive manner. Some thinkers on the left now recognise the dangers of excessive secrecy and elective dictatorship.¹⁷

The ideal is a democratic system based on a universal franchise, giving us the right to get rid of governments in regular and free elections, combined with an open method of ruling. The spirit of democracy requires an open style, not merely the outward forms of democracy. Modern democracy has come to mean little more than the requirement for élite bands of rivals to submit themselves to election periodically. The election does little more than legitimise their unlimited power for a fixed period. But a government should also rely on what late medieval and early modern writers called 'counsel and consent'—a wide awareness of issues under discussion, wide availability of information, and free discussion.

VICTIMISM AND THE THERAPEUTIC STATE

I will now turn to a fourth doctrine used to support collectivism, namely victimism.

During the nineteenth century a view developed that the state was charged with the duties of a therapist. The role of the state in this view was to cure diseases such as poverty, insecurity, the feeling of being unimportant, industrial society and 'alienation'. According to Oakeshott:

Here, a state is understood to be an association of invalids, all victims of the same disease and incorporated in seeking relief from their common ailment; and the office of government is a remedial engagement. Rulers are ... the directors of a sanatorium from which no patient may discharge himself by a choice of his own.¹⁸

Already in the eighteenth century the closely related doctrine of the state organised for secular schooling had developed as an alternative to states

inspired by religion. The enlightened despots of that century pursued the common good guided by reason rather than revelation, unlike Calvinists, medieval Catholics and Puritans. Prussia under Frederick the Great (king from 1740 to 1786) was at the forefront of these developments; education in Prussia during the eighteenth and nineteenth centuries was intended to make individuals more useful to the state, that is, to discharge their allotted tasks.¹⁹

This doctrine of the therapeutic state appealed to people who lacked confidence in their potential to take advantage of freedom. Historically there have always been people who have not welcomed liberty, but seen it as a burden. The dissolution of the old certainties of belief, occupation, and status was welcomed by those who had some confidence in their ability to cope and prosper, but there were many who felt no such optimism:

The counterpart of the agricultural entrepreneur, the commercial adventurer, and the artisan confident in his skill was the displaced labourer; the counterpart of the self-directed man ... was the dispossessed believer In short, the circumstances of early modern Europe bred, not a single character, but two obliquely opposed characters, that of the individual and that of the individual *manqué*.²⁰

Political movements developed to exploit the fears of the insecure, usually led by men with scant respect for their followers. The individual *manqué* brought into being, says Oakeshott, 'leaders' of the modern type:

... persons who have themselves just enough individuality to derive some satisfaction from the adventure of making choices but too little to seek it anywhere save in commanding others, persons who can appear as both the image and the master of their followers, whose concern is to exercise power, and who are naturally indisposed to put a term to their activities by urging their followers to cultivate self-reliance or even to be critical of their impulses.²¹

Typically the followers had 'rights' which the leaders would supply. Marxism exploited these sentiments most fully by presenting liberty as the creed of the already privileged, a class doctrine. Socialism would restore power to its rightful owners, the masses. But as the Russian masses were to learn, their leaders saw them as role-playing followers, devoid of moral qualities, ready for moulding into 'new men' or to be imprisoned or killed if they wilfully resisted.

The notion of the therapeutic state is closely linked to the modern idea of the victim, whose situation needs to be put right by the state-as-therapist. Victim status today is much sought after. The American political scientist Aaron Wildavsky once calculated that 374 percent of Americans are self-

defined victims!²² At least six advantages can be identified: it justifies anger or hatred; it provides a rationale for compensation; it justifies privileges (positive discrimination); it excuses bad behaviour by the victim; it relieves the victim of personal responsibility; and it puts critics on the defensive. The importance of victim status was revealed in the controversy involving American Supreme Court nominee, Clarence Thomas, and Anita Hill. Both presented themselves as victims—one a woman, the other a black—and these appeals dominated discussion rather than reason or truth.

Victim status is politically valuable because there have been *real* victims. American blacks, in particular, were badly treated historically. However, there is more than one possible reaction to mistreatment, and not all such reactions are consistent with a free society. For instance, to sympathise with a victim does not require support for violence. Yet this was the trap sprung by late-1960s campaigners for black power. You are either for us or against us, they said.

The early civil rights movement, under the leadership of Martin Luther King, was very different. King's philosophy combined Old Testament righteousness, New Testament forgiveness and the theories of non-violent protest championed by Gandhi. He was much influenced by the theology of Reinhold Niebuhr, who warned against campaigns based on righteous indignation. Resentment, he said, was "merely the egoistic side of the sense of injustice". The campaigner should always acknowledge the common humanity of both victim and oppressor.²³ As Niebuhr wrote in *Moral Man and Immoral Society*:

The discovery of elements of common human frailty in the foe and, concomitantly, the appreciation of all human life as possessing transcendent worth, creates attitudes which transcend social conflict and thus mitigate its cruelties. It binds human beings together by reminding them of the common roots and similar character of both their vices and their virtues. These attitudes of repentance which recognize that the evil in the foe is also in the self, and these impulses of love which claim kinship with all men in spite of social conflict are the peculiar gifts of religion to the human spirit.²⁴

King resisted campaigners who wanted to present their struggle as one between black and white. While King said he would fight the white man, "to get out from under his subjugation", he would "also try to understand him and I will not try to defeat him".²⁵

This Gandhian spirit is captured in King's famous 'I Have a Dream' speech, delivered in August 1963 in Washington DC:

I have a dream that my four little children will one day live in a nation where they will not be judged by the color of their skin but by the content of their character. I have a dream today!

I have a dream that one day, down in Alabama, with its vicious racists, with its governor having his lips dripping with the words of interposition and nullification, one day, right there in Alabama, little black boys and black girls will be able to join hands with little white boys and white girls as sisters and brothers. I have a dream today!²⁶

By the late 1960s, however, the idea that the civil rights movement should be built on Christian love and forgiveness was being treated with derision. Instead of equality of opportunity, the new generation of leaders demanded 'reparations'. King had stressed hard work, strong families, and religious faith. "Nothing", King argued, "is so much needed as a secure family life for a people to pull themselves out of poverty." The new generation of leaders denounced such values as the ideology of whites, embraced only by black Uncle Toms. Ironically, some of the main enthusiasts for resentment were the movement's white supporters, whilst the majority of blacks supported King. Charles Sykes in his insightful study, *A Nation of Victims*, quotes a 1966 survey which found that King received the approval of 88 percent of American blacks whereas black-power advocate Stokely Carmichael won the approval of only 19 percent.²⁷

Some activists drew on the extremist writing of the arch-exponent of revolutionary violence, Frantz Fanon. Writing about French colonialism, Fanon urged victims of oppression to be ready for violence at all times. He rejected any notion of a shared moral order because it created "an atmosphere of submission and inhibition" among colonised peoples. The victim of oppression "laughs in mockery when Western values are mentioned in front of him". The victim will "insult them, and vomit them up".²⁸

One of the targets of the militant campaigners was a paper called *The Negro Family: The Case for National Action*, written in 1965 by Daniel Moynihan, then a White House aide. He argued that the black community was being destroyed by the breakdown of the family, measured in rising illegitimacy and desertions by fathers:

At the heart of the deterioration of the fabric of Negro society is the deterioration of the Negro family. It is the fundamental source of weakness of the Negro community at the present time . . . Unless this damage is repaired, all the effort to end discrimination and poverty and injustice will come to little.²⁹

Moynihan's statement was bitterly denounced, with white academics in the forefront, including William Ryan, whose book *Blaming the Victim*,³⁰ first

published in 1971, supplied the catch-phrase still in common use. The new 'blame the victim' ideology, Ryan accepted, was very different from the old racism. Its adherents included sympathetic social scientists with a genuine commitment to reform, but they had been duped. Old racists believed that blacks were defective because they were 'born that way', but the emphasis on character and personal responsibility was not an improvement because it still located the explanation within the victim rather than in 'the system'.

Ryan's approach is exemplified by his attack on the Coleman Report (*Equality of Educational Opportunity*), a major study carried out by sociologist James Coleman and published by the US Office of Education in 1966. It was, said Ryan, "an impeccably liberal and scientific work". Coleman reported that black parents were found to be highly interested in the educational success of their children, but that "this interest often does not get translated into action which supports the child's work in school".³¹ And the data, Coleman found, give a picture of students also reporting high interest in success which "was not translated through effective action into achievement". Is this or is this not, asked Ryan rhetorically, "a clear case of blaming the victim?"³² In his view, to draw attention to personal responsibility at all was inescapably to apportion blame and on that account was wrong.

Ryan's approach to family breakdown and illegitimacy was similar. In a chapter entitled "The Prevalence of Bastards", he dismissed personal choice, character, or the moral climate of the community as having any relevance. "The 'problem' of illegitimacy is not due to promiscuity, immorality, or culturally-based variations in sexual habits; it is due to discrimination and gross inequities between rich and poor, and more particularly between white and black." It reflected the "intent of the dominant majority to keep the poor in their place".³³

He rejected the argument of some white social scientists that black family breakdown was the "heritage of slavery" because some slave owners had not allowed man and wife to live together. This argument, said Ryan, is an ingenious cop-out:

As the murderer pleads guilty to manslaughter to avoid a conviction that might lead to his being electrocuted, liberal America today is pleading guilty to savagery and oppression against the Negro of one hundred years ago in order to escape trial for the crimes of today.³⁴

He was no less compromising in his explanation of black criminality. The victim-blaming theory of crime comprises four propositions. First, "[c]rime is dramatically more prevalent in the slums and among the poor"; second, "the criminality of the poor is a result of social conditions which, in effect,

warp their character and behaviour"; third, "these lower-class criminals make up a distinct sub-group in the population"; and fourth, the purpose of police activity is to suppress them. These formulations, he says, are "extremely plausible", but in fact are "the most outrageous collection of non-facts imaginable". If the theory seemed to be supported by the presence of more blacks in jail, this was because they were arrested more frequently, whereas whites were "usually left alone" by the racist police.³⁵

Thus, for Ryan and similar academics, to assign any responsibility to a person was *blaming* the victim. All human conduct should be explained as the outcome of outside forces—the system. The public policy conclusion was that political power should be used to modify the 'outside forces'. Ryan's argument is compelling because it appeals to our sympathy. Many blacks were mistreated. No reasonable person could fail to condemn lynchings and the systematic denial of civil rights in the Deep South. But as inspirational leaders like Gandhi and Martin Luther King showed, it is how the victim reacts that matters most. They should not be quiescent; they should resist injustice, but in a manner compatible with a mutually respecting moral community. They should not replace the white man's hate with their own, but build a better world for all. They should not react to retaliate but in order to maintain the values which allow diverse peoples to live together in peace. Martin Luther King's views were founded on moral principles which could serve as a basis for freedom. He appealed to the best in people. Ryan's appeal is to the lowest of human instincts.

Ryan considers personal responsibility to be of no relevance. He cites an activist friend of his who tried everything to generate citizen support for the welfare rights movement, including "heartbreaking stories of life on welfare". To Ryan's disgust, most of his listeners seemed "unable to rid themselves of the ingrained belief that getting money without working for it—no matter how worthy and touching the recipient may be—is illicit, slothful and vaguely criminal".³⁶ In Ryan's world-view, there was no place for such acts of conscience.

Yet, in reality the 'victim' may have contributed to his or her own predicament. If the remedy does in practice lie within the control of the victim, then any observer should be free to say so. Traditionally American blacks reacted to their predicament by hard work, good character, thrift, self-sacrifice and family loyalty. As a strategy it worked, as the millions of American blacks who made it to the middle class can testify, and as many black writers including Thomas Sowell and Walter Williams have convincingly argued. It also worked for the Jews and many other ethnic groups in the United States.

Charles Sykes notes that the main message of victim status is: "*I am not at fault. [Fill in the Blank] made me do it.*"³⁷ But this undermining of responsibility has been fatally damaging for poor groups. They cannot afford delusions.

Another reason for the appeal of victimism in the 1960s and 1970s was the animosity to guilt. There were many who hoped for a blame-free, guilt-free society. But the release from responsibility is applied only to the self-defined victim, not to others. There is always someone *else* to blame.³⁸ Not only does it relieve the self-defined victim of responsibility, it justifies rage towards oppressors. Worse still, it justifies rage towards groups. All whites can justly be hated, whether the particular individual is right or wrong. It is very far from absolving everyone of blame. On the contrary, victimism heightens the atmosphere of blame, whilst absolving victims of responsibility.

Victim status is closely allied with the medicalisation of conditions. Conditions like stress have become conditions only resolvable with expert therapy or counselling. But they are further examples of the flight from personal responsibility. The latest such cry is post-traumatic stress syndrome, otherwise known as being upset after a serious incident like an accident. This condition can only be resolved with help from highly trained counsellors, though the victim is afforded much relief by the award of compensatory damages.

The result of this attitude is that genuine victims become less able to handle pain or loss. Instead of coping, they say to themselves, it *should* not have happened. And instead of digging deep within for strength, or sharing their problem with a friend or relative, the victim asks, 'Who is to blame and who should compensate me?' No one, it seems, should ever have to sacrifice anything, or struggle against adversity.

It is also accompanied by hyper-sensitivity in the use of language. It would be wrong to call a black person a 'nigger' or to address him as 'boy'. From this reasonable base we are led to the ludicrous ban in some circles on the use of the term 'Dutch treat', because it is insulting to the Dutch. As Sykes remarks, "sensitivity" transforms the aggrieved self into "the imperial arbiter of behaviour". Everyone must now accommodate himself to the feelings of the victim.³⁹

A further consequence is that reason is undermined. The non-victim is defined as incapable of understanding the plight of the victim: no white can understand the predicament of the black; no man can comprehend the predicament of a woman. Any comment the outsider makes is unavoidably prejudiced and so the possibility of resolving conflicts by the exchange of

views is ruled out. All that is needed is a charge of racism or sexism and it is game, set and match to the victim.⁴⁰

The sensitivity that requires others to adjust to the self-defined sense of grievance of the victim is sharply in contrast with the morality of freedom Kant had in mind when he formulated the “categorical imperative”. Nor is it consistent with the ‘golden rule’—do unto others as you would have them do unto you—which also enjoins us to take the feelings of others into account. For centuries, moral systems have urged us to try to see ourselves as others see us; to sympathise with the feelings of other people; and not to exempt ourselves from observing rules which apply to everyone else. But victim status justifies a quite different ethos. Only the victim can judge. This makes the sensitivity required very different from the ordinary civility expected in a typical daily exchange. Victim status is the perfect excuse for self-exemption from rules which rightly apply to others. It is quite incompatible with the mutual respect of free and responsible persons.

Victimism also undermines real human decency, while pretending to appeal to it. The victim is different from the person in need of help. A victim resents help; instead he demands *rights*. Traditionally helping another was regarded as a duty or obligation embodying mutual respect. It might be a duty undertaken as a burden, or as a joy, but, however the duty was perceived, there was a kind of equality between giver and receiver, with the giver offering assistance on the assumption that the help was temporary. He was tiding the receiver over until he got back on his feet. The receiver accepted help on the same terms, and resolved to pay back the help, if not necessarily pound for pound, then by returning the favour in a manner open to him on some future occasion. This mutual respect is captured in the story of Stephen Blackpool in Dickens’ *Hard Times* (see p. 108). But the new doctrine of the victim accepts no mutuality in the relationship. The victim demands one-sided rights.

Although victim status brings political power, it is a trap. It robs the victim of personal responsibility, the only real source of self-respect. This lingering feeling that respect has been diminished may explain the stridency of the demand for rights. Assistance must be as of right because a right suggests respect. But the rights demanded by victims are not like other universal rights. They are special rights given only to victims.

Consider the disabled, one of the more recent groups to discover the political pull that victim status brings. In our example, a wheelchair-bound accident victim in his thirties, who was injured at the height of his powers, takes up sport and overcomes obstacles to win a competition. His is a triumph of spirit over adversity. He is not only respected, but admired. Because he

has shown by his actions that he is making the most of his circumstances, he can receive help honourably. And the giver can assist without fear of seeming to patronise. There is mutual respect.

Compare him with the wheelchair-bound person who demands the enactment of a new law against 'discrimination'. He demands that no employer should take disability into account when recruiting employees. But such a right does not bring real respect. Although the disabled person may have a job by right, he will not be able to do it without help. Nor will anyone at work be able to admit that he is helping. The disabled person will have to live a lie.

There will be no triumph of spirit and no courage. There will still be help, but it will be hidden by the coercion. It will be whispered help. And there will be no reciprocity or mutual respect in the relationship because it is based on force.

There are universal rights and there are victims' rights. They are not the same. The disabled ought to appeal not to force, but to the best in people. Yes, they should appeal to sympathy. No, helping another person out of sympathy need not be patronising, but given in the knowledge that anyone can end up in a wheelchair—in the spirit of 'there but for the grace of God go I'. If disabled people find that help is given in a patronising manner, let them campaign not for rights, but for the help to be given in the right spirit of mutual respect.

Finally, one of the least edifying aspects of victimism is the manner in which victimist ideology is promoted by groups who base their claim on the grievances of others. For instance, middle-class blacks based their claim for positive discrimination on the genuine injustices done to other blacks in the past. The result is that middle-class blacks get privileges such as promotions in the workplace which they do not deserve. Middle-class feminist women often make similar demands. They claim that women in the past have been discriminated against and insist upon job promotions today, when they have personally suffered no loss and may not deserve on merit the job appointment they crave.

SOCIAL JUSTICE ⁴¹

One of the most damaging doctrines of the modern age is social justice in the sense used by many of a collectivist persuasion. It appears to be something any reasonable person might want, like 'fair play' or 'fairness'. Most importantly, social justice is deliberately confused with the relief of poverty. But social justice is a doctrine which calls for political power to be used to

make people materially more equal. It seeks not fair play, but more equal outcomes, and as such is incompatible with a free society. Fairness and justice are good things; the abuse of political power under the guise of creating social justice is not.

I will comment on 10 of the main rationales for the pursuit of social justice, concentrating on the most influential.

1. The Duty to Relieve Poverty

There has long been a widely supported belief that we all have a duty to prevent starvation; in Britain from medieval times until the twentieth century this obligation was placed upon local public authorities. The problem today is that the wide support for the relief of hardship has been exploited by egalitarians to cultivate support for equality, a doctrine calling for the power of the state to be used not to assist the poor, but to equalise people.

Advocates of equalisation have consequently been able to exploit support for the relief of poverty by falsely characterising measures designed to equalise people as measures to relieve suffering.

A major landmark was the 'rediscovery' of poverty in the 1960s. Instead of defining poverty in terms of hardship, the poverty line was calculated in relation to average earnings. Early studies by investigators like Rowntree used an absolute standard. He defined 'primary poverty' as falling below earnings sufficient to 'obtain the minimum necessities for the maintenance of merely physical efficiency'.⁴² The chief difficulty for poverty campaigners is that, on such a definition, no one in Britain has been poor for many years. The focus has, therefore, switched to relative poverty.

Although the distinction has come to be discussed as one between absolute and relative poverty, this is not a concrete description of the difference because any definition of poverty must be relative to the extent that public conceptions of hardship change over time. But the fact that conceptions of hardship have changed as prosperity has increased does not justify linking the poverty line to average or median earnings. This device has the result of defining a large proportion of the population as always poor, without regard to the actual standard of life enjoyed.

The British Joseph Rowntree Foundation Inquiry into Income and Wealth of 1995 received considerable attention for its claim that "income inequality in the UK grew rapidly between 1977 and 1990, reaching a higher level than recorded since the War".⁴³ It went on to say that "[o]ver the period 1979 to 1992 the poorest 20-30 percent of the population failed to benefit from economic growth, in contrast to the rest of the post-war period".⁴⁴

The Rowntree Inquiry figures rely mostly on the British government's *Households Below Average Income* (HBAI) series, excluding the self-employed whose income declarations are believed to be unreliable.⁴⁵ The Inquiry repeated the finding of the 1994 HBAI report that average income grew by 36 percent in total between 1977 and 1990, while the average income of the poorest tenth remained the same in 1991–1992 as in 1979 before deducting housing costs, and was 9 percent lower after deducting housing costs. The press release reveals the political intentions of the committee of inquiry. It said:

The Inquiry warns that market forces, left to themselves, cannot deliver the investment that will most benefit the economy and society as a whole. It concludes that a range of co-ordinated initiatives is required to address the many causes of growing inequality.⁴⁶

The Rowntree Inquiry has not been alone in exaggerating the extent of poverty. The Child Poverty Action Group (CPAG) is among the worst culprits. The official *Low Income Families* series was published from 1972 to 1985 and defined poverty as “on or below” the then supplementary benefit level. At that time CPAG authors tended to define poverty as the supplementary benefit level plus 40 percent.⁴⁷ More recently the CPAG has preferred to draw the line at a different point. The *Low Income Families* series was superseded by HBAI, which covered those below 50 percent of average income, the definition of poverty preferred by the European Commission. The CPAG typically uses this figure to make claims about the number of children in poverty each year.⁴⁸ For example, the CPAG claimed in June 1995 that 4.3 million British children lived in poverty compared with 1.4 million in 1979.⁴⁹ Its publications have regularly exaggerated poverty. Thus in 1994, *Family Fortunes* describes Britain as:

... a society in which 4.1 million children, 32 percent of the total, live in poverty; in which the poorest 10 percent of families with children had an average household income, £438 per annum lower in real terms in 1992 than in 1979, a period in which the disposable annual income of the richest 10 percent rose by £13,900.⁵⁰

The Low Pay Unit prefers “two-thirds of median male earnings” as its definition of low pay. Not to be outdone, the Council of Europe goes further still and defines its “decency threshold” as £221.50 per week or £5.88 per hour in 1994. Data from the British *New Earnings Survey 1994* showed that on this measure 37.3 percent of workers earned less than the “decency threshold”.⁵¹

The assertions of the Rowntree Inquiry and kindred organisations are contradicted by an independent study conducted by the Institute for Fiscal

Studies (IFS) comparing household income and expenditure. The HBAI series relies on the *Family Expenditure Survey*, an annual sample survey based on about 7,000 households. Also using data from the *Family Expenditure Survey*, the IFS found marked differences between the expenditure and the income of households. The comparison shows that the gap between richer and poorer in terms of both income and expenditure did widen, as the Rowntree Inquiry claimed.⁵² However, the IFS compared the expenditure of the bottom decile (by taking the 5th percentile) and the top decile (by taking the 95th percentile). The *income* of the 5th percentile stagnated between 1979 and 1992 before housing costs are deducted and fell by 18 percent after housing costs are deducted. But the *expenditure* of the same percentile grew by 17 percent before deduction of housing costs and by 14 percent after deduction. Thus, say the IFS authors, “the often quoted result that ‘the poor got poorer’ over the 1980s is not upheld if expenditure is chosen as the measure of living standards”.⁵³

The IFS report also allows a comparison with the Rowntree Inquiry claim that the bottom 20–30 percent had not shared in the rising prosperity of the 1980s. The IFS found that the bottom 10 percent (according to income) in 1992 spent on average 27 percent more than in 1979, before deduction of housing costs (or 30 percent more after deduction of housing costs), a finding it describes as “startling”.⁵⁴ Even if the self-employed are taken out (as the Rowntree Inquiry did), the increase was about 24 percent whether or not housing costs are included.⁵⁵ The deciles second and third from the bottom also increased their expenditure, but not by so much. The second decile group (according to income) increased spending by about 15 percent and the third by about 8 percent.⁵⁶

The IFS examined the possibility that the difference was the result of increased debt, but found this not to be the case.⁵⁷ The increase in self-employment explains some of the difference, but excluding the self-employed from the calculations still leaves an average increase in spending of 24 percent.⁵⁸ Part of the remaining difference is explained by the increase in the number of people reporting zero or negative income. In 1979, 26 individuals in the *Family Expenditure Survey* reported zero or negative incomes after deducting housing costs, whereas in 1992, 133 did so. In many years, the average expenditure of those reporting no income exceeded the average for the whole population, because individuals resorted to their savings.⁵⁹

However, the chief explanation given is that the households in the bottom decile according to income vary considerably from year to year and that, in any one year, the households in the bottom tenth may have savings on which they can draw. The IFS found that, over the period 1979–1992, the proportion

of pensioners in the bottom income decile fell, as they were replaced by working-age families. Some people, those unemployed for a relatively short time, for instance, draw on their savings, whereas pensioners on average spend less than non-pensioners because they are more inclined to save from their income than to spend their savings.⁶⁰ This explains why the average increases in the expenditure of the second lowest income decile (15 percent before deduction of housing costs) and third lowest income decile (8 percent) (both of which included an increasing proportion of pensioners over the period) were lower than that of the bottom income decile (27 percent).⁶¹

Thus, in flat contradiction of the Rowntree Inquiry, the bottom 20-30 percent, as ranked by income, spent in real terms considerably more in 1992 than in 1979 and thus shared in the increased prosperity of the period.⁶²

A table in the 1995 edition of *Households Below Average Income* shows just how much variation there is between income and expenditure. Three percent of those in the bottom decile according to income were in the highest decile for expenditure and 20 percent were in the top 50 percent. Only 33 percent of the lowest decile according to income were in the lowest decile according to expenditure.⁶³ This variation shows the folly of building public policies on statistical evidence about aggregates. As I will argue below, it would be more effective to adopt a more personal approach which allows for human diversity.

Quite apart from the actual evidence of income and expenditure, it is important to distinguish between the relief of hardship and equalisation, because the former is consistent with limited government whilst the latter provides a rationale for unlimited arbitrary power. Is it plausible to uphold an absolute definition of poverty, when what constitutes hardship will inevitably change with general prosperity? In practice, the absolute standard will be a 'moving absolute'. The minimum standard of living could be defined at a particular time in terms of a basket of goods which can change over time as the consensus on the accepted minimum changes. To avoid constant political pressure for change or adjustment, the basket of goods might be fixed for a 5 or 10 year period. The poverty line thus defined would not be a permanent standard fixed for all time, but it would serve to limit the scope of political power. Alternative measures based on the constantly-changing average wage or the vague ambition to 'compress' income differentials allow wide scope for state coercion and put individual lives too much under the control of the authorities.

Again, if we recall the three inseparables, the assumptions of egalitarians become clearer. They do not see people as characters exercising intelligence, but as individuals whose lives require management by the authorities. The

confusion of poverty with inequality is part of a deliberate campaign to create a constituency for confiscatory political action, or what the Rowntree Inquiry euphemistically calls "a range of co-ordinated initiatives".

2. Rewards According to Merit

It is sometimes argued that all rewards should be deserved and frequently argued that some (high) incomes are not deserved. Such discussions are part and parcel of the human condition. My only concern with this argument is when it becomes a rationale for government action to assess how much a person is worth.

First, no one has enough knowledge to make any such assessment. Considerable knowledge of past and present effort expended would be necessary to make a reasoned judgement, quite apart from knowledge of how effective and successful an individual employee was. In view of these complexities, it is very difficult to see how there could ever be an informed consensus on merit sufficient to justify political action.

There is a second consideration. Would we really want all rewards to depend on merit? Life would almost certainly be harder to bear if all rewards were thought to be deserved. At present we do not know why someone has a low income. It may be all they are capable of earning, or it may be that they consider a lower paid job more worthwhile, or perhaps the journey to work is more convenient. People do not necessarily maximise their income, and they may have good reasons for not doing so.

Third, a political mechanism rewarding people 'on merit' would undermine the incentive and signalling mechanisms which stimulate economic improvement. Individuals should be free to reap the reward of their own efforts. Income, like other prices, has a signalling function. It is not an overall assessment of our worth, but it does tell us how much our services are valued by an employer. A person dissatisfied with this evaluation is free to alter the skills he offers by retraining or to move to another place where his services may be better appreciated. Moreover, the capacity of an organisation to pay higher incomes will depend on its success in providing goods and services for other people. Competition tends to ensure that only those who best satisfy the requirements of their fellows prosper. Incomes partly reflect the success of an organisation in meeting the requirements of consumers who have chosen to pay for the product supplied. Luck may be a factor, but to resent it and to desire coercively to eliminate its effects destroys opportunity. It may be that a company decides to sell a product because of a private obsession of its owner, and that by sheer luck it proves to be a good seller. Nevertheless, the company has been of service to others.

That is, rewards depend on the value of goods and services to the people who choose to buy them, and not necessarily on the personal merits or needs of suppliers. For this reason Hayek regretted that market rewards have sometimes been justified exclusively as the deserved outcome of hard work or skill.⁶⁴ Individuals may justly feel proud of their success, he said, but their pride should come from having given good service as judged by others, an altogether more humble basis for pride.

Of course, a wise employer will take pains to ensure that relative pay within a company reflects merit, but such decisions are the province of private bargaining, not the legitimate domain of politics.

3. Equality at the Starting Gate

The idea of equality of opportunity can also be a trap. If it means that there should be no artificial obstacles to achievement, the principle is compatible with liberty. Frequently, however, it means something quite different: equality at the 'starting gate'. It is an inevitable and unavoidable element of the human condition to be born into a particular family and for some families to confer more advantages than others on their offspring. The egalitarian view tends to be that if good parents give a child a better start, the advantage gained is improper because it is not the result of the child's own merit.

Clearly if you are fortunate enough to have well-off parents who buy you extensive private tuition, this confers an initial advantage over other children. But investment by devoted parents is no guarantee of performance. There are many examples of poorly endowed people rising by their own efforts and of the well endowed losing their fortunes through incompetence, bad luck or moral failure.

The doctrine of equality at the starting gate leads to demands for the eradication of inherited advantages. Instead of being recognised as essential institutions for raising responsible citizens through moral training and developing character, families are seen as the source of unfair differences. Parents have a natural desire for their children to succeed, but to the egalitarian this is an 'unfair' advantage which should be removed, cancelled or 'compressed'. If they achieved their aim they would undermine one of the main forces for good in the world, the powerful natural desire of parents to help their children do well.

4. The Juxtaposition of Poverty and Wealth

Poverty, it is said, should not exist alongside prosperity, from which it is inferred that the rich have a special obligation to help the less fortunate.

It is true that the wealthy have a special duty to assist the poor. This duty has been central to the Christian message and remains as valid today as ever. However, this notion is intermingled with two further sentiments: first, a sense of envy towards the rich and, second, a desire to use the power of the state to profit at the expense of other people. Together they have provided a rationale for the use of political power to take income and wealth from the 'undeserving rich'.

Envy remains a powerful force. No one, it is said, should be able to buy a privileged education or superior health care. This doctrine is close to the starting-gate view, but is distinct in being based on animosity.

Support for redistributive justice is partly rooted in the desire to relieve hardship, but it also appeals to a rather lower motive, namely the selfishness of telling voters that they will benefit from taxes imposed on others. This bribery has broken the traditional solidarity of all taxpayers against the profligacy of governments. In Britain our liberties were built on this solidarity as monarchs from the Saxons to the Stuarts and their successors conceded individual rights and constitutional checks in return for taxes. The policy of governments this century has been to divide and rule by telling one section of the population that their benefits are at the expense of 'the rich'.

Many socialists who base their ethical stance on their alleged animosity to the selfishness ingrained in capitalism in reality appeal to the very sentiment they claim to detest. If we are to preserve liberty, political institutions should appeal to the best in people. Encouraging people to believe that they can benefit at the expense of the rich promotes politicised selfishness.

It is sometimes said to be 'obscene' for huge disparities of wealth to exist alongside poverty. If you said to any cross section of the population that the wealthy few must give up their luxury cars so that the benefit level could be raised, there would be much support because spending on luxuries is seen as frivolous. The problem is that the total amount of money spent frivolously is small and the end result of redistribution over the last 40 years or so has been the heavy imposition of taxes on people who are far from wealthy and who will never be in a position to buy a Rolls Royce or a Porsche. Far from ending bad or wasteful patterns of life to help the poor, redistribution has meant eroding the income of the low-paid worker.

There is a hidden assumption that the weekly wage represents the cost of physical support plus 'pocket money' for conveniences, from which it follows that there is no harm if the government takes part of it away. But much personal spending is not frivolous. Reducing disposable incomes has meant that individuals and families have too little to invest in capital or to save against

contingencies, or to donate to charity, or, many would say, to spend on cultural activities. As a result, governments have often assumed responsibility for investment, welfare and cultural spending, adding further to the concentration of power in political hands.

Concern about the juxtaposition of wealth and poverty is sometimes linked to the view that economic activity is a zero-sum game, that is, every gain is judged to be at the expense of someone else. This claim is disproved by economic growth and by the plain fact that voluntary exchanges typically benefit all parties to the transaction. The zero-sum argument continues to maintain credibility because any marketplace can at times produce a buyer's market or a seller's market. For example, if a fruit seller in a street market has a lot of ripe fruit on a Friday afternoon, and knows that the market is closed until Monday and that his produce will go off over the weekend, then he must sell cheap. He finds himself in a buyer's market and in such a case the buyer's gain is at the expense of the seller. It is possible for a local labour market to be in the same condition, with the result that an individual may be able to command only a low wage for his particular package of skills and character.

However, the best safeguard for those in a weak bargaining position is to enjoy freedom of movement and initiative to escape from unwanted low pay or unwanted high (or low) prices. There is, in any event, little chance of governments ever eradicating buyers' or sellers' markets because they are the result of the imbalance of supply and demand, factors under the influence of buyers and sellers, not the authorities.

5. Positive and Negative Freedom

Freedom is often confused with power, a tendency encouraged by distinguishing between positive freedom and negative freedom, which has given the false impression that there are two species of the same genus 'freedom'. But according to Hayek, negative freedom is concerned with individual autonomy whilst positive freedom means 'power' and forms part of a wider ideology which wants the power of the state to be used to bring about equality of outcome.

Freedom in the classical-liberal sense describes the absence of an evil, namely coercion by others. As Hayek comments, "while the uses of liberty are many, liberty is one". It does not guarantee opportunities:

In the sense in which we use the term, the penniless vagabond who lives precariously by constant improvisation is indeed freer than the conscripted soldier with all his security and relative comfort. But if liberty may therefore not always

seem preferable to other goods, it is a distinctive good that needs a distinctive name.⁶⁵

Hayek is not, therefore, engaging in an argument about the 'real' or 'correct' meaning of the term freedom. He merely wants to avoid equivocation in the use of terms.

Traditionally, advocates of freedom have been concerned with the scope and duties of government. The state plays a key part in preventing private acts of coercion by laying down a framework of rules which it will enforce against private force and fraud. These rules mainly stipulate what you may *not* do to others: kill, steal, break agreements, and so on. But, because it enjoys a monopoly of coercion, the government is also a potential menace to liberty. This danger explains why classical liberals have been particularly concerned with the rights of the individual against the central power.

In spite of Hayek's careful argument that positive and negative freedom are different, many socialist writers define freedom as the 'availability of options'. In doing so they fail to see why Hayek values individual autonomy. Hayek's ideal is the thinking, self-improving person and he contends that government restraint through a rule of law is necessary in order to grant people a sphere of action protected against predefined acts of coercion at the hands of others.

Socialists use the term 'negative freedom' to describe the tradition of freedom which emphasises the rights of the individual against the central power, to imply that it is inferior compared with positive freedom. We can understand their ploy better by comparing freedom with another concept—'peace'. Peace is also a negative concept because it describes the absence of war.

Imagine that 'negative' peace described a state of affairs in which there was no war and therefore there were greater opportunities to prosper. It is inevitable that some people would prosper more than others, partly through luck and partly because some would work harder and invest their money more wisely. Imagine that a political group began to demand 'positive' peace because it objected to the fact that some people reaped higher rewards because of the absence of war.

Peace is a desirable state of affairs in its own right. Positive peace does not mean that there is even less bloodshed than in a state of mere negative peace. The word positive refers to an entirely separate doctrine, equalisation. Moreover, the effect of calling this levelling doctrine 'positive peace' serves to conceal its true character.

The 'positive' freedom sought by socialists who assert their 'social' concern is in reality highly individualistic. Some socialists, those who call themselves 'ethical socialists', have made this criticism powerfully against comrades they call 'egoistic socialists'. The freedom sought by 'egoistic socialists' is that of the isolated individual, who regards everyone else as in his way. Rather like some motorists, they see everything else, including the legal speed limit and the other drivers, as an obstacle to their will.

It hardly needs to be said that no such ethos can serve as a basis for a free society. But is it correct to accuse socialists of adopting a hyper-individualist doctrine of 'freedom as power', when they enthuse about 'society' and campaign against self-interest?⁶⁶ There is in reality no contradiction, because by 'society' they mean politics. Power is the common factor. They see freedom as power, and they see the community or society as about the exercise of power. At this point the argument shades into Marxism: politics is about pursuing the interests of one class of individuals at the expense of another. 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.

6. Pragmatic Universalism:

Coercion of the Middle Class

Some critics object to private education because it means that articulate middle-class parents withdraw their children from the local school. If they were forced to stay, socialists argue, then they would use their social skills to raise standards for all pupils. The same argument is applied to private health care. If the middle class are allowed to opt out, they will not try to improve the state system. This argument is closely linked to envy, but with a more pragmatic intent.

First, it is naive to imagine that if articulate parents are forced to send their children to the local school they will use their energy to raise standards for all. It is more likely that they will concentrate on gaining advantages for their own children, as they have done to date. It is notorious that middle-class parents use their incomes to buy homes in suburbs served by high quality schools, a course of action not open to the less well-off.

Second, the argument disregards the rebound effect of competition. If parents take their children from one school they send a message not only to the head of the school they are leaving, but also to other schools. Their action resonates through the whole system. And if several parents leave a particular school, or a waiting list develops for another, the message becomes

loud and difficult to avoid. Provided the system is flexible, schools must adjust or disappear.

7. The Wenceslas Myth

The desire for equality is not only the result of envy. It also exploits the human desire to obtain something for nothing, when in reality the benefits are at the general expense. On a recent British radio talk-back programme, a caller came up with the classic line: "The government should pay, not the taxpayer". He plainly assumed that the government had money of its own. Samuel Brittan has called this notion the "Wenceslas myth" after the tenth century monarch, celebrated in the Christmas carol, who shared some of his own wealth with a poor man gathering winter fuel. It has led to the myth that governments have a choice between being mean or generous, like Good King Wenceslas.⁶⁷ It should hardly need to be said that whatever the state does involves taking money from someone else. Yet the myth lingers on.

8. Integrationism or Citizenship Rights

It is sometimes suggested that all welfare should be universal as a badge of citizenship. This has been called the 'one nation' view. Those who wish to integrate people through universal benefits believe that their policy will permit every person to become a citizen. Modern citizenship theory owes much to T.H. Marshall, who contended that political and civil rights acquired before the welfare state should now be supplemented with "social" rights, including welfare rights and social services. Social rights give people the right to "share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society".⁶⁸ More recent advocates of citizenship theory claim that people are excluded from society if they are denied certain consumption opportunities and contend that this gives them a claim on the public purse.⁶⁹ This tradition has been strong in New Zealand, especially since the Royal Commission on Social Security of 1972. The attitude of the Royal Commission was reaffirmed in the 1993 cross-party Accord on the age pension.

Because the purpose of the welfare state in this view is to integrate people into the community, welfare benefits are not considered to be public charity. They are an entitlement which must be given universally as of right to, first, avoid stigma, second, compensate victims for misfortune, and, third, enable people to achieve the consumption standard necessary to play their part as full citizens. Means testing, whilst not wholly rejected, is to be avoided because it 'marginalises' the poor.

The weakness of citizenship theory is that its adherents have not understood that universalism intensifies the corruption of vote-buying and middle-class subsidies.⁷⁰ Where is the concern for social solidarity in telling people they can enjoy many benefits at the general expense? Far from generating one nation, this breeds division and antagonism and turns the political process into a battleground for consumption at the expense of other people. Professor Richard Titmuss intensely disliked private altruism, which he dismissed as involving a "gratitude imperative",⁷¹ but he did not see the emergence of a political "gratitude imperative" built on buying votes with promises of spending at the general expense. David Harris, one of the more thoughtful of the citizenship theorists, acknowledges that welfare benefits do not necessarily integrate people. They may have the opposite effect of generating conflict in the sense of a scramble for benefits.⁷²

During the post-war years the pursuit of redistributive justice has been closely allied with paternalistic concern for the 'working class' or the 'masses' whose lives need to be organised for them. They need to be compelled to save or insure against various contingencies, such as ill-health and old age. Such paternalism is called horizontal redistribution, to make it seem as if its rationale was the same as other forms of redistributive justice, notably vertical redistribution, or taking from the rich to give to the poor. But horizontal redistribution is not taking other people's money; it is taking each individual's own money and forcing him or her to spend it in a manner determined by the government of the day. Moreover, the large amount of income 'churning' associated with universal benefits results in high levels of taxation with associated deadweight losses which reduce the efficiency and growth of the economy.

The distinction between corporate association and civil association is once again useful in understanding citizenship theory. Citizenship theorists fail to acknowledge that social solidarity is possible without equality of outcome. People may feel a bond of loyalty towards institutions which offer a *minimum* without equality. More important still, people may feel loyalty towards institutions because they provide opportunities for self-development and for making private and unpoliticised contributions to the well-being of others. Citizenship theorists since T.H. Marshall have sought to integrate people into a corporate association. Personal responsibility plays a small part, if any, in their analysis in which the role of government is pervasive.

Few socialists have understood precisely how shallow an ideal equality of consumption is. Participation in the community comes to be measured primarily by spending capacity. People are consumers, takers, or satisfaction seekers. Self-improvement and duty to others are nowhere to be found. No

less important, the desire to equalise consumption ignores services which are not priced. This diverts attention from aspects of life which are not commercialised such as the mutual support of married couples, the education and care of children within the family, voluntary help given to neighbours and friends, or organised work for voluntary associations. Indeed, much of what makes for a good and fulfilled life is voluntary and unrewarded, and the desire for equalisation has promoted the tendency for the total worth of individuals to be reckoned only in terms of the services for which they receive cash payment.

As Bertrand de Jouvenel remarked, redistributionists think overwhelmingly in terms of consumer satisfaction, and their focus on equating satisfactions distracts them from the reality that there is more to life than consumer satisfaction:

To the social philosopher interested in human beings it must seem absurd that one should be passionately interested in equalizing among these lives supplies of the 'stuff', on the ground that absorbing the stuff is the stuff of life.⁷³

Egalitarians appear not to understand the entirely different vision of citizenship pursued at the turn of the century. The aim of most reformers during the last half of the nineteenth century was to improve character. Indeed, the desirability of good character was not at issue between socialists and individualists, as Himmelfarb, Harrison, Collini and other modern historians have noted. T.H. Marshall had made citizenship central to his philosophy, and his enthusiasm was shared by C.S. Loch of the Charity Organisation Society (COS), who had been one of Marshall's students. The state, he said:

... cannot afford to have any outcasts or excluded classes, citizens that are not citizens. All are citizens in name; it must see that they are so in reality. It must do its utmost to change the dependent sections of the community into independent.⁷⁴

It was the duty of the state to prevent pauperism, and of "citizens to give their service to the State for that purpose". But the COS had clear views about how the state could best fulfil that duty: by not directing the economic life of citizens, by encouraging individuals to do all they could for themselves, and by leaving space for voluntary institutions to assist the poor without making dependent paupers of them.⁷⁵

The 'university settlement', Toynbee Hall, epitomised the idea of 'citizenship'. Founded in 1884 by Samuel Barnett, it was meant to bridge the gap between the 'two nations' by making better citizens of both—by giving the rich the opportunity to do their duty and the poor the opportunity to

realise their potential. It did not dispense relief, or supervise private charity. It provided a place where local people and the residents of Toynbee Hall could come together for meetings, discussions, classes, lectures, concerts and visits. According to Samuel Barnett, the residents were not missionaries bringing the faith to the heathen, nor almoners bringing them money, food, or clothes. They were rather “settlers” who came to live among the poor—“to learn as much as to teach” and “to receive as much as to give”.⁷⁶

In 1870 Charles Trevelyan, the civil service reformer and leading member of the COS, explained that one of the purposes of the “systematic visitation of the poor” encouraged by the COS was to narrow the gulf between the classes: “to bring back the rich into such close relation with the poor as cannot fail to have a civilising and healing influence, and to knit all classes together in the bonds of mutual help and goodwill”.⁷⁷ Today’s citizenship theorists, with their focus on spending power, would no doubt find any such approach incomprehensible.

We are now seeing a contest between two competing visions of citizenship: on the one hand, the *equalised* citizen and, on the other, the *morally responsible* citizen. Under the former view, the ‘good life’ is determined by politicians in the political process, whereas under the latter, the role of the state is to facilitate the freedom of individuals to choose the ‘good life’ for themselves in mutual but voluntary association with other people.

9. Brotherly Love

Equality derives some of its moral force from utopian theories which condemn the pursuit of self-interest and advocate brotherly love. The idea of sharing rather than competing much inspired the early Fabians like Sidney Webb. According to Beatrice Webb, he found in socialism a substitute faith for his lost religious belief.⁷⁸ But sharing has worked only where possessions are not simply shared but also spurned altogether as, for instance, in a monastery. Most socialists, however, do not reject possessions totally. Bertrand de Jouvenel argued that socialism therefore:

... seeks to restore ... unity without the faith which causes it. It seeks to restore sharing as amongst brothers without contempt for worldly goods, without recognition of their worthlessness. It does not accept the view that consumption is a trivial thing, to be kept down to the minimum.⁷⁹

Far from rejecting material things, modern socialists want economic growth as much as any capitalist, but they demand greater equality of consumption, a doctrine which requires political action to override individual differences.

Their demand for equalised consumption is very different from fraternal sharing.

Socialism has enjoyed much support because of its claim to be based on the ideal of a better world with less antagonism. But where is the idealism in the modern vision of economic growth combined with the equalisation of consumption? The reality is that modern theories of redistributive justice take much of their inspiration from the narrowest kind of selfish materialism. Social justice, in the sense of equal consumer satisfaction, hardly deserves to be classified as an ideal at all. As de Jouvenel remarked, "Nothing quite so trivial has ever been made into a social ideal."⁸⁰

Socialist writers in recent decades have also been successful in associating markets with selfishness. This propaganda victory is based largely on the confusion of self-interest with selfishness, but all instances of self-interest are not examples of selfishness. Self-regard may be selfish; equally it may not. For example, someone who undertakes the extreme form of other-regarding, or altruistic, behaviour rejects all regard to self whatsoever, believing that even to make an effort to feed oneself diverts attention away from service of others or service of God. Mendicant friars lived according to such principles, refraining from work and relying entirely on begging for support. But we cannot all be beggars and it is therefore essential to human survival that most of us take the trouble to support ourselves and our dependants. Not to be self-interested in our own survival involves imposition on others.

In seeking to support ourselves we pursue our self-interest, and since we live in a prosperous society it is legitimate for us to increase our own comforts as well as merely to provide for necessities. However, we may go about making efforts to support ourselves in a selfish or unselfish manner. And here lies the source of the confusion. Selfishness means consistently putting your own interests *above* those of others or consistently disregarding the interests of others. Self-interest means, at a minimum, providing for yourself instead of relying on others, but to the classical economists it primarily meant seeking to better your own conditions and those of your family. In its essential form it was a permissive doctrine, claiming only that there is no shame in seeking a better life through work, thrift and trade on terms mutually acceptable to others. Whether an individual chooses only to earn sufficient income for self-support and no more, or whether he prefers to exert himself to rise above mere self-sufficiency is a matter of personal preference. But self-interest does not necessarily entail selfishness.

10. Rawls and Rawlsian Variants

John Rawls tries to arrive at a principle of just distribution which might be accepted by everyone if no one knew what position in society he or she was to occupy. He suggests that we put ourselves, as it were, outside society in an "original position" and that in this condition we attempt to establish principles of justice. In this "original position", which corresponds to the state of nature in social contract theory, no one knows his status, social class, occupation or wealth.⁸¹ No one knows who is advantaged or disadvantaged and, therefore, the argument runs, the principles cannot be devised to favour this or that group of persons.

Rawls' aim is to lay down a distributive pattern or end-state favouring the poor which permits a degree of inequality (as he believes is necessary to encourage productive effort) whilst permitting few sacrifices of "basic liberties". There are two principles. First, "[e]ach person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all." Second, social and economic inequalities are to be arranged so that they are both (1) to the greatest benefit of the least advantaged, consistent with the just savings principle (below); and (2) attached to offices and positions open to all under conditions of fair equality of opportunity. The first principle has priority over the second. According to Rawls, the just savings principle cannot be clearly set out, but it has to do with how much one generation saves in order to benefit subsequent generations. In practice, it appears that the amount to be saved would be settled from time to time by political decision, which means that the principle provides a handy rationale for arbitrary acts of political confiscation. The "general conception" underlying Rawls' scheme is this: "All social primary goods—liberty and opportunity, income and wealth, and the bases of self-respect—are to be distributed equally unless an unequal distribution of any or all of these goods is to the advantage of the least favoured."⁸²

Robert Nozick has mounted a fundamental challenge to Rawls' theory. He questions the assumptions taken for granted by Rawls. First, he asks why individuals in Rawls' original position are presumed to choose rules based on groups rather than individuals. Second, he asks why it is assumed that an end-state theory would be preferred, thus ruling out selection of an "entitlement" or "historical" theory of justice. And, he asks, why it is obvious that equality of outcome would be preferred. Moreover, Rawls writes as if he believes that total output is primarily a consequence of social cooperation, and because the total product is the result of social cooperation he presumes it is a 'social' (for 'social' read 'political') responsibility to distribute it.

According to Nozick, cooperation consists of a sequence of exchanges, and the ensuing total output is an incidental product of them. This total product is not, therefore, common property available for political distribution. Why, he asks, “isn’t the appropriate ... set of holdings just the one which *actually occurs* via this process of mutually-agreed-to exchanges whereby people choose to give others what they are entitled to give or hold?”⁸³ Ultimately, Nozick believes all patterned theories, of which Rawls’ is the most sophisticated, fail to respect the individual.

Hayek also takes issue with Rawls. He criticises the concept of social justice because by putting each person’s material position at the disposal of the government and focusing on the relative position of groups, it provides a basis for the corruption of the democratic process. But he is not wholly opposed to any effort to appraise the overall fairness of a given social order. He urges only that in assessing its fairness or desirability we put aside our awareness of our own material position in it. His alternative method of appraising the ‘fairness’ of a whole society or culture has much in common with Rawls’s technique of deciding on the desirability of a social order from behind a “veil of ignorance”, that is, without knowing what our own position in it would be.⁸⁴ Essentially Hayek believes that laws should increase the life chances of *unknown* persons:

All the law can do is to add to the number of favourable possibilities likely to arise for some unknown person and thus to build up an increasing likelihood that favourable opportunities will come anyone’s way.⁸⁵

We should, therefore, regard as the most desirable order of society one which we would choose “if we know that our initial position in it would be decided purely by chance (such as the fact of our being born into a particular family)”. Put another way, “the best society would be that in which we would prefer to place our children if we knew that their position in it would be determined by lot”. In these circumstances very few people, he believes, would choose either an egalitarian order, in which the government sought to level each person down to some official standard, or one in which riches were available to the few, as we find in aristocratic societies. Instead, most would choose an industrial society which offered the great majority the opportunity to thrive by their own efforts and provided an acceptable minimum for the less fortunate.⁸⁶ For instance, if you had a chance to live in the eighteenth century and you knew you would be an aristocrat, you might find the idea attractive, but if your position in the eighteenth century was to be assigned randomly, the chances are you would be a landless labourer or a servant. A society in which each individual’s lifestyle is a matter for personal choice, and which

offers the prospect, but not the guarantee, of success for all those who are willing to work, is far more appealing.

Rawlsian theories are useful to collectivists because they muddy the water, implying that it is possible to have a little bit of equality without a serious reduction in freedom. Few modern socialists aspire to bring about absolute equality; rather they believe there is a trade-off between equality and efficiency in maximising output. Typically, they call for equality to be pursued only up to the point at which it is thought consistent with economic efficiency. But the fact remains that it is a rationale for discretionary use of political power. It is significant that egalitarians define the trade-off as one between equality and efficiency. They do so because they see the market as chiefly a technique for wealth production. For them, it is primarily an incentive system which can be used in a socialist society to generate wealth. I have already argued that the system of voluntary exchange cannot be understood except as part of a wider moral, legal and spiritual setting. It is another example of socialists slipping into the habit of which they accuse free marketeers. They see people as rational calculators, responding to incentives, not as free persons guided by morals, affected by duties and influenced, but not controlled, by incentives.

The focus of socialists on material equality enables them to see that material incentives are functional because they encourage people to exert themselves and thus to create economic growth. But it diverts their attention from a bigger reality, namely that it is the ethos of personal responsibility which is the real engine driving economic growth. Professor Raymond Plant (now Lord Plant) is a typical exponent of this revised 'market socialism'. When speaking of the process whereby wealth is first created and then finds its way into the pockets of individuals and families, Plant uses the term 'trickle down', a notion which suggests a movement of money from the wealthy to the poor, and which conjures up an image of the poor receiving crumbs from the rich man's table. Is this an accurate way of thinking about the ideas articulated by the classical economists?

It is important to understand the nature of the societies that the classical economists were hoping to escape from. The old medieval order was hierarchical and static. Most people lived at subsistence level, year in year out, and from generation to generation. And most were born to a particular station in life in which they would remain. In rural areas, although there was much individual land ownership, there were few choices to be made: the village meeting in some localities or the lord of the manor in others dictated which crops were to be grown, when ploughing must begin, when to sow, which animals might be tended, and so on. In the towns the guilds exercised detailed control over all aspects of work, including the products that could be made,

the prices charged, the quantities produced and the methods, tools and materials that might be used.

By the seventeenth and eighteenth centuries it was possible to detect a fundamental change that had been slowly gathering pace for three or four centuries, but which was not fully understood until the later part of the eighteenth century. Families, initially dotted here and there, later in larger numbers, began to defy the old ways. They used their practical wisdom to improve the methods used to grow crops, rear animals and make useful goods for others to use. Dependent only on their courage and what today we might call their human capital, they defied the village authorities and tried new ways of farming, or they left for new localities where traditional authority was weak. Similarly, some families left the stifling atmosphere of the ancient boroughs for rural areas where the writ of the guilds did not run. Here they tried their hands at different methods of manufacture and trade. As it turned out, these pioneers prospered. Following tradition in agriculture, animal husbandry and manufacturing created a static, hierarchical life at subsistence level for all but a few aristocrats. But when individuals were set free to develop their own methods of farming and manufacture by trial-and-error, economic growth was the outcome. Prosperity spread as each individual began to share in the new opportunities created by the application of human initiative and knowledge.

The essence of this revolutionary departure from the old order was free scope for human ingenuity, which in turn assumes that individuals are taking personal responsibility for their own affairs, in religious and moral matters no less than in their work. The same families that took risks in growing crops in new ways or making products by different methods also tended to prefer to elect their own preachers in a general meeting rather than to countenance the authority of bishops. And in hard times, they preferred the mutual aid of the church congregation or the friendly society to dependency on the poor law.

Thus, the new prosperity which enabled the vast majority to escape from the old, unchanging, hierarchical social order was the result of individuals who were willing to take risks by applying their own practical knowledge in their work. But consider the attitude of modern egalitarians. They show no awareness of the centrality of personal responsibility, human ingenuity and human capital in generating prosperity. The egalitarians' eyes are focused on relative rewards and whether they are deserved. If talent gives rise to a higher income, they are concerned to impose a penalty, particularly if the talent is natural or has been encouraged by attentive parents. They did not understand that personal responsibility is the determining factor.

guidance. Modern advocates of corporate association aim to rule. They are the modern equivalent of the demagogues of old who needed followers, but who preferred to manipulate them rather than to respect them.

Thus, five rationales for collectivism have been identified. All have one theme in common: they provide grounds for the authorities to supervise individual lives. All assume that the state is a corporate association, rather than a civil association.

4. THE GRADUALLY CHANGING PERCEPTION OF WELFARE

Since the late 1970s critics of Western welfare systems have begun to be taken more seriously. In this chapter I will first describe the arguments of leading American contributors to the welfare debate, for it was American scholars who first began to put forward radical criticisms of the harmful moral effects of welfare. Their analyses struck a chord with many in New Zealand.

Second, I will ask whether New Zealand is repeating American mistakes, leading to the development of what writers like Charles Murray have called an underclass. It may not be useful to use the term 'underclass', which makes more sense as a description of the situation in some American cities, but the question remains whether the underlying developments are the same.

Third, I will describe the criticisms now being made by British socialists, including Frank Field, Norman Dennis and David Selbourne. And finally, I will offer an interpretation of the welfare problem in the light of Oakeshott's three inseparables.

THE EVOLVING WELFARE DEBATE: LESSONS FROM THE UNITED STATES

Since the late 1970s two main types of criticism of welfare have evolved. The first has been to understand the problem as one of incentives. The argument has been that the welfare system makes payments if people fulfil certain conditions, with the outcome that some people alter their behaviour to qualify for welfare. Instead of working to escape poverty, they refrain from work because they receive as much income (or more) by not working. Analysts who regard perverse incentives to be the problem have urged the devising of new systems which produce different incentives. This was the approach, for instance, of Milton and Rose Friedman in *Free to Choose* when they advocated a negative income tax scheme.

In the view of Milton and Rose Friedman, most welfare programmes should never have been enacted. Without them, many beneficiaries would have been self-reliant individuals instead of wards of the state, and they propose a scheme to bring about an orderly transfer of people from "welfare rolls to payrolls".¹ They recommend the replacement of the existing "ragbag of specific programmes" by a single comprehensive programme of income support in cash which would be integrated with income tax.² The disadvantage of a personal tax allowance is that if an individual earns less than the allowance,

reinstallation of legalized discrimination. They were polar changes that were barely recognised as such while they were happening.⁸

The front runners were programmes to add directly to the skills at the disposal of the poor and thus strengthen their hand in the labour market. Head Start, for instance, was a pre-school programme for disadvantaged children.

But the record of these programmes was disappointing. Individuals completed training schemes but continued to be out of work. Often they remained ill-suited to all but the lowest-paid positions, jobs which they had been encouraged to see as beneath them. Reformers reacted to the failure of these programmes in a piecemeal way, and sought to devise new incremental measures by which governments could raise the living standards of the poor. And by the late 1960s the view was increasingly taken that if training did not work, the poor must be assisted by direct income transfers. Later measures to introduce a guaranteed income, such as the Nixon Family Assistance Plan, were defeated, but other measures had a similar effect, such as Food Stamps (1964), Medicaid (1965) and Supplemental Security Income (1972). Until 1962 AFDC was confined to single parents, but in that year states were permitted to provide for two-parent families under the AFDC-UP (for Unemployed Parent) option. By 1987, 26 states and the District of Columbia had taken up the option.⁹ The result of these and similar measures was that federal spending on the needy grew in real terms by more than 10 percent a year between 1965 and 1974.

Despite these huge outlays, it gradually became clear that the number of people in poverty was not falling. It was not that the poor suffered the same degree of privation as in years gone by; it was rather that dependence on the state had become a fixed way of life for millions of Americans. The aim of reformers had been to release the poor, so that they might become self-directing citizens, but the reality was that they had created a dependent population.

What was also significant about the evolving policy changes of the 1960s was that, imperceptibly, the poor had come to be seen in a wholly different light. They were no longer free citizens, just waiting to be given their chance, but passive victims whose lives could be adjusted through the administration of government schemes. To return to Oakeshott's language, the earlier assumptions had been consistent with civil association, whereas the 1960s ethos assumed corporate association, that is the central direction of followers by leaders.

Murray contrasts the situation in 1950 with 1980. Government health and medical expenditures in 1980 were six times the 1950 figure; public assistance

cost 13 times more; education expenditure 24 times more; social insurance 27 times more; and housing 129 times more.¹⁰ But in spite of these dramatic increases in expenditure, poverty appeared undiminished. When the Food Stamp programme got under way in 1965, it served 424,000 persons. By 1968 there were 2.2 million beneficiaries, and by 1980 the number had grown to over 21 million, 50 times the original figure and 10 times the number at the end of the Johnson administration.¹¹ In 1968, when Johnson left office, 13 percent of the US population was classified as poor; yet by 1980, after expenditure on social welfare had quadrupled, 13 percent of the population remained poor.¹²

Unemployment rates appeared to have worsened for some groups during this period. In 1954, 85 percent of black males aged 16 and over were participating in the labour force, only slightly lower than the proportion for whites. From 1966 black male labour force participation started to fall faster than white participation. By 1972 there was a gap of 5.9 percent, and by 1976, 7.7 percent.¹³

Family breakdown, too, had accelerated. From 1950 to 1963 black illegitimate births rose slowly from about 17 percent of all black births to 23 percent. In 1980, 48 percent of live births among blacks were to single women.¹⁴

The link between welfare on the one hand and work effort and family dissolution on the other is demonstrated by the income maintenance experiments conducted in Seattle and Denver between 1971 and 1978. Negative income tax (NIT) was a favourite scheme of reformers, especially economists in the tradition of Milton Friedman, until the income maintenance experiments. Families in the programme were guaranteed incomes ranging from 50 to 135 percent of the poverty line. If the families worked, the grant was reduced by between 30 and 70 percent of earnings, in the belief that this gave them an 'incentive' to keep or take a job. The results were compared with those for families who had access only to normal welfare benefits.

The Seattle and Denver studies revealed that husbands reduced their hours worked by about 5 percent, wives (in two-parent families) by 15 percent, and female heads of family by 12 percent.¹⁵ The most striking effect was on young males who were not heads of families. They reduced their hours of work by 43 percent if they remained 'non-heads' throughout the study and 33 percent on average if they married during the study. Most of the reduced work effort was due to some people, particularly wives and young males who were not yet heads of families, dropping out of work altogether. NIT also appeared to encourage family dissolution. In the Seattle and Denver experiments,

The most significant reform proposed by Mead is that recipients of welfare should be under an obligation to work. He is unsympathetic to the argument that to compel people to take dull jobs is 'degrading', not very different from condemning them to slavery. In Mead's view, work should be undertaken out of a sense of obligation, not for enjoyment, and the unemployed should, therefore, be required to take any legal job that they are "physically able to do".²⁸ Moreover, he points out that present arrangements are unfair to people who already work, possibly doing chores like scrubbing floors. They are paying taxes to support the idle.²⁹

But how can this duty be enforced? It is plainly preferable if people work out of a sense of personal responsibility; and indeed no free society could function unless a sense of duty was widely and freely accepted. Most people have such a duty inculcated by private organisations such as family, friends and the church. The problem of the poor is that they are dependent on government and, according to Mead, there is, therefore, no alternative to a government role in socialising them. For those who still recoil from his argument, Mead points out that the view he advocates is, and has been, widely supported. If it was abandoned during the 1960s and 1970s, then it was only discarded by intellectuals, not by the population at large. The political problem in social policy was, therefore, not to create *new* standards but "to *elevate* into social policy those that already prevail outside the public sector".³⁰

Mead returned to his theme in 1992 with *The New Politics of Poverty*, partly to defend his view against collectivists who said that there were too few job opportunities. He showed that "unskilled jobs" suitable for the poor were "widely available". The main distinction between collectivists and classical liberals was no longer so much over the size of government but "on whether the needy can be responsible for themselves and, above all, on whether they have the competence to manage their lives". He found that collectivists, who claim to champion the needy, have a more pessimistic attitude than classical liberals.³¹

The Impact of the Counter-Culture

The analyses of the mid-1980s typified by Mead and Murray have been supplemented more recently by powerful studies of cultural change and its impact on welfare. In *The Dream and the Nightmare* Myron Magnet points out that during the 1980s 18.4 million jobs, skilled and unskilled, were created in the United States, offering escape routes to anyone with the discipline to work. Why, asks Magnet, if the jobs exist, does poverty persist? Poverty, he concludes, is less economic and more cultural. The Have-Nots lack the inner

resources to seize their chance and, worse still, as parents they pass on self-defeating values to their children.³²

The principal reason is that the libertarian-collectivist élite who shape mainstream culture have abandoned respect for the values which alone allow the poor to escape their predicament. The culture of the underclass, he says, is like a dialect shaped by mainstream culture. His central argument is that:

... the Haves are implicated because over the last thirty years they radically remade American culture, turning it inside out and upside down to accomplish a cultural revolution whose most mangled victims turned out to be the Have-Nots.³³

The Haves wanted liberation for themselves as well as the Have-Nots, but succeeded only on their own behalf. The War on Poverty and later measures were intended to 'liberate' the black and poor from poverty. At the same time, the Haves sought to 'liberate' themselves from convention. But as Chapter 3 showed, they were guided by the concept of freedom as power, that is, they saw freedom as the removal of all obstacles to human desires. Perhaps it was the result of intellectual error rather than calculated self-interest but, either way, freedom as power proved very serviceable to the Haves, for it allowed them to claim that their self-interest coincided with the interests of the poor, thus supplying them with moral credentials for self-indulgence.³⁴

The consequence has been what Americans have come to call the underclass, whose poverty has become entrenched because the ideology of libertarian collectivists celebrates self-destructive behaviour.³⁵ The libertarian collectivists could have learnt from Adam Smith, who had warned two centuries earlier of the catastrophic results for the poor of moral laxity:

The vices of levity are always ruinous to the common people, and a single week's thoughtlessness and dissipation is often sufficient to undo a poor workman for ever, and to drive him through despair upon committing the most enormous crimes. The wiser and better sort of the common people, therefore, have always the utmost abhorrence and detestation of such excesses, which their experience tells them are so immediately fatal to people of their condition.

It was different for the rich, said Smith. Extravagance or laxity might not ruin "a man of fashion", and people of that rank were apt to consider indulgence or excess as one of the privileges of their wealth.³⁶ Adam Smith, however, was not on the reading list of the leaders of American counter-culture.

Their twin liberations had two effects according to Magnet. First, he shares Charles Murray's view that respect was withdrawn from behaviour that provided the only escape route from poverty.³⁷ The ethos of honest achieve-

attention to the poor but rather by restoring the broken society-wide moral codes which previously upheld committed fatherhood as the ideal for men to aim for.

My use of the term 'underclass' should not, therefore, become a distraction. Its value lies in distinguishing today's 'new poor' from older types of poverty. The underclass in typical American usage refers to those whose poverty is behavioural. The question for examination is whether the changes which in the United States have led to the development of a so-called underclass are also to be found in New Zealand.

According to Charles Murray there are three measures of social breakdown on which attention should be focused: violent crime, economic inactivity among working-aged men and illegitimacy. How does New Zealand compare with the United States?

Crime

When Murray published *Losing Ground* in 1984, he reported crime rates in the United States up to 1980. The general pattern was that violent crime and property crime had been reasonably stable during the 1950s and until the early 1960s. Homicide fell between 1950 and 1964 from 5.3 to 5.1 per 100,000.⁴³ Then around 1964, with variations for each type of crime, the take-off began. By 1980 murder had increased by 122 percent, rape by 287 percent and robbery by 296 percent.⁴⁴ The growth of all violent crime (murder, rape and aggravated assault) and crime generally in the United States, based on the FBI's Uniform Crime Reports, is shown in Tables 1 and 2. They show crime reported to the police, not convictions.

TABLE 1: Violent Crimes Reported to the Police per 100,000

1960	161
1970	363
1980	597
1990	732
1991	758

Source: The Heritage Foundation, *Issues '94: The Candidate's Briefing Book*, 1994, pp. 140-41.

TABLE 2: Total Crime Reported to the Police per 100,000

1960	1,887
1970	3,985
1980	5,950
1990	5,820
1991	5,898

Source: The Heritage Foundation, *Issues '94: The Candidate's Briefing Book*, 1994, pp. 140-41.

Total reported crime in New Zealand has likewise been going up since 1950. In 1951, 2,000 offences per 100,000 were reported to the police; in 1961, 4,000; in 1971, 6,600; in 1981, 11,500; and in 1991, 15,300.⁴⁵ Just over three-quarters were property offences. Burglary and 'car conversion' increased by over two-thirds after 1981. Violent and sexual offences accounted for 6 percent of recorded crime, but serious violent offending increased more rapidly than other types of crime. Between 1981 and 1991 the number of robberies and serious assaults increased threefold, sexual attacks doubled and homicides increased by 70 percent, whereas total recorded crime increased 27 percent.⁴⁶ In 1950, 35,000 non-traffic offences were reported to the police. That number increased to 103,000 in 1960, 166,000 in 1970, 349,000 in 1980, and peaked at 525,662 in 1991. By 1994 the number had fallen back to 491,748.⁴⁷

So far, I have compared crimes reported to the police in the two countries. There is considerable controversy about the reliability of police statistics, with evidence of over-reporting in some cases and under-reporting in others. Moreover, international comparisons should be made with extreme caution.

The number of convictions is less open to such ambiguity, but reflects the efficiency of the police and the judicial system as well as the amount of crime. In recent years the police have been less successful at detecting crime and the courts have been more reluctant to find alleged criminals guilty. Nonetheless, convictions for all violent offences in New Zealand increased from 6,660 in 1983 to 13,159 in 1993, a 67 percent increase. Convictions for property offences increased from 49,567 in 1983 to 57,500 in 1993, a rise of 16 percent.⁴⁸ According to one study, burglary is now more common in New Zealand than in the United States, Britain or Australia.⁴⁹

(5.4 percent) had stayed to the seventh form. By 1991, just over half (54.9 percent) were still attending in the sixth form and nearly one in five (17.8 percent) remained in the seventh form.⁵⁶

A similar fall in labour force participation was found for Maori men aged 55-59, from 75.6 percent in 1986 to 60 percent in 1991.⁵⁷ How do these figures compare with the general population? Between 1986 and 1991, the participation rate of men aged 55-59 years fell from 84.7 to 74.9 percent. That is, participation fell, but not by so much as for Maori.⁵⁸

The long-term unemployment figures also reveal a concentration among Maori. In 1994, Maori made up 8.5 percent of the labour force but comprised 23.2 percent of those unemployed for 27 weeks or more.⁵⁹

Similarly the figures show a large fall in participation for Pacific Islanders. In 1981, 85.9 percent of Pacific Island men were in the labour force; by 1991, the proportion had fallen to 64.5 percent.⁶⁰ In March 1995, the rate for Pacific Islanders was 58.8 percent.⁶¹ At 3.8 percent of the labour force, they also comprised 12.3 percent of the long-term (27 weeks or more) unemployed.

But these figures reflect what is happening to *some* Maori and Pacific Islanders. The trends do not reflect changing habits common to all in these groups. On the contrary, those Maori and Pacific Islanders in work have become more like Europeans in their choice of occupation.

Statistics New Zealand calculates an 'index of dissimilarity' to measure the extent of occupational differentiation by ethnic group. This index shows the percentage of Maori or Pacific Islanders who would have to change occupations for their distribution to match that of Europeans. In 1971, the index of dissimilarity for Maori men was 30 percent, and for Maori women 37 percent. That is, 30 percent of Maori men and 37 percent of Maori women would have had to change jobs if their occupational distribution was to match that of non-Maori men and women. By 1991 the index for men had dropped to 22 percent, while for women it had halved to 18 percent.⁶²

The index of dissimilarity for Pacific Islanders has also shown a decline. In the decade to 1991, the index for men dropped from 39 percent to 34 percent; and for women, from 48 percent to 33 percent. As the official report concludes, these figures show that ethnic differences in occupational distribution have narrowed.⁶³ It also shows that when Maori and Pacific Islanders try to 'make it' in Pakeha society, many succeed. The under-performance is concentrated among some Maori and Pacific Islanders, but not all, which suggests that the root cause is not exclusively ethnic in origin but also behavioural, a point to which I will return later.

Family Breakdown

Charles Murray focuses especially on illegitimacy as a measure of an underclass in the making. He considers it a more serious sign of breakdown than divorce because, as he puts it, there has been no father from day one. The evidence, however, is that when couples divorce whilst they still have dependent children, the impact on the children is serious and long-lasting. How do illegitimacy and divorce in New Zealand compare with the United States?

Illegitimacy

In 1950 illegitimacy among US blacks was 17 percent. In 1965, when Daniel Patrick Moynihan (then a White House aide) wrote *The Negro Family* to warn that family breakdown was diminishing the prospects for black advancement, it was 25 percent. By 1982 it was 57 percent and by 1991, 68 percent. In some inner city areas, at least 80 percent of black children are born out of wedlock. The figure for white children has also been rising. In 1960 it was 2.3 percent, but it had risen to 22 percent by 1991.⁶⁴ The figure for all Americans was 30 percent in 1991, having been only 5.3 percent in 1960.

Illegitimacy in New Zealand is higher than in the United States or Britain. In 1992, 31 percent of births in England and Wales occurred outside marriage, compared with 40 percent in New Zealand for the year ended September 1995. This represents a very substantial departure from the New Zealand norm. Between 1930 and 1960, illegitimate births in New Zealand were about 5 percent of all births. In 1962 the figure was 8.0 percent, and by 1971 it was 14 percent. In 1976 illegitimate births were still under 17 percent, but by 1981 the figure was 22 percent, rising to 34 percent by 1991 and to 40 percent in 1995.⁶⁵

Some commentators argue that this development reflects demographic changes, and prefer to examine the number of ex-nuptial births 'per 1,000 women at risk' (defined as those aged 15-49 and not married). On this measure there has also been a significant increase from 8.9 in 1911 to 14.8 in 1951, 24.1 in 1961, 44.3 in 1971, 38.8 in 1981, 52.05 in 1991 and 52.07 in 1993.⁶⁶

It is sometimes said that this apparent rise in illegitimacy is illusory. In Britain it is common to argue that there is a 'moral panic' about illegitimacy, when all that has happened is that marriage has been replaced by cohabitation, a change of no real significance. The evidence advanced in support of this claim is that a higher proportion of illegitimate births in Britain is being registered by both parents. It is claimed that this joint registration shows that the relationships are stable even though they lack the 'piece of paper' known

as marriage. In 1982 illegitimacy was 14 percent, and 60 percent of births were registered by both parents. In 1992, when illegitimacy was over 30 percent, 76 percent of births were registered by both parents, so on the face of it there has been an increase in joint registrations. However, of the joint registrations, 27 percent gave *different* addresses, suggesting a relationship less stable than marriage.⁶⁷ If those parents giving different addresses are excluded, 55 percent of births were jointly registered in 1992.

But this still leaves a majority who gave the same address, most of whom were cohabiting. The evidence is that cohabitation is not equal to marriage, even when it leads to the married state. In 1986-1987 a sample of married women were asked whether they had cohabited with the man who became the husband of their first marriage. Of those married in 1966, only 2 percent had cohabited before marriage. The proportion had tripled among the women marrying in 1971 to 7 percent. By 1976 it had increased to 19 percent and by 1987 cohabitation before first marriage had become almost as common as not cohabiting before marriage.⁶⁸

Despite the claim that trial marriages provide a more sound foundation, in practice couples who had cohabited before marriage have proved more likely to divorce than couples who had not. According to *Social Trends* (1994), of couples first married in the early 1980s those who lived together before marriage were 50 percent more likely to have divorced after five years and 60 percent more likely to have done so after eight years.⁶⁹

While the evidence is not available to make an exact comparison between Britain and New Zealand, there is useful material from the 1991 New Zealand Census. In 1976 one out of every 10 sole parents had never been legally married, but by 1991 the figure was more than one in three (36 percent). The number of never-married sole parents increased eightfold over the 15 years between 1976 and 1991 from around 4,500 to over 38,000. Unmarried mothers account for the vast majority of the increase in the number of sole parents. The total of never-married sole parents increased by 82 percent between 1986 and 1991, compared with a 16 percent increase in the number of all other sole parents.

Michael Rochford points out that people classified as 'never married' are often in *de facto* relationships. He uses Department of Social Welfare benefit statistics to break down further the never-married group into those who were previously living in a *de facto* relationship ('living apart from *de facto*') and those who were not previously living in a *de facto* relationship ('unmarried'). The statistics show that, of those sole parents who received domestic purposes benefit (DPB), the proportion who were 'living apart from *de facto*' has more than trebled (from 7 percent in 1977 to 24 percent in 1991) while the

proportion who were 'unmarried' has risen more slowly (from 21 percent in 1977 to 26 percent in 1991). Rochford's conclusion is that it is likely that the increasing proportion of never-married sole parents reported in the Census tables resulted mainly from the expansion of the 'living apart from *de facto*' sub-group.⁷⁰ This suggests that these relationships fell short of the ideal of lifelong commitment.

What has been the Maori illegitimacy rate? In 1991, 75 percent of Maori births were ex-nuptial, accounting for 25 percent of total ex-nuptial births.⁷¹ The figures are said to reflect the fact that Maori customary marriages are not legally recognised. However, between 1976 and 1991 the increase in the number of Maori sole parents as a proportion of the total number of Maori was 146 percent. It is unlikely that this was caused by heightened enthusiasm for Maori customary marriages. In 1976 there were 47 Maori sole parents for every 1,000 Maori people. In 1986 the ratio was 85 per 1,000 and in 1991, 116 per 1,000.⁷² Non-Maori sole parents increased at a lower rate, 77 percent. Their ratio was 19 per 1,000 in 1976, 27 per 1,000 in 1986 and 33 per 1,000 in 1991.⁷³

Overall, the pattern of change and the acceleration seem to be similar to earlier American developments.

Divorce

The New Zealand divorce rate is similar to that in Britain (13 per 1,000), but substantially less than in the United States. American divorce was 10 per thousand existing marriages in 1950, 9 in 1960, 23 in 1980 and 21 in 1990.⁷⁴

In New Zealand in 1961 there were 3.2 divorces per 1,000 existing marriages, increasing to 5.2 in 1971, 12.0 in 1981, 12.3 in 1991 and 12.3 in 1993.⁷⁵

Of New Zealand marriages registered in 1967, one in 12 ended in divorce within 10 years. Of marriages registered in 1972, one in 8 ended in divorce after the same time period, and for 1983 marriages, one in 6.⁷⁶

Divorce increased after the Family Proceedings Act 1980 came into effect in October 1981. Under the Act an application for divorce could be made on the ground that the marriage had 'broken down irreconcilably'. It could be made jointly or by either partner so long as they had been separated for two years. The legislation led to a temporary sharp rise in divorce, as the following table shows.

TABLE 3: Divorces in New Zealand 1980-1993

1980	6,493
1982	12,395
1989	8,555
1993	9,193

Source: New Zealand Official Yearbook, 1995, p. 145.

Sole Parenthood

The one-parent family is partly a propaganda category rather than one which clarifies the nature of recent change. It includes parents who are blameless as well as parents who are responsible in whole or in part for falling short of the ideal of the two-parent family. It includes widows, for instance, who have traditionally and rightly enjoyed universal sympathy as the victims of a tragic loss of a husband and father of their children. And the mother who has been deserted by a selfish man deserves no less sympathy. But the ranks of the one-parent family also include parents who have wilfully or casually created new human life without proper consideration of the child's best interests.

In 1960, 9.1 percent of children in the United States lived in one-parent homes; by 1991 there were 28.6 percent in such homes. In 1971 about 8 percent of families with dependent children in Britain had only one parent, compared with about 20 percent in 1991, when between one in five and one in six of all dependent children were in such families. In 1991 there were about 1.3 million one-parent families in Britain, containing about 2.2 million dependent children.⁷⁷

Between 1976 and 1991 the number of sole parents in New Zealand grew by 6 percent a year on average, an overall increase of 137 percent. As a proportion of all families with children, sole parent families increased from 10 percent in 1976 to 13 percent in 1981, 18 percent in 1986 and 24 percent in 1991.⁷⁸

Between 1976 and 1991 there was substantial change in the ethnic distribution of sole parents. As a proportion of all sole parents, Europeans fell from 76 percent to 62 percent. The proportion of sole parents of Maori ethnicity rose from 19 percent to 29 percent. The number of Pacific Islands sole parents increased sixfold, from 3 percent to 7 percent of the total

population of sole parents. The 'Other' ethnic group remained constant at 2 percent throughout the 1976-1991 period.

Although, as the statistics indicate, it is far from being exclusively a Maori problem,⁷⁹ the increase in Maori sole parents is not mainly accounted for by changes in the age-structure of the Maori population. In 1976 8.5 percent of the population 15 years and over was Maori; in 1991 the figure was 10.5 percent. Between 1976 and 1991 the population-adjusted rate of sole parenthood among Maori increased by 146 percent, while among non-Maori it increased by 77 percent. The Maori rate of 47 sole parents for every thousand persons aged 15 and over was already relatively high in 1976, and was 2.5 times that in the non-Maori population. In 1991 it was higher still at 116 per thousand adult population, about 3.5 times the non-Maori rate.⁸⁰

Divorce and separation account for over half of all sole parents. Some 56 percent of New Zealand's sole parents in 1991 were separated or divorced, 36 percent had never married and 8 percent were widows.⁸¹

TABLE 4: Types of Sole-Parent Family 1976-1991

	% of sole parents	
	1976	1991
never married	10	36
widows	24	8
separated/divorced	66	56

Source: Rochford, M., *A Profile of Sole Parents from the 1991 Census*, Wellington: Department of Social Welfare, 1993, p. 44.

Sole Parents: Work and Benefits

Sole parents in New Zealand have reduced their hours of work since 1976. In that year 60 percent of female sole parents did not work at all; in 1991, 73 percent did no work. In 1976, 15 percent worked part time; in 1991, 11 percent. In 1976, 25 percent worked full time; in 1991 only 17 percent. Married mothers increased their rate of paid employment between 1981 and 1991, despite the general rise in unemployment. The decline in workforce participation was most rapid for male sole parents (who comprise 16 percent of all sole parents). In 1976, only 17 percent did no work at all; in 1991 the figure was 52 percent. In 1976, 2 percent worked part time; in 1991, 4 percent. In 1976, 81 percent worked full time; in 1991 only 44 percent.⁸²

In 1976, 60 percent of sole parents received widows benefit or DPB. By 1986, it was 77 percent, and by 1991, 89 percent were in this category.⁸³ The number of sole parents receiving DPB fell after the April 1991 benefit cuts from 97,135 to 96,340 in September 1993.⁸⁴ Then it resumed its long-term trend upwards. In 1995 the number of DPB beneficiaries was 104,027.⁸⁵

Does the benefit system play a part in encouraging sole parenthood? How does life on DPB compare with life on a wage? Average weekly earnings in New Zealand in May 1995 were \$613.05 (before tax). Average ordinary-time weekly earnings for females in May 1995 were \$498.27.⁸⁶ In June 1995 a DPB recipient with one child was paid \$198.31 (after deduction of tax at the 'G' rate), plus family support of \$42. The total of \$240.31 is equal to 48.2 percent of \$498.27. If the pre-tax rate of benefit is compared with the pre-tax earnings, the benefit of \$283.45 amounts to 56.9 percent of the average ordinary time wage.⁸⁷ In addition, beneficiaries may be eligible for accommodation supplement, special needs grants and special benefit.

Accommodation supplement was introduced from July 1993. The government pays a non-taxable cash grant equal to 65 percent of the rent when it exceeds 25 percent of income up to a maximum of \$115 per week in Auckland, \$85 in Wellington and \$70 elsewhere. The supplement also depends on income, cash assets and family circumstances. In June 1995, 83,661 recipients of DPB were receiving accommodation supplement to a total weekly value of \$3,908,632, at an average weekly payment of \$46.71.⁸⁸

Also in June 1995 18,590 DPB claimants were receiving special benefit at an average weekly value of \$31.59.⁸⁹

In addition, 121,902 payments of special needs grants were made to DPB beneficiaries during the year ended 30 June 1995, at a total value of \$12,887,447, and an average amount per payment of \$105.71.⁹⁰ Thus a DPB beneficiary with one child could receive \$198.31, plus family support of \$42 (for one child), plus accommodation supplement, plus extra amounts in the form of special needs grants. Leaving out accommodation supplement, the weekly income could be \$240.31 (\$198.31 + 42.00 family support), plus a share of the \$12 million in special needs grants, plus grants from foodbanks or other private sources.

Even if the final *after-tax* total was \$260 a week it would be above half the average *pre-tax* wage for females (\$254.98), and would be above, or similar to, the actual wage that an unskilled female could earn. Quite apart from the necessity to care for their children, it is not surprising that so few sole parents work.

The Effects on Children

The British National Child Development Study is based on a national sample of children born in 1958. The first major report on the 1958 cohort looked at the children in 1966 when they were aged seven. There have been four further follow-up studies, the latest of which was published in October 1993. The study found that illegitimate children experienced earlier death⁹¹ and more accidents,⁹² moved house and consequently changed school more frequently,⁹³ read less well, and had a lower 'arithmetic age' and a lower level of general knowledge.

Information from three tests of attainment were used: one tested the children's general mental development; the second, reading ability; and the third 'arithmetic age'. Under the first test, teachers graded each child according to his or her general knowledge. The categories were: 'exceptionally well-informed', 'good background knowledge', 'average', 'below average, rather limited', or 'largely ignorant of the world around it'.⁹⁴ The results were reported for three groups of children: adopted children, those born within marriage, and those born outside marriage. Forty-nine percent of the adopted children were graded 'average' along with 49 percent of the legitimate children and 47 percent of the illegitimate children. But while 28 percent of the legitimate children were said to be 'below average', 45 percent of the children born outside marriage were thus classified. Only 4 percent of the children born in wedlock were graded 'largely ignorant of the world around them', but more than 8 percent of the illegitimate children were so classified.

According to the Southgate reading test, 49 percent of the illegitimate children were 'poor', the lowest grade, compared with 28 percent of the children born in wedlock.⁹⁵

The studies of 'arithmetic age' showed a similar result. After adjustment for social class and other factors, the illegitimate children were found to have an 'arithmetic age' of five months younger than the legitimate children.⁹⁶

The nearest New Zealand equivalent to the British National Child Development Study is the Christchurch Child Development Study (later called the Christchurch Health and Development Study), which tracked 1,265 children born in 1977 in Christchurch. From studying the children up to the age of 16 years, the authors arrived at very similar results to the British study.⁹⁷

When the children were five, the authors studied rates of hospital admission for pneumonia, bronchitis, bronchiolitis, croup and gastroenteritis, and for childhood accidents including accidental poisoning and burns. They compared those children adopted at birth with those in two-parent families at birth and those in one-parent families at birth. The adopted group exper-

enced 8.3 admissions per 100 children, the two-parent groups 20.8, and the one-parent group 54.7.⁹⁸

When the children were 13, the study looked at the effects of 'parental separation prior to school entry at age five' and 'after school entry'. It recorded the impact on the children's performance in cognitive tests measuring intelligence, reading comprehension, mathematical reasoning and scholastic abilities. The separation of parents before and after school entry was associated with lower test scores for their children compared with those children whose parents had not separated, with the deficit varying from 1.16 points to 3.77. The authors claim that part of the difference is explained by "confounding factors" like socio-demographic background and economic circumstances, but there are still unexplained differences even after allowing for such factors.⁹⁹ The authors conclude that the relationship between divorce and child well-being was "detectable" but "not strong" because the children's problems were due to the "general social and familial context within which divorce and separation occur".¹⁰⁰

The Christchurch study examined multiple-problem behaviour among teenagers including substance abuse, mood disorder, suicidal thoughts, low self-esteem, police contact and early sexual activity. Children who, by the age of 15, had exhibited a number of problems tended to come from socially disadvantaged backgrounds. The best predictor at birth was sole parenthood.¹⁰¹

American studies also reveal that family breakdown is bad for children. Barbara Dafoe Whitehead's article in the April 1993 issue of *The Atlantic Monthly* has now become something of a classic. The summary at the head of the article reads:

The social-science evidence is in: though it may benefit the adults involved, the dissolution of intact two-parent families is harmful to large numbers of children. Moreover, the author argues, family diversity in the form of increasing numbers of single-parent and step-parent families does not strengthen the social fabric but, rather, dramatically weakens and undermines society.¹⁰²

One of the most authoritative American studies is based on a huge survey of 60,000 children carried out by the US Department of Health and Human Services in 1988. Some commentators argue that the children of one-parent families experience problems because of poverty, not because of their family structure. The study carried out by the Department of Health and Human Services shows a 'missing father' effect—measured by physical health, academic performance and emotional or behavioural problems—across all income groups. The problems diminish with the increase in income, presumably

because wealthier parents can buy better services for their children. But even at the highest incomes, purchasing power proves no substitute for a father.¹⁰³

Relevance to New Zealand

Employing Murray's criteria, New Zealand has an emerging problem, measured in rising crime, diminished work effort and family breakdowns affecting part, but not all, of the community. The remainder of this chapter looks at the possible explanations. If New Zealand, like Britain and the United States, is suffering from the same type of social breakdown, is it doing so for the same reasons?

Do the criticisms of Murray and Magnet have any relevance to New Zealand? And in particular do their accounts help to explain the concentration of family breakdown and underclass tendencies amongst Maori?

There has certainly been a growing tendency to explain the predicament of groups like the Maori as the result of 'outside forces' such as discrimination, that is, to define them as victims. For instance, the November 1994 report of the Prime Minister's Task Force on Employment contains several proposals that seem to patronise Maori.¹⁰⁴

Proposal 7 urges a strategy to eliminate "Maori disadvantage" in the labour market. The assumption behind the proposal is that Maori non-participation in the labour force is the result of disadvantage, that is, factors beyond their control. But many Maori are flourishing. There is no evidence of systematic discrimination against all Maori. The most interesting question is why some Maori succeed while others do not. The Prime Minister's Task Force was repeating the errors identified by Magnet, and especially the failure to attribute personal responsibility to Maori.

Proposals 93-97 are a good illustration of the prevailing ethos of political correctness. Although Proposal 88 urges individualised assistance for the unemployed generally—to which there can be no objection—Proposal 93 urges the development of a specific strategy for providing individualised assistance to Maori job seekers. Why single out Maori? Proposal 96 urges the same for Pacific Islanders, in case they feel left out. Proposal 94 calls for special help for sole parents and Proposal 95 for Maori sole parents. It was entirely unnecessary for Pacific Islanders or Maori, let alone Maori sole parents, to be singled out. Proposal 88 already covered everyone. Maori are singled out as victims requiring 'sensitivity'. But as shown in Chapter 3 through the arguments of Charles Sykes, such sensitivity is not the same as respect. Maori should be treated with respect, not sensitivity, and assumed to be capable of personal responsibility.

As in the United States, where there have been blacks who defend personal responsibility, so New Zealand Maori have produced similar leaders. Alan Duff has produced a telling criticism of the impact of the victim-blaming ethos on Maori. He gives several examples of Maori success stories, including Maori who emigrated to Australia and became successful. If the lack of success of some Maori in New Zealand is due to their status as a minority, he asks, how can their success in Australia be explained, where they are an even smaller minority? When asked why they were successful, Maori in Australia gave as their chief reason: "No handouts here for Maori. No nothing. You either shape up or ship out." As Duff remarks, they shaped up.¹⁰⁵

He denounces those who attribute the failure of some Maori to the Pakeha:

We have assumed that the rot set in from the outside, to be of the white man's making, his deliberate, callous doing. It was he who did this to our once proud and noble people, say we. It has nothing to do with us whatsoever. So the rot has spread. And spread. And still we refuse to turn our eyes inwards, to ask if it might have its source within ourselves, our own structure, our own core of societal being.¹⁰⁶

Educational failure, he says, is largely parental failure: those who say it is "Pakeha education failing Maori" are talking rubbish. It is, he says, chiefly Maori parents failing their children because they do not support the school at home: "*The attitudes of too many Maori parents FAIL their children when otherwise they would surely succeed.*"¹⁰⁷

Alan Duff is also a severe critic of racial quotas:

The great bulk of this liberal misapplied thinking, from quotas to Affirmative Action to Cultural Recognition, is *not* doing good, it is *harming* the very people it purports to be helping.

He calls it racism to allocate Maori a quota of university places. No other ethnic group has a quota, nor any group which has a different culture or religion: "No, it is only Maori which the quota system caters for. And it is wrong."¹⁰⁸ At the law faculty of Victoria University, which reserves around 30 places a year for Maori law students, he reports that the normal requirement is an A or an A bursary pass. When there are not enough Maori who qualify under the standard requirement, even C passes are awarded a place under the quota system.¹⁰⁹

Roger Douglas also urges personal responsibility as the key to Maori success. Pacific Islanders, says Douglas, arrive in New Zealand "landless and unprepared for modern life". But on the whole:

... they are making their way better than a lot of Maori people. So are the grandchildren of the Chinese goldminers who came here with nothing a century ago and faced an even larger cultural gulf, along with discrimination of the most blatant and inexcusable kind.¹¹⁰

Douglas pulls no punches:

I do not accept that the fate of individual Maori depends primarily on owning land. In modern societies worldwide, the vast majority of people make their way in life and contribute to the wealth of their countries through their knowledge of and skill in using information and technology.

The foundation of modern wealth is know-how. The driving forces are technology and information management. We have to match the rest of the world in those areas if we want a better future. That is the real challenge for both Maori and Pakeha in the decades ahead. The same imperative faces all nations—African, Chinese, Arab. Information and technology cannot be dismissed as alien Pakeha concepts. They are the common international currency of the globe. If the Maori people do not face this fact, they will end up driving their children and grandchildren into increasing poverty. If the whole of New Zealand society does not accept it, we will all end up sending Maori down another blind alley.¹¹¹

The consequences of according victim status to American black population should stand as a warning to all other countries. Commentators like Roger Douglas and Alan Duff have understood the dangers. It remains to be seen whose voices will be heeded.

EMERGING SOCIALIST CRITICISMS OF WELFARE

One of the most devastating recent critiques of the social security system has been put forward by British Labour MP Frank Field. Britain's welfare system, he says, is "broken-backed":

... the number of claims escalates and so, therefore, does the welfare bill. Yet independence is not encouraged. Already half the population lives in households drawing one of the major means-tested benefits. Means tests paralyse self-help, discourage self-improvement and tax honesty while at the same time rewarding claimants for being either inactive or deceitful.¹¹²

The main target of his criticism is means-tested benefits, which he says are "the poison within the body of the welfare state". Welfare cheating is the result of means-tested welfare combined with the lack of jobs:

Means tests penalise all those values which make strong, vibrant, communities. Those with savings above a certain level do not qualify. Those who try a part-time job

lose almost pound for pound from their benefit. Those who do work, or who have put a little money aside for a rainy day, can qualify, but only if they lie. And the second lie is always easier than the first. Thus the practice of deceit is encouraged by the form of welfare provision. The only cumulative impact of such lying and deceit is the further erosion of any sense of pride, respect and self-worth, which are themselves already under attack in the wake of long-term unemployment.¹¹³

He estimates that over 17 percent of the population (including dependants and claimants) relied on income support in 1993, equating to some 9.8 million people, compared with 2.9 million (5.8 percent) in 1962. If only claimants are considered, 1.2 million relied on national assistance in 1950, compared with 5.6 million who relied on income support in 1993.¹¹⁴

If the major means-tested benefits—family credit, housing benefit and council tax benefit—are also taken into account, the proportion of the population drawing on welfare increases substantially. In 1993, about 9.8 million heads of households received either income support or one of the major means-tested benefits. In 1978/79 between 4.5 million and 5 million heads of households were in this group. Assuming 1.5 dependants per head of household, Field calculates that “nearly half” of the population receives income support or a major means-tested benefit.¹¹⁵ This is an overestimate, possibly based on double counting, but official figures suggest that about a quarter of the population received a major means-tested benefit in 1992/93.¹¹⁶

Field is also concerned that benefits help to encourage family breakdown:

We also need to confront the values which are taught by our social security system. No system of welfare can be independent of values. These values need to be brought to the fore. Is it right, for example, that young, never-married mothers, should gain additional income support premiums when few if any voters think that such behaviour is acceptable, let alone rewardable?¹¹⁷

David Selbourne is yet another left-leaning writer who has sensed the moral confusion at the heart of state welfare. He finds Britain to be a “corrupted liberal order”, but his objection is directed not only against free marketeers, but equally if not more strongly against egoistic socialist demands for “dutile rights”:

On the one hand, dutiless ‘mercenary advantage’, organised in its own interest and even seeking to command the state, pits itself against the civic order in the name of the free market; on the other, demand for dutiless benefit from the state and the civic order, similarly organised on behalf of ostensible citizens (or ‘protected subjects’ in their own interest, seeks to transform claims into rights by mere force of numbers.¹¹⁸

Amidst the moral confusion Selbourne discovers that:

... the old socialist—once disposed to regard all claims-to-right in a ‘capitalist’ civic order as a surrender to ‘bourgeois’ illusion—can now be found in the van of those making the politics of dutiless right central to their cause.

The mere desire, says Selbourne, “to have a good job, money, housing, private means of transport and so on” is confused with a *right* that such events should occur.¹¹⁹

Thus, in Britain a few writers who identify themselves with ‘the left’ are now warning about the harmful effects of collectivised welfare. Among New Zealanders, former Labour politician Roger Douglas took a similar line when he drew attention to the moral harm caused by undermining personal responsibility.¹²⁰

THE WELFARE PROBLEM AND OAKESHOTT’S THREE INSEPARABLES

We can now try to bring together the discussion of civil association in Chapter 2, the criticisms of corporate association in Chapter 3 and the special problems of the welfare system discussed in this chapter.

The social security system has come under severe criticism from all points of the political spectrum. The problem is not the mere presence of a social security system but the particular attitudes associated with it in recent times. Britain had a safety-net system for centuries and it did not consistently cause family breakdown and diminished work effort, though in the years up to 1834 the subsidisation of wages and the policy of indiscriminate relief applied in some localities did have similar effects to those observable today. The faults were remedied in 1834 and it was not until the 1960s and 1970s that welfare policies in Britain began to do noticeably more harm than good. New Zealand’s social security system similarly did not come under suspicion until the 1970s.

We can identify five key attitudes which became increasingly dominant in New Zealand and some other countries after the Second World War.

1. Behaviourism

Poor people were understood to be the victims of circumstance, and the duty of government was to devise programmes to remedy their problem. It was assumed that people react to outside stimuli which can be manipulated to bring about changes in their conduct. Such behaviourism provides a rationale for political paternalism.

The counter-view is that we are persons with a character, capable of intelligent choice, self-improvement, living according to ideals, adopting wise habits, and bearing personal responsibility. Problems such as poverty, it follows, can only be understood and solved if we accept that in all situations—including those not entirely of our making—we nonetheless are personally responsible for our subsequent actions and decisions.

2. Victimism

Closely allied to the behaviourist approach is victimism. But it goes further. Not only is poverty considered to be the result of external forces, these forces are seen as unjust and the victim as being entitled to compensation. This view and its defects have been discussed in Chapter 3. As well as undermining 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.

3. Non-judgementalism

This doctrine frequently goes hand in hand with victimism, but is distinct. It derives largely from the belief that no one should be criticised because to do so is 'authoritarian'. To moralise is to impose values on others and no one has any grounds for doing so. This doctrine has been criticised in Chapter 2. Its mistake is to confuse external control with self-imposed moral restraint.

4. Resource Rights

We all enjoy rights in the form of protections against invasions of our freedom. These protective rights are fundamental to a free society. Indeed, freedom is precisely the ability to act within a legally protected domain of initiative. 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 imply a sense of solidarity which rests on the inclusion of all persons under the same legal and moral conditions and the corresponding acceptance that we cannot exempt ourselves. Such protective rights are mutual, whereas resource rights are confiscatory. Protective rights apply equally to all and self-exemption is improper. Resource rights encourage self-exemption by assuming that money will be taken from one set of people for the benefit of another. Such rights divide the community between warring factions.

5. Integrationism

Citizenship theorists argue that giving people spending power integrates them into the community, and that people are excluded from the community in the absence of spending power. As Chapter 3 argued, this notion is based on a materialistic view of the human condition. It assumes the solidarity of corporate association, not the moral commitment of civil association. The 1972 Royal Commission on Social Security used the language of integrationism (see p. 187).

The unity aspired to, however, is that of role players under guidance. All the main human cares are to be provided for by the authorities and the task of the government is to manage people's lives. This theory is incompatible with liberty in three ways.

First, the community of which it speaks is the solidarity of common purpose under direction, not the solidarity of shared acceptance of rules from which no one may be exempted. The solidarity of civil association is a unity of mutually respecting persons.

Second, it rests on a view of government as paternalistic supervisor rather than government that is confined to the important but limited task of maintaining the rules of justice in good shape and providing strictly limited public services.

And third, it is based on a low view of human potential. Two types of harm are the result, according to writers like J.S. Mill and de Tocqueville. Undermining personal responsibility is bad for individuals because it reduces the quality of their lives. Schemes to assist the less fortunate should appeal to the best in the beneficiaries, by discovering their strengths and not enhancing their weaknesses, thus raising their horizons and potential for self-improvement.

No less important, relieving people of personal responsibility threatens liberty. Democracy rests on citizens who are genuinely independent of government instead of being its creatures. A truly independent public opinion, able to check corruption or excess in government, also assumes a nation made up of strong, educated and responsible persons of character. The mainspring of a free and democratic society is the individual's sense of personal responsibility, and any system that erodes it endangers liberty by rendering people less able to play their part as free citizens, both in the workplace and the democratic process. As J.S. Mill wrote, formal instruction is only one of the means of learning. Almost as indispensable is a "vigorous exercise of the active energies" involving judgement and self-control. These energies

are stimulated by the “difficulties of life” and to remove them out of misplaced sympathy would be dangerous because:

A people among whom there is no habit of spontaneous action for a collective interest—who look habitually to their government to command or prompt them in all matters of joint concern—who expect to have everything done for them, except what can be made an affair of mere habit and routine—have their faculties only half developed.¹²¹

Such a system, says Mill, promotes despotism “by arming with intellectual superiority as an additional weapon those who already have the legal power”. The only safeguard against political slavery is “the check maintained over governors by the diffusion of intelligence, activity and public spirit among the governed”. And for this reason all sections of society should have “much to do for themselves” and, as far as possible, manage their joint concerns by voluntary cooperation.¹²²

To sum up: there is a degree of acceptance among critics of otherwise varying points of view that the welfare problem is moral in nature. It is having harmful effects on human character, encouraging the breakdown of the family, crowding out the voluntary associations on which the moral order of a free society rests and, as if these were not serious enough, it also fails to accomplish its chief declared aim of reducing poverty.

5. A WELFARE ETHOS FOR A FREE PEOPLE

In this chapter, I state more positively some of the measures that are necessary to create a society of civil associates, and try to improve upon the argument first published in the final part of *Reinventing Civil Society*. Because a shorthand label is useful, I will call the whole body of ideas civic capitalism.

This chapter concentrates on the principles which should guide change. Chapter 6 and subsequent chapters contain more detailed proposals. The particular purpose of this chapter is to describe the ethos of 'community without politics' and its historical antecedents, before arguing how it might be implemented.

The measures required to make a reality of civil association can be placed in three groups. They involve both public policy measures and private action plans.

First, we need a clear view about law and the importance of de-politicising it. This will involve confining the state to its proper task of maintaining the conditions on which liberty rests, and it will require acknowledgement of a higher constitutional law setting out binding principles which limit what governments may do.

Second, we need to restore a sense of personal responsibility and to rehabilitate virtue in its best sense, without puritanism. We need to revive confidence in the view of human nature as suited to a life of reflection, choice and mutually respectful habits—a view badly damaged by twentieth century collectivism.

Third, we need a positive campaign to restore tasks to civil society, that is, to the domain of 'community without politics'. This objective goes hand in hand with the second aim. There can be no virtue without practice and no practice while the state monopolises all important services. A good deal of what is proposed requires coordinated private action. Governments should, first, step back to create the space for a renewal of public but not political action, and, second, they should refrain from actions that undermine personal responsibility, the family and voluntary associations. The rest is up to us.

DE-POLITICISING THE LAW MAKING PROCESS

My main task is to propose how to reform the welfare state, but there is one general problem which is so fundamental that it cannot be neglected. I will, however, only touch upon it briefly.

One of the most urgent challenges is to refresh our understanding of the ideal of liberty under law. Early classical liberals put their faith in the separation of powers—legislative, judicial and executive. However, the separation was never fully achieved, even in the United States which entrenched the separation of powers in a written constitution. Power was divided between the central government and the states, in addition to the separation of federal powers, but it failed to contain the growth of central power because law making was not sufficiently separated from policy making. The Supreme Court was intended to check the politicisation of law making but it too became politicised.

According to Hayek, classical-liberal thinkers have not been sufficiently on guard against the perversion of the law-making process by politics. Consequently, we urgently need to renew efforts to put the law above government. This will mean distinguishing between three types of law. First, there is constitutional law, governing the powers of government and what it may do and how it may proceed. The second group is laws which are intended to protect the liberty of individuals, that is, to mark out a domain of initiative by stating the rules that must be obeyed on pain of punishment. Third, there are laws which are little more than administrative commands to public servants to carry out the tasks of government. Laws understood as “rules of just conduct”, as Hayek called them, are the means to liberty. Laws as administrative commands are the instrumental means to the government’s ends. Rules of just conduct leave ends to individuals in voluntary association; administrative commands tell individuals what to do.

Most law in the seventeenth and eighteenth centuries was common law. Judges or scholars discovered it; they did not make it. The idea that the law was above interference by mere governments derived in part from the much earlier view that the law was God’s law. William Blackstone, for instance, one of the most influential liberal writers on law in the eighteenth century on both sides of the Atlantic, believed that law was based on the will of God, who had provided us with two kinds of law: “revealed law” and the “law of nature”. Revealed law, as expressed in the scriptures, was of “infinitely more authority” because it was “expressly declared so to be by God himself”, whereas the law of nature was “only what, by the assistance of human reason,

we imagine that law to be". The laws of individual nations or localities depended on natural and revealed law. No human law, he says, "should be suffered to contradict them".¹

In keeping with Blackstone's view, it was taken for granted that no mere person or mere government could alter God's law. Similarly, no mere government, in its executive capacity, could be allowed to interfere with law because law itself was the means of limiting the capacity of rulers to abuse their powers. The intention was to prevent the law from becoming either the instrument of special interests or the mere tool of government. It must be that body of moral and prudential rules which is binding on everyone.

The purpose of law as a servant of liberty, said Blackstone, was to ensure:

... that every man may know what to look upon as his own, what as another's; what absolute and what relative duties are required at his hands; what is to be esteemed honest, dishonest, or indifferent; what degree every man retains of his natural liberty; what he has given up as the price of the benefits of society; and after what manner each person is to moderate the use and exercise of those rights which the state assigns him, in order to promote and secure the public tranquillity.²

To restore confidence in impartial law, two tasks are necessary. First, we should stop thinking of law as the instrument of factions or political parties for achieving their aims. The law should be above parties. And second, to effect the distinction between 'instrumental law' and 'moral law', between 'commands' and 'law', we should establish two separate chambers of parliament. Hume has described how a distinction was drawn in the seventeenth century between 'laws' which were permanent and 'proclamations' which lasted only during the king's reign.³ Hayek later captured this distinction by differentiating between 'rules of just conduct' and 'commands'. Just as proclamations had force during the king's life only, so modern party-political commands should be of limited duration. Law in the proper sense should be made by a separate chamber, in a separate process, and require more than a bare majority. As Blackstone put it, law is above all a rule: "not a transient sudden order from a superior to or concerning a particular person; but something permanent, uniform and universal".⁴

Most law today is enacted by parliaments to achieve particular purposes. The idea of law as a 'rule of just conduct' is barely understood. To retrieve it will take a long time and is very unlikely to be accomplished while law makers are party politicians who hope to gain power by offering financial gains to a majority of the voters. American Republicans have (unsuccessfully) proposed term limitations to create citizen legislators. This measure would have been a small step in the right direction, but it alone cannot achieve its

intended purpose. The ultimate aim must be to secure the election of a legislature returned to office without having promised to deliver material benefits to one group or another.

Hayek proposed that the making of the ‘rules of just conduct’ should be the task of a separate assembly and argued that historically the mistake of countries in the Westminster tradition was to have allowed the same assembly that voted taxes also to make laws. Law making is too important to be so determined. It requires a different temper, an impartial spirit, and a degree of wisdom of which no party-political debating chamber is capable. In order to separate the promulgation of decrees dealing with particular matters from the making of rules of just conduct, Hayek suggested the establishment of *two* elected popular assemblies: one charged with governing in the sense of carrying out a party programme, and the other charged with enacting the law in the strict sense. He believed that people would choose very different representatives for the two assemblies: effectiveness in upholding justice demands “probity, wisdom, and judgement”, qualities displayed by few of today’s party politicians.⁵

RESTORING PERSONAL RESPONSIBILITY

As *Reinventing Civil Society* emphasised, earlier champions of liberty took it for granted that we should seek to serve higher ideals. Work, for instance, at its best was seen as a vocation. It was not a mere necessity for making ends meet, but a duty to be undertaken for the greater good and in the right spirit of mutual respect. Outside the workplace, there was an obligation to ‘do your bit’ by supporting voluntary associations and groups central to communal life. They included churches, charities for assisting the less fortunate, friendly societies for mutual aid and, above all, the family.

The ideal of liberty extends far beyond the commercial sector of the economy. Historically, its supporters wanted to create and foster institutions that would encourage self-improvement. Civic capitalists always understood that life is a perpetual struggle against imperfection. They did not, of course, expect perfection to be achieved. They saw moral improvement as a strictly voluntary process: to force people to be better was a contradiction in terms, for to be a better person was precisely to improve despite pressures in the contrary direction.

This guiding ethos is well captured in Samuel Smiles’ books on *Self-Help*, *Character*, *Thrift* and *Duty*. This, for instance, is how Smiles spoke of character. There are many persons, he said, who have no other possession

in the world but their character, “and yet they stand as firmly upon it as any crowned king”.⁶ Achievement was a separate matter:

A man may be accomplished in art, literature, and science, and yet, in honesty, virtue, truthfulness, and the spirit of duty, be entitled to take rank after many a poor and illiterate peasant.⁷

A person’s wealth was of little consequence to character. Smiles’ appeal was to everyone, rich or poor:

Still less has wealth any necessary connection with elevation of character. On the contrary, it is much more frequently the cause of its corruption and degradation. Wealth and corruption, luxury and vice, have very close affinities to each other. Wealth, in the hands of men of weak purpose, of deficient self-control, or of ill-regulated passions, is only a temptation and a snare—the source, it may be, of infinite mischief both to themselves and to others.⁸

When Smiles spoke of self-help, he did not mean selfishness. In the 1866 edition of his book he said in the Preface that the title of the book had proved “unfortunate” because it had led some “to suppose that it consists of a eulogy of selfishness”. This concept was the “very opposite” of what he had intended. The duty of “helping one’s self in the highest sense”, he insisted, involves helping one’s neighbours. Today, the libertarian collectivists described by Magnet and Dennis are inclined to mock any talk of virtue.

Gertrude Himmelfarb has argued that the Victorians spoke of virtues and not values for good reason, because ‘virtues’ imply clear rules of conduct whereas ‘values’ imply mere opinion or preference. Libertarian collectivists invariably use the term virtue to speak of sexual chastity, and then proceed to caricature the Victorian view as concerned with obsessive trivialities like the clothing of ‘naked’ piano legs.⁹ This kind of sophistry is best understood as an effort to build a rationale for self-indulgence.

Historically, the champions of freedom were also the champions of virtue and, as Chapter 2 argued, we have been misled by libertarian moral relativism to suspect all calls for virtue as demands for authoritarianism. But as Burke understood:

Men are qualified for civil liberty in exact proportion to their disposition to put moral chains upon their own appetites; in proportion as their love to justice is above their rapacity; in proportion as their soundness and sobriety of understanding is above their vanity and presumption; in proportion as they are more disposed to listen to the counsels of the wise and good, in preference to the flattery of knaves. Society cannot exist unless a controlling power upon will and appetite be placed somewhere, and the less of it there is within, the more there must be

without. It is ordained in the eternal constitution of things, that men of intemperate minds cannot be free. Their passions forge their fetters.¹⁰

Champions of liberty should also be champions of duty, where duty is the sense of personal responsibility which enjoins us to make the world a better place and to give generously of our own time and energy in the service of others. But, if liberty rests on virtue and if virtue is primarily moulded in the family, as Adam Smith believed, should champions of liberty bolster traditional family life? And should they expect the state to play its part in sustaining the family?

Liberty rests on some institutions, habits, values and dispositions being seen as sacrosanct. Some free marketeers and many on the left would mock any such claim, but, as Frank Knight argued, classical liberalism has always had its sacred, untouchable elements. Private property was the foremost but, in common with Hayek, Knight did not shrink from putting the family in the same category.¹¹ He went so far as to say that liberalism in a sense “never really meant individualism”. Each person, he said:

... comes into the world destitute and helpless, and necessarily remains a liability for a large fraction of his life-span, before he can become an asset to himself or an ‘individual’ with capacity for membership in an organisation of responsible units. In the nature of the case, liberalism is more ‘familism’ than literal individualism.

And Knight, who was a severe critic of over-mighty government, believed that public policy should protect the family. No society, according to Knight, could possibly hope to flourish without primary groups like the family and to safeguard them, where necessary, “must be the first concern of any intelligent social policy—on a level with the preservation of physical life itself”.

Adam Smith, too, did not believe that the law should be silent on the family. The law should for the most part prohibit injury, but it can and should go further:

The laws of all civilized nations oblige parents to maintain their children, and children to maintain their parents, and impose upon men many other duties of beneficence. The civil magistrate is entrusted with the power not only of preserving the public peace by restraining injustice, but of promoting the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety; he may prescribe rules, therefore, which not only prohibit mutual injuries among fellow-citizens, but command mutual good offices to a certain degree.¹²

Smith also saw that it was potentially dangerous for laws to require the fulfilment of duties of benevolence. To neglect the task would expose the society “to many gross disorders and shocking enormities”, yet to go too far might be “destructive of all liberty, security, and justice”. But he did not conclude that the government should refrain from such regulation. On the contrary, he believed it was vital to make the effort to get the balance right. Law, for instance, was important in encouraging the best in family life. If divorce was too easy, he argued, it tended to undermine trust between the couple, because both were “continually in fear of being dismissed by the other party”.¹³ He accepted that divorce law could be too strict, but thought it better that the knot was “too strait” than too loose.¹⁴ The law had also played an important role in making the relationship between men and women in marriage more equal, a development of which he approved.

Parents, as classical liberals from Smith to Hayek understood, have a special responsibility to pass on to the next generation the values which make freedom possible. Each is a custodian of the culture with a uniquely important task. And if the moral order of a free society is ‘practical’ rather than ‘intellectual’, as Oakeshott described, then it can change in one generation, for it always rests on the practical habits being upheld day by day by each of us. If one generation of parents neglects the task, their failure may rebound across the generations in lost liberty.

REFASHIONING PUBLIC - BUT - NOT - POLITICAL WELFARE

One of the priorities of public policy should be to restore functions to civil society. We need a movement which takes pride in ensuring that vital tasks are undertaken without resort to government. During the eighteenth and nineteenth centuries this was the prevailing ethos of the friendly societies and charities. Today, very few people take personal pride in assuming responsibility for the direct resolution of problems, yet for much of the history of Britain, New Zealand and the United States, free citizens were only too keen to establish committees or organisations to tackle the issues of the day. This activism is still a part of the Western make-up, but today it is more likely to lead to demands that the government—which means *other* people—takes action. The churches were once central to encouraging private philanthropy, but in our times they too are more likely to demand action by the state. They are also likely to define the good citizen as the one who demands state measures with the greatest vehemence, a doctrine which is the very opposite of the spirit of philanthropy consistent with liberty. It is doubly

pernicious because, on one hand, it denies personal responsibility, and, on the other, it dresses up political demands as altruism when they are no such thing.

The restoration of civil society will require measures to return much of the welfare state, including health, education and pension provision, to its rightful owners, the people. These services are the subject of Chapters 7, 8 and 9 respectively. I turn first to the hardest challenge of all, the case for private relief of poverty.

Many can accept the case for wider choice in health, education and pensions but believe that the relief of poverty is entirely a matter for government. Today's adult generations have grown up under the welfare state, and whatever doubts may be entertained about its harmful side effects, the majority of people cannot envisage any alternative. Collectivists have successfully implanted the doctrine that welfare is a state responsibility and that private welfare has only a subordinate or residual role, especially in the relief of poverty.

Should we take private welfare seriously? Could it be an alternative to the welfare state? Has it not already been tried and failed? Isn't that why the welfare state was introduced in the first place?

What is the state's responsibility for the poor? It goes without saying that no one should be allowed to starve or suffer severe privation. The presence of a safety net should not be left to chance and the public authorities are well placed to ensure that no one falls through it.

However, if it is a legitimate responsibility of the state to prevent people falling below a certain income threshold, then no government can also escape considering how best to maintain this safety net without doing more harm than good. And here lies the problem. It has in practice proved to be very difficult to provide a minimum without also producing harmful side effects. J.S. Mill has stated the problem as well as anyone:

... in all cases of helping, there are two sets of consequences to be considered; the *consequences of the assistance itself*, and the consequences of *relying* on the assistance. The former are generally beneficial, but the latter, for the most part, injurious; so much so, in many cases, as greatly to outweigh the value of the benefit.¹⁵

This is never more likely to happen, he thought, than in the very cases where the need for help is the most intense. However, Mill also saw that help for those "paralysed by discouragement" could serve as a tonic and not a sedative. Such help was bracing, so long as it did not discourage self-help. He recommended the general maxim:

... that if assistance is given in such a manner that the condition of the person helped is as desirable as that of the person who succeeds in doing the same thing without help, the assistance, if capable of being previously calculated on, is mischievous: but if, while available to everybody, it leaves to every one a strong motive to do without it if he can, it is then for the most part beneficial.¹⁶

In other words, if assistance made individuals better off than if they worked and they were able to rely on the cash payments being continued, independence would be undermined. Consequently, the state should provide a bare minimum guarantee for all, and reserve for private judgement "the task of distinguishing between one case of real necessity and another". Public officials, Mill said, will not "take the trouble of ascertaining and sifting the past conduct of a person in distress, so as to form a rational judgement on it", whereas private charity can make these distinctions and is entitled to do so because it is spending its own money. Officials administering public funds should not be required to provide more than the minimum. If they were, "indulgence very speedily becomes the rule, and refusal the more or less capricious or tyrannical exception".¹⁷ The dominant view for much of this century has been that people are poor because they have been affected by factors outside their control. The distinctive character of Mill's approach is that it treated poor people as moral agents, not as victims of circumstance. Moreover, he anticipated a much bigger role for private philanthropy.

The modern doctrine of welfare rights seems at first sight to be based on respect for individuals: our common humanity, so the argument goes, demands that we all enjoy equal rights. But in truth the demand for rights removes the relationship between giver and receiver from the moral domain. It *de*-moralises the relationship.

Social policy analysts have typically argued that any charitable help always involves 'stigma', and that the only way to eliminate the stigma is to make payments by right. Their assumption seems to be that all *voluntary* help entails stigma; that the very act of giving by choice involves a slight.

A first argument against this view is that giving help does not necessarily imply disrespect, though help *may* be given in a manner which belittles the receiver. It does not follow, therefore, that we should abandon voluntary help. Instead, we should take great pains to give help in the right spirit. The only real way of avoiding disrespect is to ensure reciprocity between giver and receiver. The point is elaborated shortly.

Second, to demand help by right is to demand that force be applied to other people. This use of compulsion strips the relationship of reciprocity, the only true basis for mutual respect. We should aim, therefore, to base a

policy of assisting the less fortunate not on 'rights', which are demands that other people be compelled to render assistance, but on duties, which reach within us all for our better nature.

But does the record of private philanthropy suggest that it is capable of assuming responsibility for assistance of the poor? In considering this issue I will concentrate on two questions. First, how were the beneficiaries of nineteenth century charity seen, and especially were they classified into the 'deserving' and 'undeserving'? And second, what were the relative responsibilities of the individual, the community and the state?

The Changing Perception of Poverty

During the eighteenth century and until the end of the nineteenth, philanthropists in the tradition of Sir Frederick Eden (whose classic study *The State of the Poor*, was published in 1796) focused on 'the poor', a term which implied that the poor were always with us. However, by the time Charles Booth published *Life and Labour of the People in London* between 1891 and 1903, the emphasis had shifted to 'poverty', a term which implied that the condition could be eradicated. However, it also implied that the condition to be eradicated was a lack of money, an assumption questioned by some contemporary observers.

C.S. Loch, for instance, the secretary of the Charity Organisation Society (COS) from 1875 to 1914, argued that to speak of poverty in the manner of Booth and Rowntree (who studied poverty in York in 1899) was to see the problem as one of money alone, and to see the public policy issue as how best to get additional money to some people. But the real problem was not money but "social habit". People of similar means, Loch said, do not live in the same way and if some were poor the real challenge was to discover what could be changed in their circumstances or lifestyle in order to restore their independence.¹⁸

Loch had two main objections to the assumption of responsibility for maintenance by the state. First, it excluded the ethical dimension, that is, by defining the problem as one of money transfer, it failed to do justice to human nature, and especially to man's moral nature. Second, it excluded the motives of "energy and endeavour" that spring from personal responsibility. Indiscriminate relief "attracts the applicant by an appeal to his weakness, and it requires of him no effort". He preferred to appeal to the strength of the applicant.¹⁹ Loch's criticism was, therefore, more than purely economic. His focus was not on the perverse incentives of welfare, though that was part of it. He saw a society as far more than an incentive system. Charity, he said, appeals to personal duty and thought.²⁰ It is thought, the process of acting

intelligently, justly, courageously and more, that gives man dignity. For Loch and others inspired by the tradition of Christian charity, the purpose of work with the poor was also salvation. The poorest were not fulfilling their potential and the aim was, therefore, to “save them” so that they could fulfil their true spiritual nature by serving God and others.

The COS is often presented as having been too quick to distinguish between the deserving and the undeserving poor. Gertrude Himmelfarb, in a reappraisal of the evidence, argues that the spirit that moved the reformers in the last quarter of the nineteenth century and up to World War I was the desire to assist the labouring poor. The COS did not regard poverty as entirely a function of character. On the contrary, it recognised the “causeless”, “exceptional” and “temporary” nature of a good deal of poverty.²¹ In any event, as early as the mid-1880s the term ‘undeserving’ had fallen out of favour. In 1886 it was altered (in the COS reports although not in the case studies) to read ‘not likely to benefit’, and two years later to the still more neutral ‘not assisted’. By 1905 the revised edition of the COS’s *Principles of Decision* officially abandoned the criterion of ‘deserving’, preferring: “The test is not whether the applicant is deserving but whether he is helpable.”²² C.S. Loch put it this way. The problem, he said:

... is not whether the person is ‘deserving’ or ‘undeserving,’ but whether, granted the facts, the distress can be stayed and self-support attained. If the help can be given privately from within the circle of the family, so much the better. Sometimes it may be best to advise, but not to interfere. In some cases but little help may be necessary; in others again the friendly relation between applicant and friend may last for months and even years.²³

The reputation of the COS has suffered from many caricatures at the hands of socialist intellectuals. In practice, the attitude it encouraged was exemplary. Helen Bosanquet, one of its leading lights, hauled one lady bountiful over the coals for fearing that poverty might be ‘cured’, for if it were, the lady had argued, “the rich would have no one upon whom to exercise their faculty of benevolence”. Mrs Bosanquet lambasted another who objected to giving the poor the means of self-sufficiency because that would make them too independent. Without this “glow of benevolent patronage”, she commented, “the ladies bountiful of this world would soon lose their interest in the poor”.²⁴

The COS believed that the ideal to aim for was mutual respect between giver and taker: no presumption of superiority by the giver, and no doffing of caps by the receiver. This spirit is captured by an incident in Dickens’s *Hard Times* when Stephen Blackpool, an honest and hard-working power-loom weaver in Josiah Bounderby’s factory, is unfairly sacked. His plight is

desperate, for he has no money and no chance of other work in the locality without a reference from Bounderby. He faces a long and arduous journey on foot in search of employment. Bounderby's wife, who believes her husband was unjust, offers Stephen a bank note to see him through the hard times ahead. He takes only £2, a much smaller sum than she offered because, he says, he knows he can pay that much back.²⁵ In other words, despite his dire predicament, he will not allow the relationship to be one-sided and will accept only a loan. Mutual respect between giver and receiver was maintained.

Giving help is undoubtedly difficult to accomplish without demeaning the recipient, and during the last century great effort was expended to discover and encourage the right approach. The charities of that time issued their employees and volunteers with guidelines or manuals to instil mutual respect. Selections from some of these guidelines have been reproduced in an excellent study of philanthropy by F.K. Prochaska:

Remember, it is a 'privilege' not a 'right' to enter the poor man's cottage. Be sympathetic, not patronizing. Be a friend, not a relieving lady. Avoid giving money. Do not promote a spirit of dependence. Distinguish cases of real misery from those of fictitious distress. Avoid favouritism. Be an expert on domestic management. Quote the Scriptures. Avoid religious controversy. Encourage school attendance. Avoid politics. 'Show that almsgiving is not merely the duty of the rich, but also the privilege of the poor.' Be regular in your visits.²⁶

One of the primary aims of reformers was to improve character. Today, to make any such claim would be criticised as patronising or authoritarian. Modern social policy analysts consider it inhumane to criticise or blame an individual who is experiencing hardship due to his own conduct. The humane approach is assumed to be giving money, and anything else is caricatured as making excuses for *not* giving money. But can it legitimately be claimed that to pass judgement on a person's conduct is automatically uncaring or inhumane?

Consider the opposite of blame, praise. When we praise someone, we applaud their achievement. We do so to encourage still greater effort and achievement. Is blame not similar? We blame or criticise in order to encourage people to do better next time. The social policy mainstream is preoccupied with stigma, which originally meant a mark branded on a slave or criminal. Social policy design has been focused on avoiding it. And to avoid stigmatising someone appears at first sight to be humane because it would be wrong to stain a person's character permanently. But if we criticise a person who has fallen on hard times due to his own inappropriate behaviour, we do not brand him a permanent failure. We offer criticism because we

believe him capable of more. Failure is not a permanent state. Indeed it is vital to human growth, for it is through our failures as well as our successes that we develop our personalities. To criticise a person is to treat him as a dignified individual capable of more.

It is sometimes said today that free marketeers want to leave problems 'where they lie', as if they are concerned only to find excuses for inaction. That there should always be help available, even for those who are to blame, goes without saying. Even the gambler, drug addict or drunk should be helped. But it is *how* we help that matters. At the end of the last century, the desirability of good character was not at issue between socialists and individualists, as noted by modern historians Gertrude Himmelfarb, Brian Harrison and Stefan Collini, as well as noted by nineteenth century observers. The ludicrous claim that to assign personal responsibility is 'blaming the victim', which is described in Chapter 3, found no serious nineteenth century adherents at any point of the political spectrum.

The key word in economics in the 1890s, according to one socialist quoted by both Collini and Himmelfarb, was 'character'. According to the *Encyclopaedia of Social Reform*, the reason why "individualist economists fear socialism is that they believe it will deteriorate character, and the reason why socialist economists seek socialism is their belief that under individualism character is deteriorating".²⁷

Fabian socialists, for instance, believed that their system would produce "a higher type of character" and Alfred Marshall, the leading economist of his day, called for "chivalry" and, in the opening pages of his *Principles of Economics*, stressed the centrality of character to the study of economics.²⁸ The attitude of socialists, however, was already showing signs of determinism, for socialists at the turn of the century typically took the view that the environment was the dominant influence on human conduct.

The Individual, the Community and the State

The dominant view during the nineteenth century was not that all problems were individual, but rather that a combination of effort by the individual, family, friends, the community and the state was required. But when observers emphasised that there must be a common effort, they did not only mean that the government must do something. There was a strong sense of community responsibility which was distinguished from that of the state.

The COS suggested that the "social" aspect of visiting, even more than the charitable, was the means by which "class distinctions may be partly effaced". Hence the COS urged its visitors to be friendly and "neighbourly", to give charity not as "from strangers to strangers" but as a "transaction between

people personally known to each other". Only in such a personal relationship would the rich appreciate "the responsibility attaching to wealth and leisure" and the poor have "the comfortable assurance that if the day of exceptional adversity should come, they will not be left to encounter it without a friend".²⁹

But they were not blind to the role of the state. Charities also sought social reform. According to Loch, the duty of charity was to seek both to intensify the sense of membership of society and also to improve social conditions through legal reform.³⁰ Shaftesbury, for example, had earlier pushed through the factory Acts, while others urged prison reform, child protection laws, housing reform, and much more. But the COS did not, as Loch put it, aim at "recasting society itself on a new non-economic plan", as did socialism.³¹

For Loch and his associates, welfare in a free society meant that primary responsibility lay with the individual and his family, but also that no one should be left to cope alone. The community in the form of voluntary associations should always be there to help and the state should be in the background, ready to help but within proper limits.

There were two elements to this philanthropic ethos. First, there was 'community without politics', a sense of solidarity with others that is based on an obligation to help each other without degrading the recipient. The contrast is not between community and individualism, but between rival types of community. A 'moral community' respects the diverse purposes that may be pursued by individuals each acting under accepted legal and moral limits, and the aim of any assistance is to restore individuals to membership of the moral community. A 'political community' assumes that lives are to be directed by the authorities. Because it is based on low expectations, it tends to lock into their predicament people temporarily down on their luck who, given different expectations, would be capable of independence.

Second, there was a sense of 'duty without rights'. Everyone, and especially the wealthy, 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.

This ethos was more than pious hope. The extent of charitable effort was huge. The leading historians of philanthropy have not been able to gauge its full extent, since it was spontaneous and dispersed. A recent study by Geoffrey Finlayson quotes a contemporary estimate which put the annual expenditure of private charities in London in 1870 at between £5.5 million and £7 million, when London contained about 10 percent of the population.³² If the lower estimate is multiplied to calculate total charitable giving in England and Wales, the figure of £55 million dwarfs the total government expenditure on poor relief in England and Wales of £8 million in 1871. The scale of charity in New Zealand at this time is described in David Thomson's companion study.

Charitable activity in Britain was enormous, but it affected far fewer people than mutual aid did.³³ Over three quarters of those covered by the 1911 National Insurance Act were already members of friendly societies: 9.5 million out of 12 million.

Mutual aid associations made a sharp contrast between themselves and charities. Charity was one set of people helping another set; mutual aid was putting money aside in a common fund and helping each other when the need arose. As one leading society put it, the benefits were rights:

For certain benefits in sickness ... [we] subscribe to one fund. That fund is our Bank; and to draw therefrom is the independent and manly right of every Member, whenever the contingency for which the funds are subscribed may arise, as freely as if the fund was in the hand of their own banker, and they had but to issue a cheque for the amount. These are not BENEVOLENCES—they are rights.³⁴

This language of rights was later purloined by the welfare state to mean something very different.

The friendly societies, as well as the charities, took responsibility for helping people to avoid resort to the poor law. For instance, arguing against proposals for a British compulsory state pension scheme in 1882, a spokesman for the 600,000-strong Ancient Order of Foresters friendly society pointed out that thrift had succeeded in considerably reducing the number of paupers. The increased facilities for thrift “afforded to the British Workman by his own peculiar organisations”, friendly societies and trade unions, had done much during the previous 30 years to reduce pauperism, he said. They could look forward to the time when pauperism would be reduced to those suffering from “insanity and contagion” and he pointed with pride to the reduction in pauperism since 1849. In that year paupers had comprised 6.2 percent of the population of England; in 1859, 4.4 percent; in 1869, 4.7 percent; and in 1879, only 3.0 percent.³⁵

Thus, mutual insurance prevented many an employee from having to resort to either the poor law or charity. As a result, the downward trend in reliance on the poor law continued until the eve of World War I. In 1892 the number of those relying on the poor law was still lower at 2.6 percent and in 1908, 2.2 percent.³⁶

A fuller discussion of the role of friendly societies can be found in *Reinventing Civil Society*, but the common element to the services provided by friendly societies was independence. They provided all the services which enabled people to be self-supporting:

- earnings when the breadwinner was ill or injured;
- support for the widow and orphans when the breadwinner died;
- support in old age, although the ethos was different. The usual attitude was to keep working as long as possible, with the fall-back of sick pay;
- travelling in search of work (including internationally); and
- medical care when ill. Usually doctors were paid a capitation fee in return for free care. But the societies also organised medical institutes where service was provided by salaried medical officers.

The very same societies were an influential presence in New Zealand. In 1935, when the male population was a little under 800,000, there were 103,612 registered members, a figure which leaves out those in unregistered societies. The official figures also understate registered membership. They show 70 “isolated friendly societies” but give the membership for only 7 of them.³⁷ In the same year, trade unions had 80,929 members.³⁸ Friendly society membership peaked at 113,709 in 1938, the year of the Social Security Act. After that membership declined as the state assumed the responsibilities once discharged by voluntary associations.

The Value of Diversity

One other valuable lesson of nineteenth century experience deserves emphasis. Charities did not always hit upon better ways of doing things. Many also made mistakes, but this too was valuable. One of the most important lessons of history is that there is no perfection in human affairs. The human condition is to struggle for improvement and, once we have learnt valuable lessons, to struggle again to avoid forgetting them. Because we never know what the future holds, we should make arrangements which speed up the process by which we learn from experience. Any public sector monopoly acts on the exactly contrary principle. It assumes there is one obvious right answer and that the state can achieve the desired outcome most effectively. The history of welfare teaches us the folly of any such assumption.

For instance, during the second half of the nineteenth century there was a vigorous debate between the ‘dole charities’, which confined themselves to giving out cash, and the friendly-visiting charities, which emphasised the importance of personal support and criticised donors who were content to give cash and to disregard character. People were urged to give practical help, or to support charities which offered personal support. This argument was played out during the nineteenth century between protagonists in language strikingly reminiscent of today’s debates about welfare dependency.

The argument is not that in a competitive system the right answer is always present or established for all time. It is that by allowing many people to bring about improvements as they believe best and at their own risk, we arrive sooner at superior answers. We learn from the successes and failures of others. However, in the twentieth century, from the National Insurance Act 1911 onwards, British governments steadily assumed increased responsibility for the poor, and adopted the dole charity model. It has proved far more difficult to correct that error than it did during the nineteenth century when critics could more readily put their ideas to the test of experience. The COS did not have to fight a political campaign but could proceed by example. As in so many areas, the concentration of power has proved to be the enemy of welfare.

The Ethos of Community without Politics

The ethos that prevailed before the welfare state in Britain may be summarised as follows. From medieval times it was accepted that the state (in the form of the parish authorities) had an obligation to prevent starvation.³⁹ It was possible for a parish officer who allowed an individual to starve in his locality to be prosecuted for manslaughter. It is significant that this requirement was a *duty* placed on the poor law authorities. A duty naturally implies a *right* to assistance, but it had a different effect from a modern *welfare right*, not least because conditions were always attached to receipt of support. In particular, the able-bodied were always expected to perform some work.

So far the account has mainly relied on British experience. David Thomson has shown how New Zealanders evolved a distinctive tradition which put greater emphasis on family responsibility. According to Thomson, New Zealand governments rejected the British tradition of putting a duty on the local authorities to provide support from taxes, probably because conditions in the colony were different. In particular, settlers who were trying to create a stable community did not want to be taxed to pay for the mobile, rootless elements. They preferred to rely on private help and organised charitable aid, which was subsidised from taxes where private efforts fell short.

In Britain it was considered something of a disgrace to resort to the parish, and consequently private philanthropy took responsibility for protecting people from having to turn to the poor law. In addition, there were many with a low income putting them in danger of having to rely on either the poor law or charity, who took steps to avoid both. They formed mutual aid associations to allow them to create a shared fund on which they could draw in hard times.

Thus in Britain and New Zealand the first responsibility lay with the individual and the family. When they failed, there was the informal help of neighbours and friends. In addition to the informal assistance of family and friends, there were three kinds of organised welfare apart from commercial insurance. First, the tradition of personal responsibility led to mutual aid, which can be seen as shared personal responsibility by those who intended to avoid resort to either the state or charity. Second, there was a public but not political domain achieved by people assuming responsibility for their less fortunate fellows in a spirit of mutual respect. And third, there was a safety net as a minimum measure of last resort, maintained by government.

Public policy should seek to foster a renewal of this ethos of organised but non-political welfare.

6. POVERTY, WORK AND THE BENEFIT SYSTEM

The measures necessary to assist the poor can be summarised under four principles. First, there must be an emphasis on economic flexibility and growth. The focus on individual conduct and morals is indispensable to success, but on its own it will not be sufficient. A flexible economy is a necessary precondition for the creation of opportunities to escape from poverty. A growing economy can also ease adjustment pressures. Economic growth depends in large measure on the energy and ingenuity of private citizens, but unwise fiscal and monetary policies can all too easily cancel out human endeavour. Government, therefore, has a responsibility to create an economic framework consistent with liberty. Some unemployment is seasonal, some is due to the business cycle and some due to long-term structural changes in economic conditions, but governments can also make unemployment much worse by their actions. The fiscal and monetary policies pursued since 1984 and the freer labour market environment created in 1991 have given New Zealanders a good chance of approaching full employment, so long as there is no relaxation and the countervailing effects of welfare policies are diminished. Unemployment peaked at 10.9 percent in September 1991 and had fallen to 6.1 percent by September 1995.

Second, we should acknowledge that people who are poor due to self-damaging conduct will not necessarily be helped by money transfers alone. Their problem is deeper and can only be resolved if assistance is provided in a more discretionary manner. Rule-bound public policies are too blunt an instrument and often make matters worse by encouraging self-defeating attitudes. At the same time there are other categories of people, such as the frail elderly and the mentally handicapped, for whom these considerations are not relevant and who should continue to receive unconditional assistance if they are unable to be supported through personal savings, insurance or in other ways.

Above all, we need a new focus on understanding the personal life strategies which have successfully enabled people to escape from poverty. We need more studies of people who began life in unpromising circumstances, perhaps with a broken family, much neighbourhood crime, drug-taking and alcoholism, but who nevertheless flourished. What is it that enables some who start with disadvantages to overcome their difficulties and how are they different from those who do not? According to *The New Consensus on Family and Welfare*, a report produced by a group of the American academics including Michael

Novak and Charles Murray, the probability of remaining in poverty is low for those who follow three rules: first, complete school; second, once an adult, get married and stay married; and third, stay employed, even at a wage and under conditions below the individual's ultimate aims. For the able-bodied who require welfare, the focus of policy should be on getting people back to work by means of an independence plan which incorporates the lessons learned by those who have successfully risen above their humble origins.

Third, some public policies, directly or indirectly, narrow opportunities to escape from poverty. Particular culprits are high taxes on incomes and savings, and the inadequate integration of taxes and benefits. A comprehensive reform programme is necessary to remove the impediments which make it more difficult for the poor to advance by their own endeavours. Government expenditure should be reduced and taxes cut to allow workers to keep more of their earnings. The tax system should also recognise that the mutual support of the family still remains the best foundation for independence. Taxation of interest on savings has an especially harmful effect on those who want to improve their conditions by saving from earnings, and more reliance should be placed on consumption relative to income as a tax base. New Zealand's minimum wage, which is currently set at \$6.375 per hour for employees aged 20 or more and \$3.825 per hour for young employees aged 16-19, inevitably prices some jobs out of existence, and should be abolished.

Fourth, as already argued, there is a need to rebuild the tradition of community without politics which was displaced by the welfare state. To rebuild civil society will require at least two initiatives. First, the government should create the space for the re-emergence of a public-but-not-political domain by withdrawing from some activities. But also, without waiting for the government, champions of liberty should establish voluntary associations for assisting the less fortunate and run them in a spirit compatible with liberty.

Studies which analyse social problems are expected to recommend solutions, but the common assumption in recent years is that such solutions should be public policy recommendations. This attitude has not always predominated. In the not-too-distant past, public awareness of a problem would have led, not to a political demand for a government programme, but to a commitment of one's own time and energy to collective but private action. This public-spirited habit has fallen into disrepair and is in urgent need of renewal. For this reason, some of the recommendations below are for public policies and some for private actions.

I will concentrate on two issues: how best to restore community without politics and how to reform the benefit system.

RESTORING THE PUBLIC-BUT-NOT-POLITICAL DOMAIN

A good starting point in achieving this goal would be the legal framework for voluntary associations. It is of the utmost importance to stimulate the emergence of voluntary associations which are genuinely independent of government, rather than being subcontractors to the state.¹ Governments cannot do much of a positive nature, but they could learn from nineteenth century experience. In Britain, the state provided the bare minimum, and charitable effort was directed towards helping people to remain free from the poor law (see Chapter 5). It is, therefore, possible to maintain an official safety net without unduly discouraging private philanthropy. But the government must not be tempted to expand welfare beyond the minimum, because for every step it takes above that point, it displaces voluntary effort. Such displacement is objectionable, not only because it leads to less adequate care for the poor, but also because, as J.S. Mill argued above, it weakens the character of the people.

We can learn something from our own history about the best method of maintaining a genuine independent sector. During the nineteenth and twentieth centuries the attitude of the state in Britain towards the friendly societies altered radically, thereby helping us to compare the effects of different legal frameworks. There were three main periods: before 1834 the friendly societies were subject to paternalistic supervision by the justices of the peace; between the Friendly Societies Act 1834 and the National Insurance Act 1911, liberalism was the general rule; and from 1911, paternalism made its return. The heyday of the societies was from 1834 to 1911 when the government confined itself to maintaining a framework of law, and to requiring disclosure of information to the public, but did not interfere in the internal management of societies. The lesson is that private associations should be truly independent of the embrace of the state, free to set prices and benefits, to decide whether to function on commercial, mutual or philanthropic lines, and to govern their own affairs under the law of the land.

Charities during the nineteenth century were also subject to light regulation. Indeed they remain so today, but in recent years the chief problem has been that many voluntary associations have come to rely heavily on government grants. Sometimes they have become little more than subcontractors to the state. As such, they are subject to controls and sometimes fearful of upsetting the authorities lest their grants be withdrawn. In both Britain and New Zealand, some of this increased dependence on state finance has been the inadvertent result of efforts to shift services from the public sector to the

voluntary, subcontracting sector. This policy has typically been seen as an improvement on the direct employment of officials by the state. But the side effect has been the infiltration of the voluntary sector by government. The public authorities hold the purse strings and consequently wield too much power.

The financing of voluntary organisations through the New Zealand Community Funding Agency has entrenched this problem. A new framework is required which encourages truly independent voluntary associations; to be fully independent they must rely wholly on private finance.

At present, registered charities enjoy tax concessions. Private donations can be set against tax (up to a maximum) and charities are not taxed as companies. In addition, many receive government grants for services rendered under contract, or perhaps general grants in aid. To develop an independent sector, a distinction should be made between organisations whose income comes only from private sources, and other organisations whose income could come from a combination of government and private sources. To clarify the distinction, the term 'registered charity' could be reserved for organisations that are 100 percent reliant on private finance, and those taking government grants could be called 'registered voluntary associations'. To be encouraged towards full independence, registered voluntary associations would not enjoy the tax concessions of charities. The tax concessions would be a reward for full reliance on private finance. Legally, registered voluntary associations would trade as non-profit companies, or provident associations.

Moreover, to encourage true independence, the basis for tax deductions for donations should be altered. Tax concessions to individuals in recognition of their generosity should aim to encourage more donations and reduce the risk of state control of the voluntary sector. At present, charitable donations qualify for a 33 percent tax rebate up to a maximum of \$500. This system should be continued but the maximum abolished. Similar rules should apply to corporate donations.

The case against tax concessions is that they reduce the tax base. However, the welfare mentality has so seriously 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. At least tax policy will, for once, be helping to rebuild civil society rather than undermining it. The forthcoming reductions in income tax will also put people in a better position to look after the welfare of others, as well as themselves.

In the immediate future the government will undoubtedly continue to finance some services; it would be advisable, therefore, to make the mechanism by which it does so more personal. The New Zealand Society

for the Intellectually Handicapped (IHC) has long argued that, where the government finances a service provided by the voluntary sector, the funding should go direct to individuals. In its view, each intellectually handicapped person should receive a voucher of a given dollar value which can be used as the holder believes best. This would allow competing voluntary associations to offer personalised care services to suit individual requirements. If implemented, more voluntary associations are likely to emerge to meet the expressed preferences of consumers and diminish political influence over their lives. In 1992/93 the IHC received over 58 percent of its income from government grants and so any such reform would make a big difference to its assured revenues. Nonetheless, it believes reform would benefit the intellectually handicapped, and is confident of its ability to offer services valued by them.

Having created a new framework for voluntarism, it will be up to the champions of liberty to ensure that a genuinely independent sector develops. Ideally, new voluntary associations will be established conforming to two conditions: refusal to accept government money; and determination to treat beneficiaries not purely as victims of circumstance, but with the respect due to men and women of character who are capable of self-improvement and of making a positive contribution in the future. The guiding principle is that practical help is superior to mere almsgiving, whether by charity or the state.

It is vital to build up an autonomous voluntary sector first in order to offer a satisfactory answer to the inevitable question: Who will provide welfare if the government withdraws? If the government abruptly ended state welfare, there would undoubtedly otherwise be some hardship and so there would need to be off-the-shelf solutions ready and waiting.

Ideally an organisation would be founded to coordinate voluntary associations conforming to this code, and to encourage the new spirit among other associations. It should try to build a movement of those who take pride in ensuring that vital tasks are undertaken without resort to government.

Business corporations can play a part by reorganising their corporate giving to concentrate resources on voluntary associations that rely 100 percent on private finance, and by refusing to support those that are little more than official offshoots of the government. In particular they should withhold support from those which have abandoned to a large extent their former roles of providing personalised help and have come to see their role as pioneering provision for new 'needs' and calling for an expansion of state welfare.

THE BENEFIT SYSTEM

One of the main problems we now face is that many people have ingrained habits of dependency. They are not sure whether they will be able to cope without the guiding hand of the state. Some politicians will continue to exploit their feelings, as many already do.

However, there are grounds for optimism, now that voices from all points of the political spectrum in many advanced welfare states, and in some quarters in New Zealand, are warning against the dangers inherent in the present system.

Above all, we need to restore personal or family responsibility and the ethos of 'community without politics'. Once again, Oakeshott's three inseparables provide a useful framework. A society of civil associates is based on three assumptions: first, human nature at its best is about assuming personal responsibility both for self-improvement and making the world a better place for others; second, people are seen to be united not under leadership, but in acceptance of conditions which allow us all to exercise responsibility; and, third, the government is understood to be the upholder of these conditions, that is, the conditions for liberty. If the purpose of government is to foster liberty, then the task of a welfare system provided by government out of taxes should also be to uphold liberty. It should, therefore, take no actions which diminish personal responsibility, and implement only those measures which are intended to restore personal independence.

From this standpoint, compulsory state provision is not sufficiently respectful of individual responsibility in two particular ways: first, it suppresses diversity of provision, from which we may learn better ways of meeting needs; and, second, it fosters immaturity by encouraging reliance on the political authorities.

People should be free to provide against contingencies as they believe best, and government guarantees are only one of the methods they may choose. This is more than a theoretical point. Historically, the imposition of compulsory social security in New Zealand in 1938 weakened and displaced some of the finest organisations that have ever developed, including the friendly societies, as some members of the Labour government apprehended at the time.² The government of the day based the Social Security Act on a mechanical view of need, enforcing contributions and paying benefits, but disregarding the more subtle aspects of friendly societies which were plain enough to their members.

As well as providing benefits, the friendly societies were also voluntary associations for the enrichment of life and for the promotion of the best in

people. But under the 1938 Act, the government appropriated the obvious technical services and treated the vital character-building functions as subsidiary to the benefits. It disregarded all non-pecuniary friendly society services because the ruling politicians were under the influence of a low, paternalistic view of human potential.

By taking over in 1938 the vital function of preserving personal independence through the payment of insurance contributions to voluntary associations, the state diminished opportunities for strengthening character. The underlying principle is that we should take personal or family responsibility for self-support throughout our lives, including provision against foreseeable contingencies like ill-health and certainties like growing older and death. If the government assumes responsibility for such provision, it treats people as perpetual children incapable of providing for themselves. It also reduces the quality of human life to the extent that fulfilment rests on facing up to and overcoming life's difficulties. Moreover, by diminishing opportunities to strengthen character and enhance skills through facing challenges, people are rendered less able to discharge their duties as citizens, further reinforcing the claims of paternalists that the 'common people' require supervision. Individuals whose qualities have not been tested and stretched are less able to see through the false promises of manipulative politicians and to stand in independent judgement of government, as democracy requires.

Three types of social welfare benefit should be reformed initially. First, those that provide against insurable contingencies, particularly accidents, sickness and invalids benefits, should be restored to civil society.

Second, the systems for supporting people who are out of work, but capable of working, should be put on a more personal footing. At present they are primarily income maintenance systems; instead they should become personalised services for the restoration of independence.

Third, provision for income in old age should become a personal responsibility, with the state retaining a role only in providing a safety net.

Because it needs a fuller treatment, pension provision is the subject of a separate chapter. Here I will concentrate on the benefits covering conditions that are privately insurable, and on assistance for people out of work.

Sickness and Invalids Benefits

The beginning of social security in New Zealand is usually said to have been 1898, when the Old Age Pensions Act was passed, while the main watershed is given as 1938 when the Social Security Act consolidated and replaced existing laws and added medical and hospital benefits. It provided sickness, unemployment, orphans, and superannuation benefits as well as emergency

benefit (for those who did not otherwise qualify). It also provided free hospital care for all.

The 1938 Act represented less of a departure from the previous philosophy than has sometimes been claimed, for its principles were already firmly established. Widows pensions had been introduced in 1911, miners pensions in 1915 and pensions for the blind in 1924. In 1926 the Family Allowance Act paid 2s per week for the third and each subsequent child under 15 years, subject to a means test. In 1930 the Unemployment Act founded an Unemployment Fund financed from a poll tax on all men aged over 20 and administered by an Unemployment Board. In 1936 pensions were introduced for invalids and deserted wives. The 1938 Act entrenched the universal principle, namely that the state should provide benefits for all. It was conceived as a hybrid social insurance scheme based on German precedent, with the benefits financed from a 7.5 percent social security income tax on wages which was to be paid into a social security fund. But it was not a true social insurance scheme and the fiction of maintaining a separate fund was ended in 1964. Over the years, further additions have been made and step by step the system has become more costly.

We know from past experience that private arrangements for insurance against loss of income during illness works well. The aim of public policy should be to restore these services to civil society. The immediate candidates should be sickness benefit and invalids benefit.

In the past, sick pay was provided by friendly societies far more satisfactorily than by governments. The societies proved particularly effective at controlling fraud. Local control was the key to success. The Prudential Assurance Company, the largest of the British industrial assurance companies, had to abandon sick pay because, according to the evidence of its secretary to the British Royal Commission on Friendly Societies in 1873, "after five years' experience we found we were unable to cope with the fraud that was practised". The centralised friendly societies also found it more difficult to control fraud. The Hearts of Oak Benefit Society, the largest and most efficient of Britain's centralised societies, had no branches and dispensed all benefits from its head office. Its members' rate of sickness was significantly higher than that of the societies with local branches such as the Foresters and the Oddfellows, both of which were prominent in New Zealand. During the eight years from 1884 to 1891, for instance, the claims rate for sickness of the Hearts of Oak members was over 30 percent higher than that of the Manchester Unity of Oddfellows.³

This problem arises when beneficiaries no longer feel a real sense of participation. Where local branches administered sick pay, the members

knew who was paying—the members themselves. But if head office made the payment, it was possible to entertain the illusion that someone else was bearing the cost. And many centralised insurers had no better answer to this illusion than today's government departments. Members of local societies and branches of the national friendly societies, by contrast, felt they had a real stake in the organisation to an extent which proved sufficient not only to discourage selfishness but also to build a genuine sense of fraternity. Fraud was never wholly eradicated, but for many members a spirit of brotherhood did guide their conduct. Some would not claim sick pay at all, however strong their entitlement. Of those who did, the great majority only claimed their due, as confirmed by New Zealand's Registrar of Friendly Societies.⁴ Thus, the affiliated friendly societies handled the problem of fraud far more effectively than do today's welfare bureaucracies.

At the end of June 1995, there were 34,037 recipients of sickness benefit in New Zealand and 39,686 people receiving invalids benefit, at a cost during 1994/95 of \$352 million and \$464 million respectively.⁵ On some estimates, a similar number of people are also receiving income replacement benefit under accident compensation legislation. In 1994/95 the Accident Rehabilitation and Compensation Insurance Corporation (ACC) spent \$777 million on weekly compensation payments to people unable to work. These payments are made at the rate of 80 percent of earnings.⁶

The ultimate objective should be to replace compulsory state provision by private provision. Existing commitments would need to be honoured, but notice should be given that from a future date no new sickness or invalids benefit payments will be made. As expenditure on benefits falls, taxes should be cut, thus assisting people to take out private insurance. The ACC should be abolished. Its services can be provided privately and any gap left by its demise would soon be filled.

Private insurance for loss of income through sickness or accident should not be compulsory, not least because there are methods of protection other than insurance. Many people may prefer simply to save, or to invest in shares or other financial products, or to purchase property or durable goods which can be sold if the need arises.

The main transitional public policy problem would be how to cater for people who would like insurance, but are not insurable in respect of pre-existing conditions. There are several possible ways of subsidising people in this group so that they do not lose out. One approach would be for the government to forbid insurers from taking pre-existing conditions into account, and to overcome the initial impact on insurers' reserves it could make a single once-for-all transfer payment from tax revenues. Alternatively, those in work

with pre-existing conditions could be grouped in a 'risk pool' and allowed to choose their own private insurer. There are a number of successful examples of risk pools for medical expenses insurance in the United States, and the model could be adapted for income replacement during illness or disability. Insurers might, for example, charge a market premium and receive an agreed subsidy from public funds. Everyone would be able to purchase insurance but would not be compelled to do so.

Under these proposals the government's role is transformed from one of assuming responsibility for everyone to one of ensuring that no one is left out. It becomes a 'guarantor' rather than a 'compulsory provider'. The mistake in 1938 was to enforce a single uniform scheme for all persons. It was right that the government should concern itself with people left out of voluntary insurance schemes, but it should have tried to help them without taking over the whole system.

Another approach would be to maintain the existing sickness and invalids benefits but to add conditions, such as a partial work test. Some recipients may be too ill or injured to work full time or to undertake arduous work, but able to carry out 'light duties' or take part-time work. Many already do some work, as a consequence of which the abatement rule for those on invalids benefit is to be revised by July 1996.⁷ No department of government, however, is ever likely to administer such a scheme efficiently. The better solution would be privatisation.

Thus, provision for income replacement during illness should be returned to civil society. There is already an established international private sector offering sick pay, or permanent health insurance as it is now called. These commercial insurers and the friendly societies would be in a strong position to fill any gaps left by the retreating state.

Out of Work but Fit for Work

Mill's sentiments described above helped to inspire the formation of the British Charity Organisation Society (COS) in the 1860s,⁸ according to C.S. Loch, Secretary of the COS from 1875 to 1914. His view was that "the work of charity ought to be more than disorganised sentiment". It should be a counterpart to the state safety net. Mere almsgiving was insufficient, and the charity of the COS required knowledge and the commitment of time to the person being helped. The focus of the COS on the individual has in more recent times been presented as a callous philosophy, but it emphasised the distinction between the undemanding kindness of giving money and the thoughtful and more committed kindness of taking the trouble to discover the full personal circumstances and to ensure that the help given was likely

to restore independence. Those today who accuse the COS of lacking concern typically demand only that *other* people give cash support. They fail to see the superiority of personalised, direct practical help.

The current position in New Zealand is as follows. Unemployment benefit is paid to people who are out of work, capable and willing to work, and who are considered to be taking reasonable steps to find suitable work. After an interval, they come under pressure from the New Zealand Employment Service (NZES) to take offered jobs and, if dissatisfied, the NZES can recommend to the New Zealand Income Support Service (NZISS) of the Department of Social Welfare that benefit be cancelled or reduced. However, according to the NZES, the NZISS is often reluctant to act on the recommendations of the NZES.

The NZES operates a variety of schemes to assist people back into work. They include Job Plus, a system of partial and temporary subsidies to employers, and the Community Taskforce, a work experience programme based on participation in community projects for three days a week for up to 26 weeks in return for \$20 a week plus benefit. Taskforce Green is a project-based scheme aimed at environmental enhancement which subsidises wages. Job Clubs are run over two weeks to teach job search and interview techniques. Job Wise and Job Action are aimed specifically at the long-term unemployed and involve individual back-to-work plans. Turning Point/*Wahine Ahuru* assists women back into work, and *Tane Atawhai* performs a similar role for men. In addition, the Community Employment Group of the Department of Labour works with local community groups to increase employment opportunities.

In October 1995, in response to the report of the Employment Task Force, the government announced it will relax several rules in an effort to encourage an early return to work, partly because they had not been applied in most cases. For example, benefit recipients suspected of voluntary unemployment will no longer be subject to the 26-week cancellation of benefit, but to a series of graduated reductions, starting with a 20 percent cut for each month of non-compliance, rising on a second offence to a 40 percent cut lasting one month. If the work test is failed for a second month, benefit ceases. For a third lapse, benefit will be cancelled immediately for 13 weeks.⁹ The two-week stand-down for normal unemployment benefit will be cut to one week.

Intensive personalised assistance (Youth Action) for those aged 16-20 with 13 weeks or more unemployment will be introduced in January 1996. Job Action will be extended to all job seekers registered as unemployed for two years, and each year 5,000 individuals who have been out of work for 12

months, and who are believed to be vulnerable to long-term unemployment, will be given special help.

The government is placing considerable reliance on material incentives, achieved by adjusting benefit abatement rates. Recipients of unemployment benefit will be able to earn up to \$80 a week without losing benefit rather than \$50 at present or \$60 for those with children. The benefit currently abates at 30 cents in the dollar until an additional \$80 per week is earned. Under the new regime, earnings above \$80 will abate at 70 cents per dollar. DPB beneficiaries will be subject to a different regime.¹⁰

Adjustments to abatement rates as proposed in the October 1995 package will make a difference in some cases, but they do not get to the heart of the matter. The difficulties inherent in creating an incentive to work by manipulating abatement rates are exemplified by the evidence given to the Employment Task Force. A wide variety of opinions were expressed, suggesting that it is simply not possible to find the 'right' abatement scheme because personal circumstances are so different.¹¹ As Lawrence Mead and other commentators have remarked, work should be undertaken whether it is financially attractive or not and, for this reason, it should be a strict requirement of benefit.

One possible approach not adopted by the government would be to put unemployment benefit under the control of the NZES rather than the NZISS. Compliance with proposals made by officials of the NZES could be made a condition of receiving benefit. Claimants have not been slow to exploit the known differences of view between the NZES and the NZISS. Moreover, evidence presented to the Employment Task Force showed that there was considerable support for creating a one-stop agency to overcome this lack of coordination.¹²

Attaching conditions to benefits can be useful, but because the conditions are to be enforced by public officials (whether in one agency or two) any such scheme will inevitably take on a mechanical character. A better alternative would be to combine state aid with a system of referral to wholly independent voluntary agencies. Government agencies should be primarily concerned with constructing exits from benefit dependency. They should not apply mechanical tests or mechanical incentive systems, but encourage a personalised programme of building skills involving voluntary agencies. The Department of Labour already recognises the value of personalised methods, and the urgent question is how extensively to involve voluntary organisations. The NZES and the Community Employment Group have already established schemes under which they work with community groups, and this experience could provide a basis for stepping up efforts to involve the voluntary sector.

The value of intensive personalised assistance is recognised for those under 20, and presumably it is only the cost that has deterred the government from applying the principle more generally. The use of voluntary associations instead of public officials, however, would diminish the cost.

Could private insurance play a bigger part? The chief problem is that unemployment is not strictly insurable due to the difficulty of distinguishing between voluntary and involuntary unemployment. For this reason, unemployment benefit was not provided commercially, but only by a few trade unions for their own members. Typically, both they and the friendly societies provided a travelling benefit to assist members who had to travel in search of work; few provided cash benefits merely for being out of work. Most people adopted a variety of alternative methods of provision, not least saving.

PROPOSALS

Focus of the Benefit System

The first principle is that state unemployment benefit should only be claimed as an absolute last resort. It should be a matter of honour to avoid claiming and to rely on savings wherever they exist. Consequently, it should be necessary to spend all savings before becoming eligible, and all income of any kind whatsoever should be deducted from benefit (unless a person opts for support from a voluntary association as described below). Means testing should be applied only to the immediate family (man, wife and children), and not to other relatives.

To ensure a focus on the development of personalised help, claimants should have the option of receiving assistance from a voluntary organisation instead of the NZISS. The voluntary organisation would be free to support individuals as it believed best, using its own money. But individuals would not be required to spend their savings or deduct earnings from assistance if they opted for support from a voluntary association instead of the government.

Such associations would concentrate on devising personalised schemes to help people back on their feet, and would need to be free to devise policies on savings and earnings most consistent with the early return to independence of each person under their temporary care. 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. In a well-performing economy with flexible labour markets, the rate of unemployment would be low and people would be unemployed for short periods only. A temporary loss of income does not generally imply hardship when viewed from the perspective of the person's entire working life. Often

it will be more respectful to offer a loan to tide an individual over a difficult period. Knowing that he or she will be paying the loan back allows the unemployed person to preserve self respect.

A face-to-face relationship with a voluntary association worker will not have the same corrosive effect as a relationship with a public official. All assistance will be discretionary and subject to mutual agreement. In such a personal relationship, mutual respect, honour and good faith have a chance, but an arms-length relationship with a civil servant bound by rules and regulations encourages dishonesty, bad faith and 'working the system'.

A public body must act according to rules, and the ability of officials to exercise discretion is rightly limited. But discretion is exactly what is needed. It is very difficult to make decisions about voluntary unemployment, for instance, at arms length. The reality is that matters of such complexity can only be resolved face-to-face in relationships based on detailed knowledge and mutual respect. At present, lobby groups recommend 'lines of argument' that can be used to maximise the individual's 'take' from the taxpayer. The general tone of the advice seems to assume that the highest moral principle is 'claim all you can get away with'. Under such a regime and given such encouragement there is endless scope for acting in bad faith. For this reason, such judgements should be made within relationships based on a shared commitment by helper and recipient to an early return to independence.

Naturally, there would need to be safeguards against over-zealous voluntary organisations. It should always remain open to an individual to revert back to NZISS support, following a period of notice, or to switch to another voluntary agency, again after a period of notice. It is likely that such safeguards will encourage some people to choose the apparently softest option, but the paramount consideration is to ensure that anyone with the potential for independence can find the right sort of help and to keep compulsion to a minimum.

Finally, it cannot be said too often that it is important to avoid the trap of seeing the alleviation of unemployment as purely a welfare problem. The state of the economy and the flexibility of the labour market are of decisive importance in reducing unemployment. Nonetheless, welfare reforms have a key part to play.

Assistance with Housing Costs

Considerable strides have been made in recent years to put housing subsidies on a more rational footing. Public-sector housing rents have moved towards market levels, mortgage subsidies have been reduced, and the accommodation supplement—effectively a targeted housing voucher—was introduced to provide

means-tested help with housing costs without undermining market rents and distorting the choice between home ownership and renting.

A problem with any system of paying rents from the public purse is that landlords are able to push rents up because the payer (the state) can afford to pay more than the tenant who is on welfare benefit. This has been a particular weakness of Britain's housing benefit; in some cases it is thought that landlords and tenants have colluded to increase rents.

One strategy for avoiding this problem would be to stop paying a separate housing benefit and, instead, to add an average amount to income support payments to cover the rent. The effect would be to leave consumers to make fully price-conscious choices of accommodation. The difficulty, however, is that rents vary a good deal from place to place, so that any average payment would tend to be too low for Auckland and too high for rural districts. Consequently, assistance with housing costs is best kept as a separate benefit which varies with local conditions.

The new accommodation supplement has not been operating for long and, so far, it appears to have been less vulnerable than many overseas schemes to the problems inherent in paying housing benefits. It is too early to recommend changes.

Benefits and Family Breakdown

What should be done about the special problem of family breakdown? One approach is that of Charles Murray. He accepts that there is no single right answer and urges that different American states be permitted to experiment. He hopes that some will adopt a plan for compulsory work urged by social commentator Mickey Kaus, whose scheme is based on experience gained during the Depression.¹³ Murray's own view is that benefits should be cut. He recommends that those already on benefits should be allowed to retain them and that any new policy should be confined to the unmarried, rather than applied to the divorced or widowed as well. He also argues that, initially, his reforms should be limited to teenage never-married mothers, and only extended later to all never-married mothers.

He recommends that one year's notice should be given that all benefits contingent on having a baby are to be cancelled, especially Aid to Families with Dependent Children. However, never-married mothers would retain food stamps, public housing and Medicaid. Ideally, Murray wants a negative income tax scheme that makes one payment which does not vary according to the number of children. In addition, never-married mothers should be encouraged to have their babies adopted, but without coercion. Never-married pregnant women and never-married mothers should also be offered

the chance, but not required, to live in group homes where there would be a degree of supervision, personal support and mutual aid. Finally, child neglect laws should be enforced to ensure that those who refuse to live in supervised homes do not harm their children.

Many who share Murray's belief that the ideal is for all children to be raised by two good parents wherever possible, do not, however, favour *cutting* benefits. They oppose benefit cutting because it would cause too much hardship and leave too much to chance. Instead, they recommend attaching *conditions* to benefit, particularly a work requirement.

How could New Zealand proceed? The first target should be the fathers of illegitimate children rather than the mothers who, after all, do have custody of the children. The father should be subject to the most severe measures. If he is not willing to marry the mother or if she is not willing to marry him, the father should be required to pay the full cost of maintenance. Decisions about parentage and the setting of payments should be made in a court of law.

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. It is up to him to take contraceptive precautions. He will not be able to argue: 'Well, she told me she was on the pill. How was I to know?' The man should be held responsible in all circumstances, without exception.

Fathers of illegitimate children who are low paid should be legally required to hand over all their earnings above the unemployment benefit level and have all their savings and any non-essential possessions confiscated up to the amount required. If they give up work to avoid payments, they should be compelled to work at special centres as a condition of receiving the benefit. It may be necessary in a few cases to make this obligation especially burdensome, perhaps by requiring performance of work for up to 10 hours a day. If they are necessary we should not shrink from such measures. To father a child and refuse to take responsibility should be clearly marked out as one of the lowest things a man can do.

We also need to reform the welfare system. Benefits for never-married mothers should not be cut, but the work test currently applied to unemployed claimants should also be applied to never-married mothers, at the latest when their first child attends a school and ideally much sooner. It should not automatically apply to formerly married women, most of whom re-marry in any event.

In October 1995 the government announced that it would apply a part-time work test to DPB recipients when their youngest child turns 14. This

weak measure applies the work test to the never-married far too late.¹⁴ It is, however, a reasonable first step for the formerly married.

From July 1996, DPB recipients will also be able to earn \$80 without any loss of benefit, and lose only 30 cents in the dollar between \$80 and \$180. Above that, the 70 cents abatement rate applies. An effect of this measure will be to encourage family breakdown by increasing the financial viability of sole parenthood and diminishing the financial advantages of marriage. It also discourages full-time work for certain people who would be better off with part-time work and an abated benefit. For the first time, the abatement rate for DPB has been made more attractive than the rate for the unemployment benefit. Also under the new regime, subsidised childcare for pre-school children is to be extended to six hours per day. This means that there will be an advantage for claimants who define themselves as qualified for DPB rather than unemployment benefit. Some couples, who might otherwise have married to give their child a more stable base, may find it lucrative to present themselves to the authorities as separate, so that the sole mother can enjoy the additional income available from the more generous abatement rates.

This mistake has already been made in Britain, where the income support rules treat sole mothers more generously, and where the family credit scheme for supplementing earnings makes additional payments to sole parents. The New Zealand government appears to believe that manipulating abatement rates will influence behaviour by encouraging part-time work, but it does not seem to have accepted (or considered) that the same actions may affect willingness to marry.

COMPASS is officially described as a programme which provides personal advice to DPB beneficiaries "wishing to take steps to maximise their independence".¹⁵ Originally a pilot scheme, it is to be extended nationwide.¹⁶ It is yet another measure that extends special rewards to the never-married parent. It is said to be a scheme to encourage 'independence', but the independence is acquired through state subsidies. In truth it encourages 'dependence'. If independence is truly sought, it would be preferable to encourage it through marriage and the mutual support of the family. COMPASS should be scrapped.

Instead of the October 1995 measures, earnings of never-married mothers should be taxed like other income and any subsidies paid by the state (especially for childcare) should be deducted from wages, so long as total income does not fall below the level of DPB plus family support and accommodation supplement. This rule should apply equally to the six hours per day childcare subsidy; its cost should be deducted from wages until the

benefit level is reached (DPB, plus family support, plus accommodation supplement). The out-of-school care centres, as announced by the government, which are to be established at a cost of \$2 million, are intended to be self-financing and, so long as this policy is strictly adhered to, this element of the scheme could proceed without doing too much harm.

The net result of these proposals would be that having a child and no husband ceases to bring the special advantages that it undoubtedly does at present.

It is possible that such a system will be more costly for the taxpayer in the short run, largely because it will be necessary to subsidise childcare in some cases. This, however, is a price worth paying, because the result of taking no action will be increased family breakdown and increased reliance on benefits. The sole parent family is neither an economically, nor an emotionally, viable lifestyle. It takes two parents to raise children, at least one of whom must work. Moreover, once the scheme is established its cost would fall as fewer people chose to rely on benefits in response to the very different signals being sent by the benefit system.

At present some girls contemplating the possibility of pregnancy are aware that the result will be a subsidised house and an income to match earnings from employment without the trouble of working. A girl who has just taken school examinations and who hopes to continue her studies would not find this lifestyle appealing, whereas for girls of limited ability and ambition such a lifestyle may appear more attractive than any alternative. But if, with a strict work test, the future involves a five-day working week plus caring for the child alone in the evenings and weekends, fewer will choose it.

The work requirement as a condition of benefit has another strength compared with Murray's scheme. He leaves existing never-married mothers unaffected. Yet many are bringing up their children negligently, a cost that will be borne by those children throughout their lives, and which is likely to rebound on the community in the form of increased crime and anti-social conduct. Under these proposals they will be expected to work.

Again, much depends on the emergence of voluntary agencies (registered voluntary associations and genuinely independent charities) to develop innovative methods of restoring independence and providing help. Their essential task is to find ways of treating people as individuals, with care, attention and judgement.

While pregnant and before their first child is two, never-married mothers should be encouraged to live either with their parents, or in supervised accommodation, preferably provided by voluntary associations that will take responsibility for bringing out the best in mother and baby. Many such

institutions existed historically and continue to do so today. They offer a supervised lifestyle, but the beneficiaries will be guided by people totally dedicated to their well-being. An example of a successful modern scheme is that undertaken by Sister Connie Driscoll in Chicago. She has run the St Martin de Porres House of Hope centre for homeless mothers and their children for 12 years in one of Chicago's most violent districts. Some 85 percent of the mothers are drug addicts on arrival, but she claims that after an average stay of about seven months, 95 percent leave her care with a job, their own home and free from drugs. Since opening, the hostel has been home to over 9,000 mothers.¹⁷ Adoption should also be encouraged, but not required.

No doubt these proposals will strike some readers as harsh. Even those observers who accept that, in some cases, the benefit system sends the wrong signals and that some claimants take advantage of it, often prefer to turn a blind eye because they wish to avoid action which they see as hurting people genuinely down on their luck. If that were the only result, I would take the same view. But the point is that arrangements along the lines proposed are much more likely to be in the best long-run interests of welfare recipients, their children and the community at large, whereas present arrangements are hurting the interests of all parties. We do not need to tolerate manipulation of the benefit system to ensure that genuine hardship is met by help willingly and warmly offered. The mistake is to believe that rules can be written to meet all circumstances, when they cannot. Discretion, exercised within relationships based on mutual respect, is needed to distinguish between the truly deserving person and the claimant who is manifestly swinging the lead. Welfare should appeal to the best in people, not the worst.

7. HEALTH CARE IN A FREE SOCIETY

THE GUIDING PRINCIPLES

The three inseparables provide a theoretical basis of relevance to the practice of health care.

On what view of human character is New Zealand's scheme of health care based? It should be based on personal responsibility; instead it is paternalistic. The consumer is not the payer; rather the regional health authorities purchase on the consumer's behalf, and they are driven by imperatives of their own. They have, for instance, been criticised for imposing a bureaucratic and wasteful contract process.

And on which principle of solidarity is the health system based? Ideally, people should not be treated as isolated individuals but as members of a community united not under management in pursuit of a common purpose, but in their attachment to the legal and moral conditions which protect their freedom. These conditions should include the maintenance of a safety net to provide essential medical care for people too poor to pay. New Zealand's system does provide access for the poor, but through a single payer arrangement which goes far beyond what is necessary.

Moreover, the role of government should not be directive, but protective. That is, it should take responsibility for maintaining the conditions for self-management. New Zealand's system is largely a public sector monopoly which far exceeds the proper role of government. The underlying ethos of the health reforms is that the corporate state is part therapist and part protector of the whole population, because people are judged by the authorities to be in need of paternalist supervision, and the health of the nation to be in need of management.

The remainder of the chapter is organised as follows. First, I will describe the three main explanatory models which inform the health care debate. Second, I will examine the highly influential claim that health care markets suffer from innate 'market failures'. Third, I will look at the no less influential contention that competition has been tried and failed in the United States. Fourth, I will suggest how a competitive market in health care could be introduced, and explain why it would be preferable to continuing public sector monopoly.

THE EXPLANATORY MODELS

Three main explanatory paradigms tend to be employed when discussing health care systems: the 'needs' model, the 'technocratic' model and the 'market' model. Professor Robert Evans, the Canadian economist who admires the Canadian single-payer scheme, describes the needs model as follows:

Providers are assumed to supply care in response to 'needs' in a technical sense, and their perceptions of 'needs' are assumed to be as accurate as possible with present knowledge. They thus control the mix and volume of care supplied, subject only to 'barriers to care', economic or informational, which may prevent consumer/patients from seeking needed care or complying with a recommended regimen The proper role of public policy, in this framework, is to remove economic barriers to care (by providing public or mandating private insurance), to ensure that sufficient personnel and facilities are trained and established, and perhaps to launch educational campaigns to encourage care-seeking and compliance.¹

Demand, that is, the amount consumers might wish to purchase at current prices and incomes, plays no important role.

In the market model, the amount and mix of care consumers choose in the light of their own dispositions and incomes play a central role. Supply and demand are believed to be price sensitive. Consumers are assumed to be capable of reflection and judgement, and to be better judges of their own interests than the medical or political authorities, whose views are tainted by their own preferences. Contrary to a common caricature, the assumption is not that consumers have perfect information, but that no one can determine in advance who else (doctors, experts, politicians, officials) will on average make better decisions than the consumer. Obviously, free marketeers accept that a patient consults a doctor because the doctor initially has expert information. Consequently, they insist that the information possessed by the doctor should be deployed to enable the patient to reach an informed decision about any treatment or lifestyle changes necessary to relieve or cure his or her condition. Doctors should not use their knowledge to demand subservience from patients: they should seek to be the servant of the patient, not the master. Because producers are expected to vary in their competence and to make mistakes, competition is held to be necessary to encourage the emergence of comparative information and to allow consumers to escape bad service. In essence the needs model is paternalistic, putting doctors in charge, whilst the market model is based on personal responsibility and competition.

Three main views distinguish the technocratic model. First, its champions challenge the needs model, stressing its failure to explain differences in utilisation rates and clinical practice. Analysts note that the needs model cannot explain how practitioners, supposedly guided by objective need, differ considerably in their perceptions of need and in the treatments they recommend. Evans asks, for instance, why is it that “collective perceptions of need rise steadily over time, so as to lie always at or just beyond current levels of provision”? And why is it that these perceptions of need, as reflected in utilisation patterns, “often bear only a tenuous relation, if any, to the available scientific evidence as to the efficacy and effectiveness of particular interventions”?²

Second, its protagonists reject the market model because, they say, consumers do not have sufficient information to make rational choices.

Third, they are suspicious of the efficacy of many medical interventions and consequently defend low national expenditure on health care because additional spending would not necessarily bring health gain. However, they do not explain how low spending will lead to the selection of effective interventions. It is true that high spending may not yield a commensurate medical gain, but it does not follow that low spending will do no harm. They not only defend low spending, but desire to put rationing on a more technical footing, by means of devices such as quality adjusted life years (QALYs).

INNATE MARKET FAILURES?

Enthusiasts for the needs and technocratic models frequently draw attention to market failures to reinforce their case. They argue that a competitive market in health care services is unattainable because of ‘market failures’. Competition works for many goods and services, they say, but health care is so different that competition simply does not work.

Some analysts have drawn up lists of the differences between health care and other goods in support of this claim, including adverse selection, moral hazard, professional monopoly, and consumer ignorance. The disadvantage of such lists is that they fail to distinguish between the ‘inherent’ characteristics of health care and institutional responses to perceived problems, an observation made by Nobel prize winner Kenneth Arrow in a seminal article of 1963.³ According to Arrow, the special economic problems of medical care can be explained as adaptations to the existence of uncertainty in two respects: “the incidence of disease” and “the efficacy of treatment”.⁴ These uncertainties are the inherent characteristics and modern institutions should be seen as “social adjustments”. Arrow argued that these adjustments,

particularly professional licensure, have put further obstacles in the path of competition: “compensatory institutional changes, with some reinforcement from usual profit motives, largely explain the observed non-competitive behaviour of the medical-care market”.⁵

Professor Robert Evans shares Arrow’s view that we should distinguish between inherent characteristics and adaptations, but suggests three rather than two inherent characteristics: the uncertainty of illness incidence; external effects (which he adds to Arrow’s list); and the asymmetry of information between doctor and patient (which he substitutes for Arrow’s uncertainty about efficacy of treatment).⁶

I prefer to identify four characteristics viewed from the consumer’s standpoint: first, uncertainty about the incidence of illness and its cost; second, uncertainty about which doctors to trust (Evans’ information asymmetry, which is at root due to uncertainty about the necessity for, and relative efficacy of, treatments); third, the ethical priority of urgent health care; and fourth, external effects, such as contagious disease. I will concentrate on the first two of these characteristics because they are regarded by defenders of public-sector monopoly as the most persuasive.

Uncertainty of Incidence and Cost

Some health care is routine and predictable, such as visits to the GP, but there is always a chance that we may suddenly require very costly treatment. The chief institutional response to this inherent difficulty has been insurance. Two main drawbacks of insurance are usually cited: adverse selection leading to cream-skimming and exclusion, and moral hazard.

Adverse selection occurs when the buyer of insurance has better information about his or her risk status than the insurer. People assess their own risk status and buy insurance accordingly so that particular insurers sometimes end up with an above-average proportion of high-risk subscribers. Insurers sometimes guard against this danger by seeking to avoid people likely to make expensive claims. They may try to exclude them altogether, or they may concentrate on identifying especially healthy individuals or groups, a strategy called cream-skimming. Some opponents of private insurance argue that it is a very serious problem because informal mechanisms (such as user-unfriendly application forms, unhelpful telephone responses, and discourteous reception staff) can be used to deter unwanted customers in a manner not open to detection by regulators.⁷

However, it is not easy to identify in advance all the individuals likely to make large claims. Age is the best predictor, and it is typically taken into account by means of age-related premiums, but many high-cost claims are

not from elderly people. Which young men, for example, will be badly injured in car accidents, followed by a prolonged period as paraplegics, is impossible to predict. For this reason, the strategy of many insurers is to spread the risk by increasing the number of people covered at actuarially-sound premiums, rather than to devote resources to predicting the unpredictable. There is some validity in the complaint that some insurance companies have practised cream-skimming, but it is far from being a decisive objection to health insurance. Moreover, evidence for cream-skimming draws heavily on experience in the United States, where (as I will argue below) the practice was intensified by government subsidies to Blue Cross. Without such distortions it is less common.

A closely related difficulty is that people with pre-existing conditions are excluded from coverage altogether. Insurance works by people who have not yet experienced an unwanted condition pooling small payments to meet high costs which they expect to fall on a few of them. It assumes that the condition has not yet happened and so people who are already ill are not insurable in the strict sense. At the outset of any health-care reform, some people will inevitably be ill and therefore not insurable. At least two reactions are possible. First, regulations can require insurers to include them or to put a time limit on the exclusion, with or without subsidies from taxes. For a health insurance scheme to be universal, some government action is required to include people to whom the insured event has already happened, but it does not require a public-sector monopoly. The second approach is to abandon the expectation that everyone must be in the same scheme and to ensure that satisfactory but different arrangements are made for all. For example, uninsurable people can be provided for by 'risk pools' which make special provision for the excluded, or by charity.

Moral hazard occurs when people change their conduct because they are insured. The knowledge that they are insured may, for instance, lead them to agree to a higher service content per episode of illness than if they were paying out of pocket. This type of response is also possible when the government is the payer and does not, therefore, constitute a strong argument against private insurance as such.

Even a hardened defender of single-payer schemes like Professor Evans concedes that these problems could be dealt with by "relatively limited public intervention in private markets".⁸ Moreover, insurance policies and practices which reduce these difficulties have evolved and if an appropriate regulatory agency regime is implemented, insurance can be expected to provide an efficient response for the vast majority of people to unavoidable uncertainty about the incidence and cost of health services.

Uncertainty About Necessity or Efficacy (which Doctors to Trust)

Epidemiological studies have frequently found local variations in treatment, including inappropriate treatment. For example, they have found unexplained variations in the rate at which certain operations (such as tonsillectomy) are carried out, and sometimes such differences appear to be due to non-medical factors such as professional fashions or the local supply of specialists. Several economic studies have noted that the amount of treatment varies according to the financial incentives faced by doctors and patients, from which it is concluded that something else is going on other than strictly scientific diagnosis and treatment. Thus, medicine is not purely scientific, but to some degree an art. There is huge scope for differences of opinion among doctors.

These uncertainties about necessity and efficacy plainly cast severe doubt on the 'needs' model of health care, but paternalists frequently assume that they are best coped with under a single-payer scheme. According to Evans, for instance, the need for some form of regulation of provider conduct is widely accepted because the consumer's lack of information means he cannot fully protect himself:

This asymmetry of information leaves open the possibility (or certainty) of severe exploitation of buyers by sellers in an arms-length, *caveat emptor* market environment.⁹

The informational asymmetry takes a special form in health, he believes. As Arrow pointed out, sellers usually know more than buyers about the technology of production, but adaptations to this difficulty quickly develop, such as purchasing comparative information or warranties. Evans contends that in health care:

... the informational asymmetry extends beyond the process of production or specific characteristics of a good or service, to what its effects will be *on the user*.

The buyer is no longer, says Evans, "the best judge of her own interests, but must rely on the seller's advice".¹⁰ The patient wants health status, but it cannot be bought directly. Only health care services can be purchased, in the expectation that improved health status will be the result:

The normal consumer sovereignty assumption is that the consumer is the best judge of the value to herself of different valued commodities or states; this includes health status. But it does not extend to health care, because that is not itself of value. There is a technical relationship which is specific to each consumer and condition, by which health care affects health, and the expert provider is much

better informed than the consumer/patient about the structure of this relationship.¹¹

In other words, health care, like many other goods and services, is a means to an end. According to Evans, "If health could be purchased directly, no difficulty would arise."¹² But professionals often urge a particular course of treatment on patients and thus "step beyond the bounds of professional advice and into the area of marketing".¹³ He believes that:

... the prospects for elimination or significant reduction in informational asymmetry as to the effects of health care on health appear to be very small. Patient education is not a substitute for professional regulation.¹⁴

Evans seems to think that there is no escape from the professional relationship. The professional is supposed to put the consumer first, that is, to choose for the patient what the patient would have chosen. But as a provider he is also an economic actor with his own interests. The professional, says Evans, is not capable of acting solely in the patient's interests. Perfect agency is not possible.¹⁵ Conventional economic theory, therefore, is inapplicable.

Having argued that the doctor is an imperfect agent, Evans then concludes that the patient should be protected by the state, under a single-payer system. There is no discussion of how imperfect the state is as the consumer's agent. Nor is there any awareness of the historic methods by which patients sought to overcome the problem that doctors could not be relied upon wholly to act in the patient's interests.

The underlying problem is uncertainty about which doctors can be most relied on to put the patient's interests first. This difficulty arises not only because of financial incentives, but also because there is enough doubt about clinical necessity, and the efficacy of one treatment over another, to allow doctors to confuse their interests with the patient's. Who is to say that it is absolutely wrong to intervene at a given time in a given way?

Paternalists like Evans treat the superior knowledge at the disposal of the doctor as the inherent characteristic, unlike Arrow who saw uncertainty about necessity and efficacy as the inherent difficulties. Arrow's approach is more consistent with the historical development of medicine, during which the knowledge imbalance between the patient and the doctor was deliberately increased by organised medicine. Evans, therefore, is highlighting not an inherent problem but an adaptation.

The classical-liberal response to uncertainty about the efficacy of treatment is the scientific tradition, namely the open pursuit of truth through systematic study. The essence of conducting science is that it is open, with peers putting

their arguments and discoveries into the public domain where they can be contradicted.

Medical science has always been conducted partly in this spirit but it has been tainted by another tradition, which might be called collegiate science or perhaps 'guild science' because its roots lie in the medieval doctrine that knowledge is a 'mystery' to be passed on from generation to generation and kept within a narrow circle. This tradition is alien to a free society and alien to progress.

Thus Evans thinks he is talking about an inherent quality when he is not. There is, of course, superficial truth in his claim that doctors know more than patients. That is why patients go to see them. No one would take the trouble to see a doctor believed to know very little. However, the knowledge imbalance quickly diminishes as the consultation or series of consultations with various doctors proceeds. Most health care is not emergency care. There is time to think, reflect and question. By questioning the GP, and then the specialist, and then another specialist, plus doing a bit of reading or ringing up a self-help group, the patient can identify the main dangers involved in a given course of treatment and put further questions.

Evans and other enthusiasts for the technocratic model simply exaggerate the information imbalance. The problem for the patient is being unsure who to trust. And the safeguard is not professional self-regulation, with its efforts to monopolise the 'mystery of medicine', but open scientific discussion between doctors and non-doctors, along with wide recognition of the value of second and third opinions and the merits of consulting experts who identify with patients rather than doctors, such as self-help organisations and consumer groups. There are a great many self-help groups for people with a wide variety of conditions, and the expertise obtainable from their advisers usually outstrips that available from the average GP. We are not at the mercy of organised medicine so much as the technocrats imagine. In any event, a single-payer system tends to entrench professional monopoly, putting the consumer in a still weaker position.

The knowledge gap, therefore, is exaggerated by technocrats, and the degree to which it has been deliberately intensified disregarded. But there obviously is a difference in knowledge which explains why patients consult doctors. The real issue is how best to prevent the informational asymmetry—which rests on innate uncertainties about medical necessity and efficacy—from being used to exploit patients.

In addition to his failure to see the difference between guild science and liberal science, Evans also looks upon professional self-regulation as the only adaptation to the consumer's uncertainty. But there was an earlier response,

namely the notion of vocation or calling, which required the doctor to put himself last and the patient first. No one thought it always worked out perfectly but, because it is so easy for the doctor to put his interests first, it was held to be of fundamental importance for doctors to be guided by conscience. Modern professional self-regulation was a second-generation adaptation of this older tradition. The modern approach embraced the tradition but also corrupted it by adding to professional ethical codes restrictive practices to obstruct competition, such as advertising bans which serve to limit information comparing one doctor with another. Today we need to restore the sense of vocation as one proper response to the patient's problem of not being sure who to trust, and we should end legally enforced self-regulation which plays into the hands of organised medicine. It is thoroughly desirable if self-policing occurs, so long as no legally enforceable coercive powers are used, particularly control of entry and limits on advertising.

No less important is that, historically, consumers adapted to their uncertainty about who to trust. In addition to the vocational ethos, systems developed for sharing information about the competence and trustworthiness of doctors. They have been described in my earlier book, *Working Class Patients and the Medical Establishment*.¹⁶ By banding together and electing one or more medical officers, friendly society members, for example, increased the attractiveness of their custom to a prospective doctor. The government-appointed registrar of friendly societies thought that about three-quarters of British male employees were members of friendly societies at the beginning of the twentieth century.

During the nineteenth century, doctors in Britain sought to avoid the inconvenience of competing by forming cartels to fix minimum rates. Any doctor who failed to toe the line could be expelled from the local association, ostracised socially, denied specialist consultations, and sometimes denied access to local hospitals. A few doctors were willing to put up with the social and professional isolation in order to compete for individual patients. But the prospect of winning additional patients one by one was not enough to tempt most doctors to defy their medical brethren. The prospect of winning two or three hundred patients at once, however, was extremely inviting. One friendly society with, say, 300 members each paying a fixed annual amount would alone provide an income sufficient for a doctor to subsist on, and four or five societies or branches would support a comfortable lifestyle.¹⁷

Because of their organisation in friendly societies or medical clubs, patients made it worthwhile for individual doctors to defy their colleagues. Had they not been associated in clubs, each patient would have faced an organised profession as a mere individual patient who would make little difference one

way or the other to the doctor's income. This is why doctors pressed for patients' 'freedom of choice'. Such 'freedom' reduced the patient from being a powerful club member to being an isolated individual. As a club member, each person was able to share information about the relative abilities of doctors.

The systems of association for patients, however, were dismantled in Britain by the state at the behest of the doctors in 1911. In New Zealand their influence lasted until 1938. As a means of protecting the consumer from either professional power or superior professional knowledge, the state subsequently proved to be far less effective than did consumers' own spontaneous organisations for self-protection.

Thus there have been two positive professional adaptations to uncertainty about the efficacy of treatment: liberal science and vocation. Guild science is a corruption of the true scientific tradition, and professional self-regulation is a corruption of medicine as a vocation. In addition, patients adapted by joining associations to protect their interests and to share comparative information about doctors.

But there is another problem with the argument of the technocrats. They assume that the knowledge gap between consumers and doctors is an argument against competition. On the contrary, competition is necessary precisely because of the danger that professionals may use their expertise to manipulate consumers. Patients need to be able to escape from bad doctors, and public-sector monopoly makes escape more difficult.

The reasoning of the technocrats is based on a mistaken understanding of the value of competition. They assume that there are preconditions to be met for competition to take place. Economics textbooks usually highlight two features of this 'perfect competition' model. In particular, first, there must be many suppliers, none of which is big enough to determine the price and, second, consumers should be well informed about alternatives.

Evans has based his argument on this view of competition. Professionals, he says, cannot be represented as "competitive for-profit firms, at arm's length from their customers, supplying services in response to competitively determined input and product prices". He continues:

The 'supply' and 'demand' sides of the health care 'market' interpenetrate each other to an extent which renders invalid the traditional economic dichotomy of separate spheres of decision linked only by transactions at a given price Resulting utilisation patterns are neither 'demand' nor 'supply' in the conventional sense; thus we cannot use the conventional demand and supply apparatus in the conventional way, if at all.¹⁸

A supply curve, showing amounts offered for sale by price-taking suppliers at each of a series of market prices, does not exist. Accordingly, he says, "there is no tendency for market forces to lead to health care being offered at a price equal to its marginal cost".¹⁹

This argument misunderstands what is useful about competition. It is not a technical device which leads to prices matching marginal costs in a literal sense. As Hayek taught, it is valuable as a discovery procedure and can only be understood as part of a wider philosophy which advocates the free use of initiative under law.

Competition and free entry into the market allow consumers to discover which suppliers perform best at satisfying their needs. Prices tend to settle at a point which cannot be beaten by anyone else, at least for the time being. This price has no necessary connection with marginal costs. The products or services which are developed are those that consumers want. Many people are free to predict consumer demand, and from their efforts we learn who produces the best ideas. It is not obvious in advance.

Evans argues that doctors have superior information which enables them to manipulate patients. He concludes that competition is not possible because of this information imbalance. But competition is what protects consumers against manipulation. Evans, therefore, suppresses the consumer's best safeguard.

As Hayek forcefully demonstrated, economists accustomed to drawing intersecting demand and supply curves and 'welfare triangles' are assuming that 'the data' are already known. But the data—prices, costs, quantities, techniques, products, producers, standards and relative competence—all remain to be discovered.²⁰ Competition, understood as freedom of initiative within a legally protected domain, is useful because it allows us to discover 'the data'. It enables us to see which doctors, hospitals or clinics, or combinations of doctors, nurses and paramedics, have discovered the most wanted methods of serving patients. Evans implies that the only element in the health system being suppressed when competition is eliminated is the capacity to exploit patients. In truth the suppression of competition eliminates the consumer's ability to discover and escape from bad service and reduces the scope for initiative and creativity in the service of others.

The imposition of a monopoly on the grounds that the precondition of perfect information (or even adequate information) is not met puts consumers in a still worse position. At the very least, public policy should not make matters worse, but entrenching public-sector monopoly does just that by adding to the difficulties already faced by consumers.

If there is real competition between individual doctors and hospitals for custom, and the possibility of newcomers entering the scene, then each provider has a strong reason to draw attention to the advantages of their service. Providers might stress their low prices, or their track record of safety, or history of pioneering, or perhaps high quality or convenience. If consumers value safety and efficacy, then producers will draw attention to these qualities. A single-payer scheme or public-sector monopoly, combined with professional self-regulation, allows the suppression of just the kind of comparative information that consumers need.

To sum up: first, the claim that information asymmetry exists between doctor and patient is exaggerated. Second, insofar as it exists, competition is not rendered unworkable but rather is all the more necessary to protect the consumer from exploitation.

There are four inherent properties of medical care: uncertainty about the necessity for and efficacy of treatment (that is, which doctors can be trusted to know most about what works and to put their own interests last); uncertainty about the incidence and cost of illness; external effects; and the wide recognition that some health care cannot ethically be withheld because it is fundamental to life itself or to the enjoyment of a reasonable quality of life (which means that others have a duty to help, either privately or politically). None of these properties justifies the suppression of competition.

HAS THE MARKET BEEN TRIED, AND FAILED?

Because of a failure to distinguish between inherent properties and historically-given adaptations, health economists studying US health care have often treated all the faults of that system as the fault of 'the market', when it is a mixture of a regulated market and public-sector provision. What lessons can be learnt from the United States?

Due to the assumption that the American health care is a market system and that all its ills are due to the market, there are many who believe that the private competitive market approach has been tried and failed in the United States. Canadian academics are notable for taking this view, arguing that Canada's *public* system is better than the *private* arrangements in the United States. Again, Professor Robert Evans, the prominent Canadian economist already quoted, is in the forefront: "it is readily apparent that the *public* system in Canada, with universal, comprehensive coverage, has contained the escalation of health care costs, while the predominantly *private*, much less comprehensive, US system has not".²¹ He sees insurance as the problem

and concludes that “[i]nsurance coverage combined with non-competitive pricing behaviour leads to price escalation. Monopsonistic and compulsory insurance with negotiated prices can control this; private competitive insurance cannot.”²²

But has competition really been tried and failed in the United States? A counter view is put by Professor Alain Enthoven, who accepts that the medical care market as it operates in the United States suffers from market failures and for this reason believes an unfettered market to be unsuitable and “managed” competition necessary. But he does not go along with the anti-marketeers who offer up lists of market failures to support collectivist remedies. Lists of market failures, he says, describe “problems to be overcome”. They are not necessarily reasons why a carefully designed system that uses market forces cannot work. And certainly they do not constitute a case for public monopoly. Competition, he says, “has not yet been tried in the US”.

His argument has much in common with Arrow’s claim that many observable features of health systems are adaptations to the inherent properties of health care. They are not necessarily the only adaptations. For instance, the domination of the marketplace by the organised medical profession is common to many countries, but Enthoven asserts that it is important to understand that this arrangement is “not the natural expression of a free market in health care”.²³ To understand his claim, we need to look at the United States in two periods: before the watershed years of the early 1980s, and after.

Before the early 1980s the American market was characterised by much talk of free choice for consumers, when in reality power lay in the hands of organised medicine. This situation has been called ‘guild free choice’, a term frequently deployed by Professor Enthoven.²⁴ From the early 1980s onwards there began to be a renewal of competition. Many commentators today, however, have an image of US health care which is still based on the era of guild free choice.

The early 1970s was the high point of guild free choice. Six main problems can be identified:

- the supply of doctors was effectively controlled by organised medicine;
- professional restrictive practices were tolerated by federal antitrust agencies;
- federal and state agencies regulated hospital capital expenditure;
- Medicare was funded on a cost-plus basis and spending had accelerated beyond all expectations;

- state regulation of insurance distorted the market and discouraged competition, particularly by the special treatment of Blue Cross and by enacting state laws mandating benefits; and
- federal tax subsidies to workplace health insurance plans reduced awareness of cost by purchasers of insurance (employers) and users of health care.

I have described the early 1980s as a watershed because, by that time the first two of these problems had been removed or mitigated, the third reduced in scope and Medicare and Medicaid had been subject to a measure of reform. But the huge distortions caused by state insurance regulation and federal tax subsidies remained.

The Era of Guild Free Choice

Professional Restrictive Practices

From the Flexner Report of 1910 until the 1970s, organised medicine effectively controlled the number of doctors. It used this power to increase incomes and to suppress competition. Doctors who were inclined to cut prices were intimidated through boycotts, professional ostracism and denial of malpractice insurance, and even access to ordinary health insurance. Consumers were kept in ignorance of alternatives by the suppression of advertising. Efforts by hospitals to control costs were obstructed. Alternative delivery systems that were more responsive to consumers were impeded. Health maintenance organisations (HMOs) were particularly disliked, and were obstructed by boycotts and campaigns to enact state laws against the so-called 'corporate practice of medicine'. Efforts by insurers to control costs were resisted by boycotts and other means.²⁵

The American Medical Association (AMA) was able to impose its doctrine of 'guild free choice' partly because it appealed to American sentiment by purporting to offer 'choice'. In reality, however, the AMA had a strategy for impeding competition and was particularly opposed to the type of price competition offered by HMOs. These pre-paid health plans enabled people to gain access to more cost-effective health care by opting to confine their choice of doctor to an approved panel. Consumers should be free to restrict their choice if it is to their advantage.

The attitude of organised medicine during the era of guild free choice is summed up in an AMA declaration of 1934:

All features of medical service ... should be under the control of the medical profession. No other body or individual is legally or educationally equipped to exercise such control.²⁶

The AMA was only able to establish its great power because it was helped by the government in two main ways: first, through state laws which restricted the supply of doctors, and, second, because the federal government failed to enforce antitrust laws which were applied to everyone else.

Insurance

Health insurance began to develop in the 1920s and 1930s under pressure from hospitals which had expanded rapidly in the previous 20 years, and which found themselves unable to meet their costs. Initially, individual hospitals offered insurance policies under which individuals paid a premium of about \$6 a year, and were entitled to up to 21 days in hospital. Schemes offering choice of hospital soon developed and became known as Blue Cross. As Blue Cross developed in the 1930s state insurance regulators began to apply the same laws to Blue Cross that applied to all other insurers, including regulations stipulating the cash reserves they must hold. Organised medicine resisted and secured exemptions, the most significant of which were that Blue Cross did not need to hold a reserve or pay state premium taxes. In addition, Blue Cross was exempt from federal taxes. Blue Cross agreed, in return, to make insurance available to anyone, and to charge the same (community) rate for all.

These concessions enabled Blue Cross to dominate the market. In addition, its size and close connections with hospitals enabled it to earn substantial discounts. This made it very difficult for rival insurers to offer a different kind of cover from the Blue Cross norm, which was a 'service' benefit with no cost sharing. This arrangement discourages consumers from being cost conscious, either in the sense of limiting their utilisation or seeking value for money. Moreover, hospitals were remunerated on a cost-plus basis, which gave hospitals an incentive to maximise their costs. Thus, from the earliest days, government regulations that were intended to make insurance available to everyone, but in practice were distorted by the interests of organised medicine, had the effect of encouraging a wasteful type of insurance to develop.

The privileges accorded to Blue Cross put unusual pressure on rival insurers seeking market share. Because of their legal disadvantages, the most effective strategy open to them was to select groups of low-risk individuals. This tendency can be found in all insurance markets, but it was intensified by the legal privileges given to Blue Cross.

The problem was made worse during and just after the war when tax concessions were given to employers who offered their employees a health plan. This had three main effects: first, it made employers and employees

less conscious of the cost of their premiums; second, it encouraged employees to demand the inclusion in company plans of front-end benefits, such as eye care, which they would normally pay for themselves; and, third, it disadvantaged those individuals seeking insurance independently of the workplace.

Furthermore, state laws compounded the problem by mandating the range of benefits that insurers had to provide. These laws stipulated that non-physician services (including those provided by osteopaths and chiropractors) must also be covered, but only at the same price, thereby obstructing competition.

Thus, from its very first days, insurance developed in a manner dictated by organised medicine which set out to maximise doctors' earnings and limit competition. In Canada during the 1950s insurance developed under the thumb of organised medicine to a somewhat lesser degree and policies with a front-end deductible proved popular. Sold as 'major medical' insurance, the policy paid all bills above a deductible or excess. Consumers had an incentive to exercise caution up to the deductible amount, whilst enjoying protection against the cost of treating serious conditions. According to Evans, 228,700 persons were covered under this scheme in 1955, increasing to 1,998,238 in 1961. This rate of growth suggested that such policies were what consumers really wanted, rather than first-dollar coverage.²⁷

The Era of Renewed Competition in the 1980s

The 'guild free choice', which typified the previous 60-70 years, began to give way to a somewhat more competitive environment in the 1980s. There were four main factors.

First, employers became very conscious of the rising cost of their health plans. By 1983 health-care costs amounted to 11 percent of payroll. Some companies faced huge bills which threatened their business survival. For example, in 1984 Chrysler was spending \$530 in health benefits for every car sold, nearly 10 percent of the price of its cheaper models.

Second, Medicare and Medicaid began to be reorganised after some 15 years of cost-plus funding of medical services, which had promoted sky-high price escalation. In 1983 the Medicare prospective payment system came into effect, based on diagnosis related groups. Previously, hospitals had charged Medicare more or less whatever they wanted.

In 1982 the Medicare Competition Demonstration, which had begun 10 years earlier, was extended. For 95 percent of the normal cost, HMOs were required to offer comprehensive benefits. Initially 27 HMOs offered care and by 1988 this had increased to 150, covering some 850,000 Medicare

enrollees out of a total of 30 million. A major study conducted for the Health Care Financing Administration concluded that:

HMOs provide health care to Medicare beneficiaries that appears to be at least equal in quality to the care provided by the FFS [fee for service] sector, even for resource-intensive conditions. Furthermore there is evidence from the study results ... that HMOs provide better routine care for elderly patients.

The third factor encouraging greater competition was that the Federal Trade Commission began to enforce antitrust law. Previously the Commission and the courts had allowed organised medicine to be immune from the antitrust laws which applied to everyone else. But from the late 1970s the Federal Trade Commission prevented the AMA from restricting competition. The decisive Supreme Court case came in 1982 when the advertising ban and boycotting of HMOs were outlawed.²⁸

Finally, the supply of doctors had increased sharply in the 1970s due to federal training subsidies. Some new doctors were more willing to work for a salary and to accept appointments with alternative delivery systems.

Remaining Problems

Regulation of Capital Spending

Regulation of capital spending is now much reduced but still present in some states. Such interventions obstruct efforts by hospitals to adapt to changing market conditions.

Medicare and Medicaid

Throughout the 1970s when cost escalation was at its worst, the influence of government spending programmes was pervasive and growing. The nature of this influence remains the same today. Spending on Medicare as a proportion of total US expenditure on health services rose from 9.5 percent in 1970 to 14.4 percent in 1980. By the late 1980s it was just under 20 percent. Overall government spending on health as a proportion of total health expenditure has also been going up. Between 1950 and 1965, before the introduction of Medicare and Medicaid, it was about 25 percent. Since Medicare and Medicaid got fully under way in 1967, it has steadily risen to about 40 percent where it now remains.

Federal Tax Subsidies

The huge open-ended government tax subsidy to employer health plans changed the attitude of employers. It meant in some cases that an employer could buy a satisfied workforce with \$1,000 of health benefits when the same

satisfaction might cost as much as \$1,600 in cash. The subsidy is also open-ended: the more one spends the more one receives in subsidy, thus encouraging spending on expensive care. Employees are made less conscious of cost than would otherwise be the case. Furthermore, because they feel they are not spending their own money, the subsidy creates an incentive in collective bargaining to demand the coverage of items on which spending is routine, such as eye and dental care.

State Insurance Regulation

Mandatory benefit laws were multiplying until recently. In 1970 there were about 30, mainly requiring insurers to cover alcohol or drug rehabilitation. In 1987 there were 646 such laws covering virtually every imaginable service, including chiropractic, dentistry, eye care, podiatry, alcohol and drug rehabilitation, and alternative therapies. Mandatory benefit laws put health insurance beyond the reach of small employers and make it impossible for individuals to buy no-frills insurance. These limitations are reinforced by tax subsidies being unavailable to individuals who are not covered by a workplace health plan. The outcome has been a large number of uninsured people, estimated today to be about 37 million. About half are not poor, and many are self-employed or work for small employers. The mandating of benefits is being questioned in some states, where 'bare-bones' insurance policies are being encouraged.

All these interventions make the system of American health care very different from a competitive market. As well as accounting for a little over 40 percent of total health care expenditure, the government regulates the private sector heavily. Observers should, therefore, be very cautious about drawing conclusions that *public* is better than *private* when they are based on general measures of US health care like the proportion of GDP spent on health. Government regulation and provision are part of a continuum, and the United States is closer to the public health system end of the spectrum than many assume.

It is widely assumed that private insurance inevitably encourages cost escalation and that this is inherent in insurance as such. The analysis of Evans, to which I referred above, is based on a comparison between Canada and the United States starting in 1971 when Canada introduced its universal service, also called Medicare. Previously, total health care spending in Canada and the United States grew at a similar rate, but from 1971 Canada began to spend less as a percentage of GDP than the United States. In 1970, both spent a little over 7 percent of GDP. By 1983 the difference was about 2 percentage points: Canada 8.5 percent, the United States 10.8 percent, a gap

which has remained ever since. Evans attributes this to the difference between the public and private sectors, but this claim ignores the fact that the chief cause of cost escalation in the United States in the 1970s and 1980s was government intervention, especially via Medicare and Medicaid. According to the OECD, in 1990 American medical spending was divided as follows: private insurance, 33 percent; out-of-pocket, 20 percent; other private 5 percent, Medicaid, 11 percent; Medicare, 17 percent; other government 14 percent.²⁹ To attribute the level of health expenditure in the United States—currently around 14 percent of GDP is spent on health—entirely or mainly to insurance, which accounts for one third of health spending, is careless.

To sum up: US health care has many problems and the private sector is riddled with government controls. It is neither a fully collectivised system nor a market but, even with all its flaws and distortions due to government interference, there is much in American health care that is of high quality and much to learn from the commitment of the United States to consumer choice, innovation and experiment. Despite some reforms it is not yet a fully competitive market, but if we are careful to disentangle the consequences of competition from the effects of clumsy government interference we can improve our understanding of how a private insurance market would work.

PROPOSALS

New Zealand's System since July 1993

In July 1993 the 14 area health boards were replaced by a new system which separated finance from the provision of health care. The Ministry of Health, which replaced the Department of Health, retained responsibility for: strategic planning; policy advice; review, specification and assessment of services; regulation; and the management of health funding. Four regional health authorities (RHAs) were established to purchase health and disability services and manage contracts with service providers. The ultimate intention was to purchase primary and secondary health care and disability services from an integrated budget, although the integration of primary and secondary care is being phased in over a number of years. RHAs contract with organisations such as hospitals, and individual doctors. RHAs have a duty to purchase the best standard of health care at the best price, and may purchase from the public, commercial or voluntary sectors.

Initially, the government established a Public Health Commission to advise the Minister of Health on public health matters, monitor public health status, identify public health needs and purchase services, but its abolition was announced in December 1994. These activities are now the responsibility

of the Ministry of Health. A National Advisory Committee on Core Health and Disability Support Services was also established to advise the government which core health services it should purchase.

The 23 Crown health enterprises (CHEs) are the service providers under the new system. They provide health care and disability services for a particular area based on a 24-hour acute care tertiary hospital. A number of public hospitals have also been set up as community trusts, allowing representatives from the local community to help determine how health care services should be provided.

The Ministry of Health is responsible for medical, pharmaceutical, hospital, maternity and other benefits under Part II of the Social Security Act 1964. From 1 February 1992, medical, pharmaceutical and hospital benefits ceased to be universal and were paid according to income. New Zealanders were placed in one of three income bands, Group 1 (low income), Group 2 (those on abated benefits) and Group 3 (the rest). Groups 1 and 2 received Community Services Cards as proof of entitlement. Since 1 July 1993, however, both Group 1 and Group 2 Community Services Card holders have received the same benefits.

RHAs pay a medical benefit to GPs which covers at least part of the cost of their services to Community Services Card holders. When a patient visits a GP, the doctor claims the benefit direct from the RHA and receives the remainder of the fee from the patient.

The benefit for children in Groups 1 and 2, and children who are heavy users of health care, is \$25 if under the age of 5 years and \$20 if 5 years or over. Children in Group 3 receive a benefit of \$15 for visits to a GP. Adults in Groups 1 and 2 also receive a benefit of \$15, along with adults in Group 3 who are heavy users of health care.

All patients receive a benefit of \$22 for their first referred visit to certain specialists (psychiatrists, paediatricians, neurologists, radiotherapists and specialist physicians). For the first referred visit to all other types of specialist, the benefit for children is \$11, and for other patients \$5.45.

In return for a charge, New Zealanders are entitled to medicines, approved appliances and materials included in an official list, and prescribed by medical practitioners, midwives or dentists. Card holders, and adults and children classified as heavy users of health care, pay \$3 for each item. Adults in Group 3 pay up to \$15 per item and children \$10 per item. Families pay for a maximum of 20 pharmaceutical items each year, except Group 3 families who pay \$2 per item after the first 20.

In-patient treatment in public hospitals is free of charge for all New Zealanders. Out-patient treatment in public hospitals is free of charge for

all members of Groups 1 and 2 and those classified as high users of health care. Group 3 families pay for a maximum of five out-patient visits each year, with some exemptions. Children in Group 3 are charged \$16, and adults \$31. Maternity services in the public sector are free.

A New Strategy

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.

Two particular factors should motivate the government to take a further step in reforming the funding of health care. On the one hand, people increasingly want to be treated as informed customers, not patients under 'doctor's orders'; and, on the other, demands for medical services are growing rapidly. The three major reasons for rising demand are, first, that new technology makes more medical interventions feasible; second, the ageing of the population increases the numbers of those who require relatively more intensive care; and, third, public expectations are rising with growing prosperity.

There is a further complication affecting health care funding. There is widespread support for a policy of universal access, because health care is taken to be a necessity in common with food, clothing and shelter. Some health care services are an undoubted necessity to which everyone should enjoy access. However, the same cannot be said of all medical interventions, some of which are more like luxury goods. For this reason, the more money people have, the more they tend to spend on health. The same does not apply to necessities like basic foods. People who become rich do not eat more bread than they did when they were less well-off; they do tend to consume more health care. Thus medical services have a dual nature. Some health care is a matter of necessity but some is not, and the demand for non-essential care can grow substantially beyond any government's ability to pay for it from taxes.

Not all medical interventions are necessarily beneficial. Some may even prove harmful. A medical system based on the ethos that 'everything that can be done should be done' is not unequivocally good medical practice. A more conservative approach which relies on the body's self-healing capacities may be equally valid.

Some health economists stress the unproven character of many medical interventions and emphasise the local variations in surgical intervention rates. Low-intervention schemes like HMOs appear to make no noticeable difference to health status. However, some writers, such as Professor Julian

Le Grand, conclude when discussing health policies for Britain that it should retain its NHS so that the government can ration health care more effectively. This is plain paternalism, usually propagated by intellectuals who imagine themselves as the paternalists and other people—lesser or little people—as the ‘beneficiaries’. They are right to emphasise the uncertain benefits of some medical procedures, but the remedy in a society built on respect for human potential is to inform people of any doubts so that they can make their own judgements and not have the paternalists’ preferences forced on them.

New Zealand’s scheme has been presented as a ‘market’ reform but there is more than one kind of competition and the model chosen by the New Zealand government only tenuously resembles a real market. Like the British ‘internal market’, it can be called a ‘defence industry procurement’ model of competition, in which relatively few suppliers submit tenders to provide goods or services stipulated by a government agency (the RHA). This produces results which are very different from a ‘consumer sovereignty’ model of competition in which the paying customer can choose from among a range of suppliers.

Prices serve three especially useful purposes. First, they create informed demand. Under a ‘free’ system, which in practice means one financed by compulsory taxation, the consumer has no way of comparing the cost of health care with other desirable goods and services. The compulsion removes responsibility for choice. Second, prices send signals to suppliers about demand, enabling them to judge how many facilities of various types to provide. On the experience of Britain and New Zealand, government planning of facilities invariably leads to rationing. Third, prices send signals to producers about whether people will pay more for a higher standard.

Governments have a tendency to think of prices as charges which discipline demand. The New Zealand government introduced out-patient charges to deter people from using hospitals instead of the GP. But such payments do not serve all the purposes of a pricing system. Above all, they do not allow consumers to signal effective demand for more (or fewer) medical facilities and personnel, or to convey their approval (or disapproval) of standards.

There is also another advantage to a price-based system. It is more likely to encourage higher human motives than a state system. Medicine at its best has been a calling. There is a lot of scope for doctors to act against the best interests of patients. A well-developed conscience, combined with oversight through competition, is the best safeguard against this happening. In particular, a competitive system is more likely to harness higher motives than is a monopoly, which allows mediocrity to continue undisturbed.

The New Zealand government claims that its proposals increase responsiveness to the consumer, but this claim is weak because patients still do not determine where the money goes. For much secondary care in particular, they are assigned to a treatment centre according to the local contractual arrangements, not according to their personal preferences.

Equality

One of the most powerful doctrines underpinning health care in New Zealand is equality of access. For many people this means that inability to pay should not prevent access to urgent medical care. But equality can also mean that no one should ever get more than anyone else. Thus, for some it means that all health care services should be available to everyone or no one: private rooms must be available for everyone or no one, choice of doctor for everyone or no one, and so on. Apart from being undesirable, this type of equality is also impossible to achieve. However, poverty can be prevented from acting as a barrier to access so long as governments undertake to make available a defined minimum standard of health care for all. The establishment of the Core Services Committee was based on the recognition that 'everything' could not be afforded. But it has proved politically very difficult to exclude any services of substance.

The reality is that the health system does not provide 'the best' or 'comprehensive' care for everyone. It provides a standard considered acceptable by doctors within the budgets available to them. And for the section of the population dependent wholly on the government for income, no other arrangement is possible. This reality is not escaped by talking about equality or comprehensiveness or by denouncing two-tier systems. The real challenge is to define the 'civilised' or 'decent' standard of care to which everyone should have access, and to determine how to make this available by means of enforceable contracts of insurance. So long as the minimum available to the poorest is morally acceptable, the majority of the population who are not poor can be left free to choose the arrangements they prefer.

At first glance, it can appear that guaranteeing the poor access to an approved package of health care services, and no more, is a retrograde step. But this appearance is achieved only by demanding the impossible, namely that equal and comprehensive care be provided for all. This much-proclaimed objective has not been achieved anywhere in the world. The result is rationing, leading to waiting lists, the outright denial of treatment to many patients, and suppression of personal choice.

The New Zealand government has decided to continue to finance health care principally from taxation, but the reality is that this strategy makes sense

only if limiting total government spending on health is given priority over other goals—including consumer responsiveness, the introduction of new technology, the enhancement of cost-effectiveness, and the promotion of higher quality care. So long as the government primarily determines how much the nation can afford to spend on health, New Zealand's health system will remain, above all, a device for rationing access to medical services.

Under the current state monopoly, the poorest people are treated, at least formally, in the same manner as the wealthiest: no one has a right to treatment. New Zealand's health system is effectively a type of insurance that allows the insurer to take random amounts of money without offering a contract for cover in return. The insurance policy says that the insured person must pay so much per year, but he or she is not told how much. Second, the insurer will take just the amount of its choosing out of the public's pay packet. And, third, the insurer will promise to provide only the service it considers appropriate. There are no fixed entitlements. The 'right' to health care has turned out to be a command from the government instructing individuals to spend their own money on a public-sector monopoly which permits the providers to be the sole judges of its merits.

If those on benefits were given access to an insured health care package, then they would have a legal right to service under the policy. Their position would be better than under the current system, which gives them no entitlement. It is true that people with more money would have the ability to pay for additional services—but does the mere fact that they enjoy different levels of service justify the compulsory elimination of all such differences? The higher moral question is surely whether the standard available to the poor—by legal right under an insurance contract—is high enough. So long as the guaranteed minimum is satisfactory, there is no reason for the government to discourage the non-poor from paying more for additional services. Many who have the means and the desire to obtain additional services would be likely to do so in any event, including through consultations with overseas providers.

As consumerism grows, governments will find it increasingly difficult to hold popular expectations in check. Someone needs to be cost conscious, and, while health care is financed from taxation, any government will have to set limits on medical spending. The alternative is for consumers themselves to be conscious of cost by choosing an insurance policy they consider to be right for them, in the light of the price and the services covered. But too many consumers have succumbed to the allure of the claim that improved consumer choice and free health care can go hand in hand. The fact is that consumer *choice* is hugely compromised without consumer *payment*. Perhaps

the greatest irony of all is that the vast majority of people are paying in taxation the full cost of the services they receive. Yet, because they have surrendered up their buying power by handing over taxes to the government, they have also surrendered their ability to choose.

Possible Reforms

The objective of reform should be to bring about private ownership of public-sector hospitals and to finance health care through out-of-pocket payments (for minor expenditures), and through private insurance, not taxation. Three possible avenues might be followed. The first, a scheme for compulsory private insurance, has been suggested by Roger Douglas. The second would be to allow the development of alternative health care plans as envisaged in the 1991 reform proposals. The third possibility is 'managed competition'.

Roger Douglas' Scheme

Douglas states the aims of his proposals to be: to ensure the system is fiscally sustainable; to meet the needs of the most disadvantaged; to transfer power from large hospital institutions and government bureaucracies to individuals; to ensure patients become the principal buyers of health care; to remove health care as much as possible from the political arena, "where well-organised special interest groups cause so much damage"; and to introduce competition via market-based institutions.³⁰

All New Zealanders, he says, should have the means to purchase a no-frills catastrophic insurance policy at a reasonable price. They should be able to choose between competing health insurance policies in order to select the type of coverage best suited to their individual and family needs. They should also have the opportunity to choose between self-insurance and private third-party insurance for minor medical expenditure.³¹

His proposed system is based on all New Zealanders being 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 those on low incomes have difficulty meeting the cost of the insurance premiums, the government would provide subsidies but leave the choice of insurer to the individual.³²

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. In insurance jargon, it would have a front-end deductible, calculated as a percentage of income. Such a policy is designed to cover low-probability but high-cost events like hospitalisation, and not routine visits to the doctor.³³ The policy is to be renewed annually by the policy-holder,

who is free to choose a different insurer. In order that they will be discouraged from selecting only low-risk individuals, thus leaving high-risk people without cover, insurers would not be permitted to cancel or to refuse renewal of a policy. Policies would be required to cover all members of a family, so that a child born with serious health problems would automatically be insured. Insurers would be permitted to offer insurance contracts at rates of their choosing and to charge different premiums for broad risk categories, such as age, occupation, location, gender and smoking. Variable premiums are necessary, Douglas believes, to act as incentives for a healthy lifestyle. Premiums would also differ according to the size of the family. However, insurers would not be allowed to take account of a particular family's medical status or claims history. This measure would prevent insurers from using the premium to induce high-risk families to cancel their policies.³⁴

The contract would include mental illness and geriatric care. It would also cover services currently provided under accident compensation law, to avoid continuation of the artificial boundary between accidents and ill-health.³⁵

The second compulsory contract is designed to ensure that when people reach retirement age (which is set to be 65 by the year 2001), they will have saved enough to meet their health-care premiums until the end of their lives. This policy will provide comprehensive coverage of people aged 65 and over, without reliance on the government.³⁶ It becomes compulsory from age 18.

The annual savings contribution will be calculated to provide sufficient cash to fund the estimated cost of health insurance premiums from 65 until death. The compulsory deduction of income will be 2 percent for the first five years and 2.5 percent thereafter until the age of retirement, or until a person's savings account reaches the estimated cost of health insurance premiums from 65 until death.³⁷ A person will be allowed to save more than the compulsory amount and such voluntary contributions can be withdrawn at any time or used to reduce the level of compulsory savings that need to be made in subsequent years. As also specified in the contract for the under-65s, insurers will meet costs above 5 percent of income.

Douglas has devised the scheme outlined above to avoid defining core health services. He prefers to enable consumers to show their preferences directly by their spending decisions.³⁸

Public spending on health, other than on teaching and research, came to \$4.5 billion in 1990/91, or \$1,220 for every New Zealander. Douglas believes that most of this amount could eventually be redirected through the tax and benefit systems. If only three-quarters of the 1990/91 expenditure on public health had been returned to people via the tax system, he says, direct taxes on individuals could have been reduced by about 24 percent on average.³⁹

The existing private health insurance market is small, but Douglas believes that private-sector health insurers will enter the market so long as the government is clearly committed to the introduction of competition. In support of his belief, he cites the decision of AMP to offer health insurance in anticipation of the National government's 1993 health reforms.

He recognises that there may be a transitional problem of allocating insurance cover for existing high-risk consumers, such as those in poor health. For this reason it will be necessary to require insurers to provide coverage to everyone who applies during an initial period.⁴⁰

Douglas also wishes to privatise hospitals. In 1991, there was a total of 337 hospitals in New Zealand; 146 of these were public hospitals and 191 private. The number of hospital beds totalled 26,088: 19,125 in public hospitals and 6,963, private. Douglas urges that all public sector property should be sold within an agreed period and a temporary board established to manage the sale.

A disadvantage of Douglas' scheme is that he assumes that hospitals will be commercial ventures, whereas historically hospitals took a variety of forms. The government provided hospitals early in colonial days, and later maintained a loose involvement. But until 1938 they were mostly financed by a combination of charges, donations and local government subsidies. There have always been private hospitals, some run on charitable lines and some commercial.

The process of privatisation should not prejudice the form that private hospitals will take. Some can be expected to trade for profit, others may not. No options should be closed off, but a legal framework should be provided based on the most likely choices. In Britain 60 percent of acute hospital beds in the 1930s were provided by voluntary hospitals, which relied entirely on private finance.

The strength of Douglas' plan is that it tells people how much they are paying now in taxes, proceeds to show them how much their taxes could be cut, and allows them a real choice between insurers. How consistent is his scheme with the ideal of a free society described earlier? Ideally, there should be no compulsory insurance. However, because critical, urgent health care cannot ethically be withheld, even from those who have failed to make proper provision from ample resources, and because the state undertakes responsibility for providing basic care, consideration must be given to measures which constrain free-riders. Compulsory insurance is usually advocated as a response to this problem. However, most of the people who may remain uninsured are likely to be either:

- unemployed welfare beneficiaries or retired people who will be supported by the state in any event, whether by subsidies or by meeting their premiums, or by providing services free of charge; or
- people who could afford to pay but choose not to.

Compulsion may help in such cases, but 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. Another approach worth considering would be full or partial post-treatment cost recovery from those who fail to buy insurance and are able to pay.

Alternative Health Care Plans

The 1991 white paper, *Your Health and the Public Health*, envisaged the establishment of alternative health care plans (HCPs). It was anticipated that some people might not want to rely on their RHA, preferring to use the taxes they had paid for its services to make their own provision by means of an alternative health care plan. It was thought that Maori, trade unions, rural communities and some employers might find the idea attractive. Provision was made for HCPs but, as former finance minister Ruth Richardson remarked in her book, the idea fell "casualty to a failure of nerve on the part of the government".⁴¹

The HCPs were expected to take responsibility for the total care of subscribers in return for a risk-rated share of the national health budget. The scheme had the potential to encourage health care in New Zealand to develop in a less paternalistic manner, and should be revived.

Apart from political considerations, the scheme was also shelved because the Treasury was unable to decide how to calculate the payments to be made to individuals. But this is a weak objection which could easily be overcome. Initially, a rough figure based on average spending per head, weighted for age, could suffice. The system could be made more sophisticated later. Up to the end of June 1993, New Zealand spent \$5,832 million on health care, of which 76.5 percent came from public sources, that is, \$4,461 million at an average cost per head of \$1,299. Taking \$1,000 per head as the baseline, tax credits could be made on an age-related scale. To illustrate the point, those aged 60 or more could receive 90 percent; 50-59, 80 percent; 40-49, 70 percent; 30-39, 60 percent; 20-29, 50 percent; and under 20, 40 percent. In this example, a man and wife both in their thirties with two children would receive \$2,000 (two payments of \$600 and two of \$400). A retired couple in their sixties would receive \$1,800.

Individuals opting out of RHA control would still, in most cases, be making a net contribution to tax revenues, but far more people would have the disposable income to choose an alternative to the local RHA if they found it unsatisfactory.

Managed Competition

Professor Alain Enthoven has proposed a system of “managed competition”, which has been characterised by his colleague Richard Kronick as “giving the invisible hand a helping hand”.⁴² It comprises four main elements:

- each year consumers choose a comprehensive care package for one year;
- this consumer choice should be cost conscious, that is, part or all of the cost of the premium should be met by all individuals except those on very low incomes;
- providers should compete in economic units which integrate provision and insurance, such as health maintenance organisations and preferred provider organisations; and
- agencies, which could be private or statutory organisations insulated from the political process, should manage consumer choice by offering comparative information about quality and price and by filtering out unsatisfactory insurers who try to compete by selecting good risks rather than encouraging cost-effective care.⁴³ These intermediaries have had various names, the latest of which is ‘health plan purchasing cooperatives’.

For Enthoven’s scheme to work, consumers must be price conscious at the time of taking out the insurance package, and in a position to compare alternatives. To facilitate comparisons, providers are required to price equal packages. There can be variations or add-ons, but all insurers must price the same basic package so that consumers are sure they are comparing like with like.

There are examples of such systems in operation in Minnesota and in California. Enthoven regards both the California Public Employers Retirement System and the Stanford University employee scheme as successful examples of his principles in operation.⁴⁴ The State of Minnesota Group Insurance Program⁴⁵ is similar, and so too is the Federal Employees Health Benefits Plan in Washington DC.

Enthoven’s scheme was devised with the United States in mind. Could it be adapted for New Zealand? One possibility would be to modify the role of the RHAs. At present they are purchasing agencies which enter into contracts with providers. Under an Enthoven-style plan they could become purchasing cooperatives. They would assume the role of consumer champions, providing comparative information to aid choice, and they would

provide a form of private regulation for the insurance market. In effect the arrangement would permit a degree of competition between regulatory regimes, allowing regulators to learn from contending regulatory styles how best to perform their task.

Enthoven's scheme has many strengths, but, since New Zealand has already made legal provision for alternative health care plans, it makes more sense to reactivate that idea rather than to start again from scratch.

CONCLUSION

The fundamental defects of New Zealand's system are that it misprices resources and restricts individual choice. The patient's ability to participate in choosing a method of treatment is constrained; it is not possible to opt for a higher standard of amenities within the one-size-fits-all public system; and prescription pharmaceuticals are under-priced and access is heavily regulated. The system was established in the belief that it would offer free, equal and comprehensive care. But it is not free: all New Zealanders pay for it. It is not equal: social skills make a great difference to the quality and quantity of service rendered. And it is not comprehensive: no one has a right to treatment. It is a rationing system in which patients get what the authorities consider to be good for them.

The promise of free care is a gross deception. There is no escape from cost consciousness. We face a choice between, on the one hand, the cost-conscious paternalism of the medical and political authorities, and, on the other, cost-conscious personal choice. Effective consumer choice is only possible if it is accompanied by consumer payment.

8. EDUCATION AND CIVIL SOCIETY

Education has a special significance in a society of civil associates. The task of each generation of adults is to pass on to their children the values and knowledge necessary in a free society. Much of this work takes place in the family, but schools are also central. Their task is not only to turn out youngsters trained to fill a role, but to play their part in equipping young people with the habits, skills and dispositions they will need in a society of freely cooperating persons.

Most parents expect a school to teach their children the basic skills, including handling numbers, spelling correctly, reading fluently and writing clearly. But in most Western countries including Britain, the United States and New Zealand, there has been a growing feeling that standards achieved for these skills are falling. Certainly there is no widespread belief that they are rising despite higher expenditures, new technology and advances in understanding the educational process. Schools have also traditionally taught children about the history of their own civilisation and sought to pass on its strengths, without being blind to its defects. In recent decades, however, schools have been reluctant to take sides on cultural issues, preferring an ethic of relativism. Moreover, schools once believed they should teach the difference between right and wrong, reinforcing the messages conveyed in the home. But from this task, too, schools have tended to withdraw, preferring an ostensible position of value neutrality.

The ethos of government schools in Britain at the turn of the century is well described in the Introduction to the Elementary Code of 1904, written for primary schools. The same sentiments were shared in New Zealand at the time:

The purpose of the Public Elementary School is to form and strengthen the character and to develop the intelligence of children entrusted to it, and to make the best use of the school years available, in assisting both girls and boys, according to their different needs, to fit themselves, practically as well as intellectually, for the work of life.

And, though their opportunities are but brief, the teachers can yet do much to lay the foundations of conduct. They can endeavour, by example and influence, aided by the sense of discipline, which should pervade the School, to implant in the children habits of industry, self-control, and courageous perseverance in the face of difficulties; they can teach them to reverence what is noble, to be ready for self-sacrifice, and to strive their utmost after purity and truth; they can foster

a strong respect for duty, and that consideration and respect for others which must be the foundation of unselfishness and the true basis of all good manners; while the corporate life of the School, especially in the playground, should develop that instinct for fair-play and for loyalty to one another which is the germ of a wider sense of honour in later life.

In all these endeavours the School should enlist, as far as possible, the interest and co-operation of the parents and the home in an united effort to enable the children not merely to reach their full development as individuals, but also to become upright and useful members of the community in which they live, and worthy sons and daughters of the country to which they belong.¹

There are many today who begin to get uneasy at any uninhibited talk of right and wrong, or moral training. Their misunderstanding has been discussed in Chapter 2. Moral teaching is central to liberty, as the distinguished Oxford historian, Max Hartwell, argued in his 1994 presidential address to the Mont Pelerin Society. The content of a liberal education, he says, should embrace civility, morality, objectivity, freedom and creativity. By civility he means respect for other people; by morality, the elementary maxims such as honesty and fairness; by objectivity, belief in the disinterested examination of facts and arguments, without fear or favour; by freedom, the principle that children should be equipped to exercise personal responsibility; and by creativity, belief in the advance of knowledge—not the perfectibility of man, but the possibility of progress.²

Hartwell points out that a liberal education can more easily be defined negatively than positively: it is not utilitarian or interest-serving; it is not vocational or professional; it is not specialist or one-sided; it is not conformist and uncritical; it is not education for doing. By implication, a liberal education is the obverse of what it is not: it is disinterested, it is general and universal, it is critical and inventive, it is education for thinking and understanding.³

The aim of civic capitalists is not to enforce but to encourage education of the type described by Hartwell and more schools of the character captured by the Elementary Code of 1904. Plainly the state monopoly—more strictly, its financial monopoly—has tended to increase central power. The typical reaction of the civic capitalist has been to advocate ending this monopoly. This too is my approach, but there is another consideration to which Hartwell draws attention. He has had the experience of grandchildren going to a private school which inculcates anti-liberal prejudices. From this he concludes that privatisation alone is not enough. Liberals must also be concerned about the content of education. This concern led the Thatcher government to push through the British national curriculum, that is, to exercise the state's powers of direction over educational content.

In both Britain and New Zealand a national curriculum has been introduced supposedly to instil more rigour into education, but in neither country does its imposition promise to be of much value. For both, the process of formulating the national curriculum has been captured by groups hostile to its purpose. According to a report produced by the Education Forum, the draft New Zealand English curriculum provides a good example. A mention of grammar was inserted into the curriculum but its mere presence was ambiguous. As the report remarks: "the word, lying there on p. 20 like a body on a battlefield, appears to represent either the losing side of an argument, or a winner so exhausted that winning has used up all his powers to act. To be allowed to appear once is the beginning and end of grammar's triumph."⁴ 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.

But a mechanical introduction of choice or privatisation alone will be insufficient. In addition to public policy action, the creation of the right conditions for liberty also requires concerted private measures. This will mean forming liberal associations of teachers and parents to campaign for liberal education and to foster understanding of what a liberal education means in the 1990s and beyond. One of the strengths of civil society in the United States, despite its attenuated form, is that it rests on a movement independent of political parties. Neither Britain nor New Zealand has any such movement.

The remainder of this chapter considers existing features of schools overseas and in New Zealand, and suggests the public policies and private actions necessary to create an educational system fit for a society of civil associates. In brief, the argument is that the family is the foremost educational institution. Schools should reinforce the family, but parents will never have sufficient influence unless the schools both depend on the parents for payment and face adequate competition. And there will never be sufficient competition while the authorities in Wellington are able to restrict the expansion of popular schools because others in the locality have 'surplus capacity'. It follows that all public schools should be placed beyond political control.

But can enhanced choice within the state system achieve the same ends? I will argue that experience from other countries shows that it cannot.

PUBLIC SECTOR CHOICE: OVERSEAS EXPERIENCE

A useful survey of educational choice in several countries has been published by the OECD.⁵ The experiences of Australia, Denmark, the Netherlands

and Sweden, as reported by the OECD, will be summarised here. Drawing on a separate study, I will also outline the American experience of choice in schools.

Australia

In 1973, Australia established a system of financial support for private schools, most of which have a religious affiliation. As a result, private school enrolments grew from 21 percent of total enrolments in 1971 to 28 percent in 1992.⁶ Under the scheme, both the federal and the state levels of government provide support. The amount of aid depends upon the wealth and resources of the private school, with the neediest schools receiving a larger share. Private schools are placed in one of 12 bands according to their private income from fees and donations. The amount of aid provided by the Commonwealth government varies from 12 percent to 49 percent of the average cost per pupil in the public sector, while the amount contributed by the states varies from 20 percent to 25 percent of the average public school cost per pupil.⁷ The effect is that a school catering for parents unable to pay high fees, with costs that are lower than the average for public schools, could receive all its funding from the government; a private school charging high fees, and spending more than the public sector average per pupil, would receive only a small proportion of its income from government.⁸ For the benefit of children from low-income families, many private schools in Australia waive the portion of their fees not covered by government aid.

In addition, some Australian states encourage choice within their public systems. New South Wales and Victoria, for example, allow public schools to become specialised or self-managing. Cherrybrook Technology High School in New South Wales has become so successful in its special field of modern technology that it now serves as a centre of instruction for other teachers.⁹ Doveton Secondary College, a public school located in a poorer Melbourne neighbourhood, has developed a reputation as the science and technology centre for its locality.¹⁰ According to the OECD report, Maranatha Christian School, a private school located in the same poorer neighbourhood of Melbourne as Doveton Secondary College, "distinguishes itself by a stress on high standards of behaviour and Christian teaching".¹¹ Under the choice scheme, its enrolments have grown from 97 students in 1971, when it began operation, to 750 in 1993. Killester College, a Catholic secondary school for girls, in the same poorer neighbourhood as Maranatha and Doveton, enrolls 788 girls.¹² The two religious schools rely on their reputations for providing religious pastoral care for their students. Neither refuses admission to girls whose parents cannot afford to pay the fees.

The Australian system, therefore, leaves considerable room for parental choice, but the political authorities remain firmly in charge. The 1973 policy only provided aid for running costs and in 1986 Australia adopted a New Schools Policy, under which new non-government schools could receive capital grants. These payments are made in a manner that increases political control of private schooling. In each state, a politically appointed committee makes recommendations intended to reconcile choice and diversity with the political desire to plan.¹³ The policy, for instance, limits aid for small new schools by putting them in the less generous bands, a practice that protects established schools from competition.¹⁴

Denmark

The Danish government believes that parents not satisfied with the public education system should be able to attend a private alternative. It provides financial aid equivalent to approximately 72 percent of the average public school per-pupil cost.¹⁵ This allows Danish private schools, which are known as 'free' schools, to charge low tuition fees. Smaller free schools receive a larger proportion of aid to compensate for their higher than average costs and to enable them to sustain themselves in smaller towns and rural areas.

The system was reformed in 1991 to give the Danish government more control. Some municipalities found that they had difficulty closing schools. They might, for instance, close a public school one day only to find it being re-opened the next as a private school. The subsidy was changed to discourage this practice. The government set the general level of aid and allowed the free schools association to determine the allocation between small and large schools. The Danish policy requires that free schools charge a minimum tuition fee, albeit very low, to ensure that parents have a financial stake in and consequently a high degree of commitment to the school they choose. Additionally, as a means of ensuring direct parental involvement, free schools must be governed by a board elected by parents.¹⁶

According to the OECD, Denmark's respect for parental choice has resulted in free schools that are genuinely free of significant government interference. It has also led to a great variety of free schools, including independent rural schools, academically-oriented lower secondary schools, some religious schools, progressive free schools, Waldorf schools, German minority schools and immigrant schools, including some for Muslims.¹⁷

The OECD concludes that under the 1991 system, "the government is able to set the overall level of subsidy according to political priorities, and let the free schools decide the rest".¹⁸

The Netherlands

School choice was established in the Netherlands in 1917. Private schools are available to all regardless of income, because public and private schools are financed on an equal basis.¹⁹ Consequently, 69 percent of all Dutch pupils attend private primary schools and 73 percent attend private secondary schools.²⁰ There is also choice within the public sector. Parents can choose from among any of the public schools located in their municipality, although some larger cities confine public school choice to smaller, sub-municipal districts. To qualify for funding, private schools must maintain minimum levels of enrolment established by the Dutch government. These minimum enrolment levels vary from municipality to municipality, depending on the size of the local school-age population, and are eased when school closures would threaten educational diversity.

Since World War II, fewer Dutch parents have claimed any religious affiliation but there has been an increase in the number of children attending religious schools. In 1990, 63 percent of all primary school pupils and 64 percent of all secondary school pupils attended religiously-affiliated schools representing a wide range of denominations.²¹ The OECD report suggests that this is because the religious schools' ethos "is sometimes perceived to be more in keeping with a family's values than the secular system".²² Many Catholic schools in bigger cities (the OECD report mentions the Hague and Rotterdam) admit large numbers of non-Catholic students. The OECD found that Catholic schools in the Netherlands are generally thought "to offer a familial atmosphere in which the character and development of the individual is given attention".²³

The funding mechanism is not based on a payment per pupil. Instead, the government pays directly for teachers, buildings and other costs. Private fees may be charged only for extra-curricular activities. Because the government meets so much of the cost, private schools have to conform to rules stipulated by the government. Political interference is always possible, but the Dutch have been blessed with liberal governments that, so far, have supported diversity.

Sweden

Sweden's adoption of parental choice in education is the most recent. By the early 1980s, independent alternatives to the public schooling system in Sweden had been all but eradicated. Private school enrolments accounted for a mere 0.6 percent of the total.²⁴ Swedish parents, however, had grown increasingly dissatisfied with the uniformity of public schools and the unresponsive attitude of school officials.²⁵ Largely in response to this

dissatisfaction, the Swedish government undertook a number of reform measures in the early 1990s designed to increase educational choice, both within the public school system and between public and private schools.

Under a 1992 law, grants are provided to private schools based on their enrolments. The grants are worth at least 85 percent (subsequently reduced to 75 percent) of the cost of educating a pupil in the local municipal system.²⁶ They have enabled private schools in Sweden to reduce their tuition fees substantially, or waive them altogether. During the 1992-1993 school year, 90 percent of private schools participating in the programme charged no fees at all.²⁷ The number of private schools in Sweden has grown rapidly but private schools still provide for less than 2 percent of pupils.

Typically, Swedes send their children to the local school, but many municipalities now allow parents to choose from among local public schools, with money following pupils.²⁸ While most Swedes continue to enrol their children in the nearest public school, "the power of choice ... has started to change their relationship with that school", according to the OECD.²⁹ Schools have begun to open themselves to inspection by parents, and public school principals in Stockholm claim to be increasing "involvement with parents".³⁰ The reforms have been particularly popular with low-income parents: the average family income of children attending private schools is now lower than the average family income of those enrolled in public schools.

United States

School choice and the decentralisation of decision making have been introduced in several American states. However, one of the most respected studies in recent years, published by the left-leaning Brookings Institution,³¹ has demonstrated how little has been achieved.

The authors, John Chubb and Terry Moe, argue that the local management of schools in the United States was a step in the right direction, but that it has not led to fundamental change. Their study shows that the school district remained ultimately responsible and, although schools enjoyed autonomy, the higher authority tended to step in if they acted controversially. According to Chubb and Moe, it has proved to be an unstable arrangement: "As long as higher-level authority exists, it will eventually get used."³²

Thus American experience suggests that decentralisation has its place, but reforms rarely go far enough. The same has been true of local management of schools in Britain. A useful dispersal of decision making has taken place, but there has been no dramatic transformation of educational practice.

In the view of the Brookings study authors, the most innovative and most promising reforms provided greater parental choice of school. Significantly,

they report that in the United States schemes based on choice are not seen as right-wing devices for privatising all schools. The widening of choice attracted support from liberals and conservatives alike, primarily because it was perceived as a device for reforming the schools whilst keeping them public. It has been a strategy for reform from within the public sector. In some localities it has also formed a major part of programmes to combat racial segregation, including Rochester and Buffalo (New York), Cambridge (Massachusetts), and Prince George's County (Maryland).

Chubb and Moe strongly favour increased parental choice, but identify three basic weaknesses of the measures introduced so far. First, they report that the apparently wide support in the United States for choice has often been very shallow. When discussion turned to details, support frequently broke down.

Second, choice schemes focused on demand; that is, parents had a choice of school, but only rarely was the supply side deregulated in order to encourage the emergence of new and innovative schools. The parents' choice was usually restricted to existing schools which, it was hoped, would respond to competition. But these schools had their funds and their existence guaranteed. Chubb and Moe argue that, precisely because the schools could not go out of business, enhanced parental choice alone could never deliver vigorous competition.

The third defect of choice schemes is that any measure which upsets the traditional structure tends to generate intense opposition, with the result that programmes have usually been a compromise between the vested interests:

Choice becomes part of a big compromise among contending political powers—no one loses jobs, no bad schools are closed down, vested interests remain securely vested, the basic structure stays the same. In a nutshell, this is why reforms always focus on giving parents and students choice, but never free up the supply and governance of schools.³³

Minnesota provides an example. Its scheme is among the broadest in scope of the open-enrolment experiments. Children have been able to attend schools outside their own district with public money following their parents' choice. The results have been good but limited in scope because, as a result of the absence of supply-side deregulation, all the traditional institutions have remained in place.³⁴

Some choice schemes have included 'magnet' schools, similar to British city technology colleges. According to Chubb and Moe, magnet schools have proved successful for their own pupils, primarily because the pupils were volunteers. Sometimes such schools have also had a limited rebound effect

on nearby schools, but for the most part they have not been able to galvanise other schools into reform. This can only be accomplished, argue Chubb and Moe, if every school is a choice school.

In the United States, magnet schools have often been instruments for racial integration, based on the hope that, through choice, racial balance will be achieved, a strategy that has frequently worked. One of the bolder experiments of this type began in Cambridge, Massachusetts, in the late 1960s. However, the initial results of relying on magnet schools were not wholly satisfactory and new reforms were introduced from 1981 under which there were no neighbourhood schools and no catchment areas. Children were free to attend any school chosen by their parents, with the help of a parent information centre. Parents could select up to four schools in order of priority and their children were assigned a place based partly on their preferences and partly on each school's racial balance. Cambridge was a fortunate location for the experiment because there was already a degree of variation between schools, each with a different appeal. In practice, the majority of children obtained their first choice, and almost all received one of their first four selections. The results have been promising: SAT scores in Cambridge improved, and the gap between the worst schools and the best schools narrowed.³⁵

Another option attempted in the United States is the charter school. It is a school run for a school board by a private contractor. The operator may introduce new approaches here and there, but has to conform to the contract (charter) with the school district board which pays the bills. As in most matters, he who pays the piper calls the tune. Little can be accomplished by charter schools whilst the authorities control the funding.

The Edison Project has also attracted considerable attention. In 1991 Christopher Whittle announced a plan to establish a national chain of for-profit schools. The first school was to open in 1996 and by 2010 it was hoped to have 1,000 schools with 2 million students. The plan has encountered difficulties, however, and it remains to be seen whether it will provide a model for the future.³⁶

What are the lessons from overseas? In a number of countries, the government has devised policies to widen choice, and in some cases choice has been given priority. However, the political authorities remain in overall charge. As Chubb and Moe warn, so long as a government agency holds the purse strings, politicians will have both the motive and the means to intervene whenever they wish. In a free society, schools should be insulated from partisan politics and this can only be accomplished by the restoration of schools to civil society. According to Chubb and Moe, the value of

deregulating the supply side is demonstrated by the most radical and the most promising of all schemes so far, in East Harlem, New York. This experiment is described below following a description of the current position in New Zealand.

NEW ZEALAND SINCE PICOT

The policy of successive New Zealand governments has been in the tradition of decentralised management as criticised by Chubb and Moe. In 1987 the government appointed a task force to review education administration under the chairmanship of a businessman, Brian Picot. Its findings (the Picot Report), published in April 1988, were that the administration of education in New Zealand was over-centralised. The Task Force proposed to decentralise management to the schools and to introduce greater consumer choice.³⁷ The government's response to the Picot report was *Tomorrow's Schools: The Reform of Education Administration in New Zealand*, in August 1988. The Minister of Education claimed that much of this response was "an affirmation of the Picot proposals" with some additions of detail and some departures from the Task Force's recommendations. *Tomorrow's Schools* led to the Education Act 1989, which took effect in October of that year.

Today, all state primary and secondary schools in New Zealand are governed by boards of trustees. Members include elected parent representatives, the principal of the school and a staff representative. One pupil, enrolled full-time in a class above third form, may also be elected to a board and boards may co-opt additional members.³⁸ Each board of trustees is formally responsible for the management of its school, including the appointment of the principal and staff, payment of ancillary staff salaries and the salaries of designated management positions in schools, and the allocation of funds for the operational activities of the school.

The board must also ensure that there is a written charter of aims, purposes and objectives of the school approved by the minister of education. The school charter includes the National Education Guidelines laid down in Wellington, as well as local goals and objectives which were intended by Picot to reflect the particular aspirations of individual schools and their communities. The Picot report described the charter as the "lynchpin". In practice, because of the incorporation of detailed national guidelines, the charter has been a means of stipulating the character of the school from Wellington, not a means by which schools have declared their unique philosophy.

School funding was to consist of two bulk grants—one for teachers' salaries

and one for operational expenditure. The operational grant was introduced and, although initially controversial, now has few critics. The salaries grant was vigorously opposed by the teachers' unions and was introduced in only about 70 out of some 2,700 schools which voluntarily entered into a three-year trial in 1992. The teachers' unions resisted the bulk funding of salaries because they feared it would undermine centralised wage fixing and weaken the unions' position. Teachers' salaries, therefore, continue to be paid to teachers by the Ministry of Education in the great majority of state schools, with the result that most schools enjoy little real discretion in managing the most important part of their budget (teachers' salaries comprise about 70 percent of each school's expenditure). The government announced in March 1995 that from February 1996 schools will be able to choose whether to be 'centrally staffed' or 'directly resourced'. Centrally staffed schools will have their salaries paid from Wellington more or less as at present. Those opting for direct resourcing will be paid a cash grant based on an assessment of their staffing entitlement. Although the grant will be based on a staffing profile, schools will be free to spend the grant on other items, subject to some rules.³⁹ As of January 1996, some 174 schools or around 7 percent of the total have opted for direct resourcing.

Parent representatives on boards can now determine the school's strategic direction and monitor the principal's day-to-day running of the school. However, boards do not have direct control over teachers' pay nor, in most cases, over the salary component of funding. The balance of power still lies with the government which funds schools and sets the rules, and with teacher unions. Real power lies at the centre. In any event, a system of elections transfers a degree of power to a few parents who are elected. No political mechanism can hope to represent the interests of all families.

Thus the intention of the Picot Report and *Tomorrow's Schools* was to decentralise school management, but in practice progress has been limited. Stuart Sexton carried out an initial assessment of the reforms for the New Zealand Business Roundtable in December 1990 and found that even Picot's modest goal of decentralisation had been subverted by the bureaucracy. The system remains over-centralised.⁴⁰ It lacks the autonomy from bureaucratic controls and other outside influences such as teachers' unions, which Chubb and Moe identified as a vital feature of effective schools. The plans for direct resourcing to be implemented in February 1996 are a further small step in the right direction but significantly more far-reaching measures are needed.

The government is also increasing the funding of the independent sector, which until 1975 accounted for 11 percent of pupils and now educates only

about 4 percent. The chief reason for the decline was the policy of 'integration' enacted in 1975 largely to assist the collapsing Catholic school system. Like the British system of 'voluntary aided' schools, integration allows schools to receive substantial state aid whilst retaining their religious character. In 1995 other independent schools were planning to integrate and, partly to encourage them to remain independent, the government announced that it will increase state funding of independent schools from 1996. At present they receive 20 percent of their expenditure on salaries. From 1996 they will receive 17 percent of the average per pupil cost of a state school. Funding will increase for forms five, six and seven in 1997 to 25 percent and in 1998 to 40 percent. For students in J1 to form four, the payment will increase to 22 percent in 1997 and to 25 percent in 1998.

There will also be a voucher scheme for children of low-income parents. The three-year pilot scheme begins in 1996 and will finance up to 80 places in primary and 80 in secondary schools for children whose families earn taxable income of under \$25,000. Primary schools will receive \$3,685 per year and secondary schools \$5,995. In addition, parents will receive cash for associated costs like uniforms and transport: primary age students will get \$900 and secondary \$1,100.⁴¹

These measures have been defended as increasing diversity—a claim with some validity—but they fall a very long way short of what is required. Since 1975 the state has progressively infiltrated and absorbed the independent sector, and this trend has still not been reversed.

PROPOSALS

A public policy for education should have three main aims: first, it should restore parental responsibility by reducing taxes to allow parents to spend their money on educating their children; second, 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; and third, it should end the dominance of central government. The role of government should be confined to relatively few tasks, including maintenance of the legal framework, subsidy of the poor and requiring negligent parents to educate their children.

The Demand Side

On the demand side, the responsibility for education should be restored to parents. The family remains the best institution for raising children to become men and women of good character. The ethos of the school should not,

therefore, contradict the authority of parents. Indeed, schooling should be seen as an extension of the family. The only certain way to ensure that the family and the school work in partnership is for the parents to be free to choose their school and switch to another when they wish. This is only possible if schools rely on parents for most of their income, and this means parental payment. Without it, there will be no effective accountability.

Critics of state monopoly in schooling have traditionally argued for a voucher scheme. Their reasoning is that education standards are too low because education is provided by local public-sector monopolies that are insufficiently concerned with parents' preferences for education offering high standards. The remedy is to put the consumer in the driving seat by allocating parents a voucher sufficient in value to buy education in a school of their choice for each of their children. Schools which attract parental support will flourish, and those which are unresponsive to parents' preferences will fail to attract pupils and will find it necessary to mend their ways or close. Some authors add to the basic idea an element of equalisation: children in low-income neighbourhoods, for instance, would be given vouchers with a higher cash value to make up for the poverty of their home background.

The chief risk of a voucher scheme is that governments, normally under pressure from interest groups, will abuse their power to define which schools are entitled to receive public funds. Such power could be used to create entry barriers for the benefit of existing schools and teachers' unions, thus maintaining an effective public-sector monopoly. One possible answer is to lay down only minimal conditions, covering relatively few matters such as health and safety standards, so that the registration of schools under the scheme could not become a significant barrier to the entry of new schools. Teachers, for instance, 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.

A second approach would be to prohibit the government from laying down conditions for the acceptance of voucher finance, and to leave the responsibility to parents. For instance, 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.

A mix of the two approaches might be better still. For instance, the government could maintain a register of schools which met defined requirements, and a register of those that did not. Vouchers would be payable to registered and unregistered schools alike, thus leaving it to parents to decide

whether they valued registration as an indication of merit or not. Private schools should, of course, be included.

Three main arguments are advanced against education vouchers. The first is that topping up the voucher would enable richer parents to use their wealth to buy superior education for their children. The second argument is that poor children would suffer because their parents would make unwise choices or not bother to use their new powers at all. And, third, it is said that schools might be founded on racial or religious lines, or that wealthier groups might keep to themselves, thus increasing social segregation.⁴²

The claim that richer parents would supplement school incomes so that some schools could offer higher salaries to attract all the best teachers assumes that teachers can be ranked in a single hierarchy according to competence. But teachers each have a variety of qualities in different proportions. The qualities which a wealthy school wants in a teacher may not be the qualities which best fit a teacher to serve the children of low-income families. As long as the voucher was of a sufficient cash value to support a good standard of education—based, say, on the average cost per pupil of the education service today as a starting point—then there is little reason to suppose that the poor would end up in ghetto schools. On the contrary, it would be the death sentence for under-performing schools in the state system.

Far from meting out only a bare minimum for the poor, a voucher scheme would enable poor parents, in combination with sympathetic teachers and activists, to offer their own answers to the problems of poorly performing schools. It would only require a few teachers and activists of goodwill to transform radically the lifechances of low-income families. A voucher scheme would enable people who champion the cause of the poor to act directly to achieve their aims within individual schools. No longer would it be necessary to convince bureaucrats, politicians and union representatives of the merits of one's case. It would be enough to convince the relatively few parents and teachers necessary to run a school.

Closely related to concern about the rich getting better education is the view that poor parents are not competent to choose. However, experience in New York's East Harlem school district (below) reveals that many parents are sufficiently well-informed, or can become sufficiently well-informed, to make effective choices.

Moreover, competition will assist children whose parents are badly motivated and who take little trouble over their choice of school. Competition has a rebound effect. Standards in all schools tend to be raised, because the least effective schools find that they must emulate better schools. The same processes are at work as in other environments characterised by competition

and consumer choice. Not all shoppers are well-informed, but those who are force all suppliers to provide value or lose custom. Thus, in a competitive environment, parents who simply send their children to the nearest school in complete ignorance of its quality will find that their children enjoy a higher standard of education than they would under a public sector monopoly.

It is also said that children with special needs would be neglected. But this was never true historically. Critics of vouchers who make this criticism have started to believe their own propaganda. They caricature the market as a nexus of ice-cold calculations. Producers, they say, will supply the wants demanded and, if people have no money, they will have no means of expressing economic demand for their wants. Consequently, they will get nothing. But, as I have argued, restoring education to civil society does not mean restoring it to the sphere of crude economic calculation; instead it means setting loose all human motivations, including self-sacrifice and service to the less fortunate. In a country like New Zealand, there will be more than enough people who will make it their business to ensure that children with special needs get the education they need. Moreover, there is ample scope within a voucher system to add a supplement to reflect the special needs of children enrolled by schools; indeed it is much easier to target such students than under present funding arrangements.

The third objection has little merit. The rich might well be inclined to send their children to particular schools (as they do already by buying into wealthier suburbs, for example), but, for the first time the poor will have real power to determine the direction of their children's education. And if religious schools thrive, it will only be because parents value them.

Parental Payment

A further possibility would be to go one step further on the demand side by introducing personal payment rather than vouchers. There are three main advantages compared with voucher finance. First, payment more fully restores parental responsibility and thereby strengthens the family. The 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 would be lowered, reducing deadweight losses. Recent studies in New Zealand have found that it may be costing the community between 14 and 18 cents, and possibly a lot more, for each marginal dollar of tax that is raised.

The disadvantage of payment is that some parents would not be able to afford private fees. Historically, this problem was overcome by founding

schools dedicated to the poor or by providing scholarships for the children of poor parents. Ideally we should aim to restore this tradition of philanthropy as a means of rebuilding the institutions of civil society. But it would take time, and in the short run it might be necessary to rely on a means-tested scheme. Perhaps the simplest method would be to award the voucher as a tax credit. 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. A voucher scheme ensures universal access, but there is an important difference between vouchers and personal payment, even if the latter is topped up by a tax credit. 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. In a free society, government can legitimately be concerned with access for the poor, but it should not presume to run the whole system.

Both the traditional voucher (and egalitarian variants) and personal payment focus on the demand side, with supporters putting their faith in the enfranchisement of parents as the mechanism that will stimulate change on the supply side. However, it is doubtful whether demand-side changes will be sufficient to break the power of entrenched public-sector monopolies. Schools should have total control of admissions, numbers on the roll, governing structure, teacher tenure, training and salaries. They should set their own fees and be accountable for their performance, not to any political authority, but only to their owners who may in many cases be trustees for parents. It is very difficult to see how such independence could be accomplished without radical supply-side deregulation. Moreover, the teachers' unions are one of the biggest obstacles to the improvement of education standards and their power results from the centralised nature of education management. Decentralise management power, and union power also becomes decentralised, which is why the unions have typically resisted any such change.

The Supply Side

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.

There would no longer be a public sector monopoly, and new schools would be able to emerge. Freedom of entry would be especially advantageous in areas of concentrated poverty because it would permit teachers with a special sense of mission to assist the poor by founding new schools.

The experiment in East Harlem, begun in the early 1970s, shows the striking benefits that deregulation can yield. In 1973, out of 32 school districts in New York, East Harlem was last in reading and maths. Poverty was widespread, with some 80 percent of pupils receiving free lunches and more than half the families headed by single females. The racial mix was 60 percent Hispanic and 35 percent black.

From 1974 the supply side was reformed. Teachers were encouraged to put forward their own proposals for new schools, and instead of being centred on a building schools were to be built around themes, programmes and philosophies. Each school had control of its own admissions and curriculum and parents enjoyed complete choice of school, with public money following their choice. Parents were encouraged to participate in their school and to feel a real sense of ownership. No less important, when schools failed to attract pupils they were closed.

The scheme has functioned since 1974 and the results have been dramatic. Schools proliferated, specialising in a wide variety of subjects, as the following examples testify: the Academy of Environmental Science, the Creative Learning Community, East Harlem Career Academy, East Harlem Maritime School, East Harlem School for Health and Biomedical Studies, the José Feliciano Performing Arts School, and the Isaac Newton School for Math and Science.

About 60 percent of children received their first choice, 30 percent their second choice, and 5 percent their third choice. Student achievement improved. In 1973, only 16 percent of pupils were reading at or above their grade level. In 1987, the figure was 63 percent and East Harlem was in the middle of the performance range for New York's 32 districts. From their study of the area, Chubb and Moe concluded:

On virtually every relevant dimension, the East Harlem reforms have been a tremendous success. There are lots of schools, emphasising everything from music to science. Teachers are enthusiastic about their work and largely in control of their own schools. They are empowered, professional, and satisfied—all achieved through the natural dynamics of the system, not through the artificiality of bureaucratic rules. School organisations are small and informal, built around

team cooperation and coherence of mission. Parents are active, well informed, and take pride in 'their' schools.⁴³

My proposal goes further than the East Harlem reforms, but the approach adopted in that school district gives an insight into what can be achieved.

Roger Douglas has proposed transitional arrangements for the transfer of New Zealand's schools out of the public sector. All schools would initially be transferred to the control of a new organisation, the Education Property Trust (EPT). The EPT would have seven years to transfer all schools to private ownership. This target is modest and attainable. Douglas argues, however, that if a for-profit organisation wishes to purchase a school, it must be permitted to do so without delay.⁴⁴

There is a potential source of difficulty here. In a competitive market, for-profit schools should certainly be allowed, and above all no obstacles should be put in their way. Yet, as Chapter 2 argued, 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. They fought against the concentration of power and against political systems which aspired to manage people's lives for them. They asserted that all should be free to improve the world as each thought best. Such improvements might result from what Beveridge called the business motive, by which he meant seeking to make a living by meeting the needs of others.⁴⁵ Or people might be inspired by a philanthropic motive, involving one group of people helping another. Or their motivation might be mutual, involving banding together to assist each other. No less important, as men and women learnt to use the liberty increasingly available to them from the seventeenth century, they discovered that, whilst the old hierarchical order had little to commend it, there was nevertheless a need for some enduring institutions and values. Land was therefore set aside through covenants or trusts to ensure that higher purposes were protected from passing fancies.

Before the British Education Act 1870 was passed, the official Newcastle Commission of Inquiry reported that "almost everyone" was receiving "some amount of schooling at some period or another".⁴⁶ The freedom of the eighteenth and nineteenth centuries had been put to good use in spreading education, but the children did not attend schools run by the state or by commercial companies. As a matter of historical record, the typical free-market school was run by a charitable trust. The trust deed bound trustees to fulfil certain duties, and very commonly to provide education on a given site in order not to allow changes of land use under commercial pressure.

For-profit schools should be permitted to emerge, but schools in the public

sector should generally be transferred to the private sector in the historically preferred form, the non-profit trust. For this reason, government schools should be transferred to the control of educational trusts that are charged with providing education using the assets at their disposal and initially operating on the same site. It would be wise to allow the land use to change in due course, but to discourage easy abandonment, perhaps by requiring that the trust deed could only be modified by a special legal procedure.

Schools have a special significance. They not only pass on accumulated knowledge of past generations to children but also teach moral virtues. In addition, they are a focal point for parents and local residents to give of their own time and energy for the good of others. These qualities rank schools among the foremost mediating structures, and we cannot hope to mend the fabric of civil society without restoring schools to their proper place—out of the reach of governments.

Tertiary Education

Much of what has been said about schools applies also to higher education. There is no good reason for the state to own universities, polytechnics and colleges of education. They could and should be private. Roger Douglas has proposed that universities be sold. Under his scheme, similar to the transitional procedure for schools, all universities would be transferred to the control of an Education Property Trust which would ensure that they became companies within two years.⁴⁷ The EPT would then be required to sell all property within seven years.⁴⁸

I am not convinced that transforming tertiary institutions into for-profit companies is necessarily the right approach. A two-part strategy might be more effective in increasing competition and the responsiveness of tertiary institutions to consumers. The main priority is to remove the institutions from government ownership and control, which inevitably involves bureaucratic intrusion into their operations with risks to managerial autonomy and academic freedom. A variety of institutional forms may be appropriate, ranging from for-profit companies—which might be well suited to some vocationally- and professionally-oriented institutions—to charitable trusts which have historically been the dominant form of institution dedicated to scholarship and research. The best approach to divestment for each institution should be decided on a case-by-case basis.

The second part of the strategy is already accepted policy, namely to increase the proportion of fees paid by students. Since 1990, significant tertiary education fees have been charged and are being phased in to cover

25 percent of the costs of each course. Student loans have been available since 1992 and are available for fees, course-related costs and living expenses. They are repaid through the tax system. Loan recipients must file a tax return each year, whether or not they are earning. Anyone earning over \$13,520 (1995) repays 10 cents in every dollar over the threshold by means of an adjustment to their tax code. The 1995 interest rate was 7 percent. Once the loan has been repaid, the tax code reverts to the normal rates.

The simplest course of action would be to increase fees over a 10-year period until they cover 100 percent of the cost of each course. The benefits of tertiary education accrue primarily to those undertaking it, who typically go on to earn above-average incomes, and there is no sound case for subsidies from other—often less fortunate—members of the community. The goal of safeguarding access to higher education regardless of student or family means is best achieved through ensuring the availability of loans. The income-contingent student loan scheme is generally well designed (although the element of subsidy in the scheme should be eliminated), and should be extended to cover students in a wide variety of institutions in competition with those run by the state. In particular, loans should be made available to students attending new institutions set up to compete with traditional ones; in education as in other markets, free entry is the key to competitiveness. Loans should also be available to New Zealand students who elect to study overseas, thereby widening educational opportunities for them and providing additional competition for local providers.

It is inescapable that any government will have to approve institutions whose students will be eligible for loans. There will be pressure for this stewardship to be exercised in the interests of existing institutions, or some subset of them. Perhaps the best approach would be to appoint an administrator for the scheme charged with a dual duty: to ensure that qualifying institutions are fit for their purpose, and that the loan scheme does not serve unduly to limit entry to the market. In addition to income from student tuition fees, tertiary institutions would be financed by research grants (secured in open competition with other research providers in the case of publicly-funded basic research), income from the provision of consultancy and other services and, particularly in the case of non-profit institutions, donations and endowments.

In this manner, tertiary institutions would be able to move progressively towards independence from politics and become more responsible to consumers, whilst simultaneously developing wholly private sources of finance that, alone, allow institutions to assert their freedom to uphold enduring values.

9. PENSIONS AND SAVINGS IN A FREE SOCIETY

As Chapter 6 argued, the underlying principle of welfare in a free society is that people should accept responsibility for their own upkeep and that of their children throughout life. Since we know that death is certain and a period of old age likely, we have a duty to make provision for self support until death if we are capable of doing so. This responsibility was taken for granted for much of human history, and it was only during the twentieth century that it became accepted in some countries that the state should provide for everyone.

The duty of self support also means that we should retire only when we can afford to do so. People who have not saved enough to live on, or to buy an annuity of sufficient size, cannot afford to retire, and should carry on working for as long as possible. The very idea of retiring from work is quite recent. Well into the twentieth century it was common for people to carry on working for as long as they were physically able. Friendly society members, for example, did so with the fall-back of sick pay, which they found it necessary to claim with greater frequency as age took its toll. Retirement from work has attractions, but in the modern world it also seems to signal the end of useful life, and this may explain the low esteem in which older people are often held. For this reason, perhaps we should think of ending work more gradually than has become the custom and for savings policies to be adapted accordingly. Locking savings into a deferred annuity scheme, which requires the purchase of an annuity on a given retirement date, is an example of an approach which may be too inflexible for modern conditions.

I will suggest how these principles might be implemented further on in this chapter, but first I will consider the current position in New Zealand.

NEW ZEALAND AT PRESENT

In 1995, New Zealand Superannuation provided \$197.76 per week (net) for a single person living alone and \$304.24 a week (net) for a married couple. The qualifying age is in the process of being raised by six months each year until it reaches 65 in April 2001. The pension is paid to all New Zealanders regardless of need and is financed out of current tax revenues. Single superannuation recipients are subject to a surcharge tax of 25 percent on all additional income over \$80 per week. For couples, the surcharge starts at \$120 per week.

The cost of superannuation has risen dramatically. During the 1950s and 1960s direct government spending in New Zealand on those over 60 was 3.5 percent of GDP. By the 1990s it was 6.5 percent, and in the absence of reform the cost would have continued to rise. In 1993 superannuation was costing the taxpayer the equivalent of 33 cents in every dollar paid in personal taxation. In addition, part of the national debt (costing 30 cents in the dollar in total) was incurred by not funding superannuation in earlier years.¹

According to Statistics New Zealand, assuming medium fertility and mortality and a net gain from migration of 5,000 per year (the average for the last 90 years), the population aged 65 plus will more than double from 385,000 in 1991 to 892,000 in 2031. One in every five New Zealanders will be over 64 in 2031 compared to one in nine in 1991. The number over 80 will more than treble from 78,000 in 1991 to 246,000 in 2031.² By 2031 there will be 32 people over the age of 65 for every 100 aged 16 to 64. In 1991 the ratio was 17.5 to every 100. These changes make New Zealand's pay-as-you-go system vulnerable.

The tax regime for private pensions was reformed in the late 1980s. Pension contributions by individuals ceased to be deductible from taxable income in December 1987 and employer contributions became subject to a 24 percent fringe benefit tax. From April 1989 this was replaced by a 33 percent final withholding tax (so that for every dollar contributed by an employer, only 67 cents was paid into the fund). Since April 1990 the investment income of pension schemes has also been taxed at 33 percent. The benefit received is not taxed. Thus from April 1990, New Zealand has had what pension *aficionados* call a TTE regime (Taxed contributions; Taxed growth of the fund; Exempt benefits). Pensions are taxed on the same basis as bank deposits. The more common overseas method is EET (Exemption from tax on contributions; Exemption from tax on the growth of the fund; Taxable benefit), which is a concessional regime compared with a neutral income tax.

These changes have had a substantial impact on savings behaviour, not least a reduction in contributions to occupational pensions. Many smaller employers wound up their schemes, and most larger employers reduced benefits.

The government appointed the Task Force on Private Provision for Retirement in October 1991, chaired by Jeff Todd. The final report of the Todd Task Force was released in December 1992. It compared three models: voluntary private provision with tax subsidies; compulsion; and voluntary provision without tax subsidy. It rejected compulsion and tax subsidisation and recommended improvements in the prevailing voluntary regime, with

particular emphasis on increasing the disclosure of information on retirement investment products to consumers and improving regulation. It reaffirmed support for the TTE regime, above all because it is neutral in regard to various methods of saving, which the Task Force saw as beneficial for economic efficiency and growth.

The Task Force acknowledged that regulation of the markets for retirement investment products can do more harm than good because it may segment the market and diminish competition. However, it believed that a new legal framework was necessary to maximise the transparency of charges such as commissions and promote informed choice of product.³ The Task Force also recommended the creation of a savings ombudsman to assist small savers, the introduction of inflation-indexed bonds, and the creation of a retirement commissioner to undertake public education and to monitor policy.

In addition, the Task Force urged the case for depoliticisation of retirement income arrangements so that people making their plans for the future would know where they stood. As a result, an Accord between Labour, Alliance and National was agreed in August 1993. The Accord will be subject to six-yearly reviews, with the first occurring in 1997. The declared purpose of the Accord was: "to achieve consensus on retirement income policies so that people can plan with certainty for and during their retirement". It reaffirmed the approach of the Todd Task Force: "While people should be encouraged to save for their retirement, they should not be compelled by law, or given tax incentives, to do so. Retirement income will continue to be provided in an integrated way from both private savings and from public funds."⁴

Following the Accord, National Superannuation was renamed New Zealand Superannuation. Its purchasing power is to be adjusted annually in line with movements in the Consumers Price Index and other income is subject to the 25 percent surcharge described above.⁵

Mirroring the integrationism of the 1972 Royal Commission on Social Security, the Accord also says that:

... in order that all retired New Zealanders may continue to enjoy a reasonable level of participation in and belonging to the community, the level of New Zealand Superannuation payments should be within a range of average wage levels.⁶

The parties agreed that the after-tax weekly rate of New Zealand Superannuation for a couple should be not less than 65 percent nor more than 72.5 percent of the average after-tax ordinary time weekly wage (and that the after-tax weekly rates for other recipients should have corresponding minimum and maximum levels).

To assist the group of people approaching the age of 60 at the time, the phased increase in the age of eligibility was announced, and a new transitional retirement benefit was agreed. Introduced in April 1994, it was income tested and lower than New Zealand Superannuation, but equal to the highest social security benefit. It is now paid to people aged 60 or more for a maximum of three years prior to their reaching the age of eligibility for New Zealand Superannuation. It will be phased out by 2004.

The Accord also accepted the Task Force recommendations for regulation. It resolved that unit trusts, superannuation schemes, life insurance, and other financial investment products offered to the public should be subject to statutory minimum disclosure requirements which met the "reasonable needs of the prudent but non-expert investor" and facilitated comparisons between savings products.⁷ Legislation was also to be enacted to require financial advisers to disclose their qualifications, experience, financial interests and procedures for handling client funds.

THE RESPONSIBILITIES OF THE STATE

Most Western countries have a state pension of some kind, whether funded on a pay-as-you-go basis or by earmarked taxes (national insurance or social security contributions). Three alternatives are generally put forward by advocates of greater freedom of choice. The first requires payment of compulsory contributions but allows individuals a choice of pension provider. It is defended on the grounds that it increases choice compared with a scheme requiring a compulsory contribution to a state pension. A proposal of this type has been put forward by Roger Douglas and is discussed below.

The second approach urges free-market provision but calls for the government to encourage locked-in savings by means of tax breaks. The main line of reasoning used in support of this method is that people are short-sighted and, without encouragement, will not choose the most suitable means of saving, which is said to be the deferred annuity.

The third approach, and the one I will defend, prefers to put few, if any, limits on the methods by which people can provide for their old age and also opposes the use of the tax system to encourage particular types of provision. The government in this view should neither discriminate among methods of provision nor require contributions to any given scheme. However, it has a responsibility to provide an income safety net for those who fail to provide for themselves for one reason or another.

These alternatives were assessed by the Todd Task Force which, as noted, opted for voluntary provision without special tax inducements and without

any requirement to make a compulsory earmarked payment, though it assumed that New Zealand Superannuation would remain in being, financed from (compulsory) taxes.

The Todd framework is widely accepted, as reflected in the cross-party Accord, and it is likely that it will provide a basis for public policy in the near future. It is therefore convenient to take the Todd framework as the starting point for any proposed reform. However, before describing my recommendations, I will first explain why, like the Todd Task Force, I also oppose compulsion and tax inducements.

COMPULSORY CONTRIBUTIONS AND CHOICE OF PROVIDER

According to Roger Douglas, a scheme “should be actuarially sound and should, in the majority of cases, result in a one-on-one link between future contributions and the actuarial value of benefits earned by contributors”. Second, the system should move as “close as possible to market solutions”, that is, new superannuation schemes should replace today’s pay-as-you-go scheme and the superannuation tax surcharge should be abolished. Third, as at present, contributions should not be tax deductible and benefits not taxed.⁸ Douglas opposes tax deductibility for contributions because under his scheme minimum contributions are compulsory and because such tax breaks would delay reductions in personal taxation.⁹

He proposes to replace New Zealand Superannuation with a compulsory defined contribution scheme which has a top-up for those unable to save enough. Individuals would pay 5 percent of earnings for the first 5 years and 6.5 percent thereafter.¹⁰

Employer contributions would be confined to topping up the fund of retirees who had not accumulated a sufficient amount to finance the minimum pension.¹¹ Because the number of such people would fall as time passes, he advocates an employer contribution rate of 3 percent of the company payroll for the first 7 years, then 2 percent for 10 years and nil thereafter is proposed. After 17 years all pensions would be self-funded.

A “target capital value” would be set which will enable a pension to be purchased that is “approximately equivalent in value to the current pension”. Douglas recommends setting the ceiling at a capital value of \$122,500 in 1993 dollars which would provide a non-taxable pension of \$10,000 a year, equivalent to a taxable pension of \$12,300 a year, or around \$400 above the current living-alone rate.¹² Once the minimum level of savings has been reached, further savings would be optional.¹³

The pension funds would be privately managed by institutions approved by the Reserve Bank and subject to a regulatory regime stipulating, among other conditions: half-yearly, full public disclosure of performance in comparison with other funds; regular updates of information to members; and prudential, capital and other requirements (including capital adequacy, fund separation and valuation methods).¹⁴

Individuals would be free to transfer between pension providers. On retirement they would have to buy the minimum annuity required by law, that is \$10,000 per annum at 1993 prices. Any balance could be taken as a lump sum, used to buy an additional annuity, or left to accumulate further interest.¹⁵

Probably the most compelling argument for compulsion is that if the state maintains a safety net, then some individuals will be likely to rely on it rather than to provide for themselves. Therefore, so the argument goes, people who could save but do not or will not, should be required to do so. The Todd Task Force rejected this argument, however, believing that the desire to avoid free riding should not outweigh all other factors such as the loss of flexibility, reduced competition, and the imposition of regressive contributions on low earners.

The Todd Task Force also concluded that under a compulsory regime pension companies would have a reduced incentive to perform well because they would not have to attract funds purely on the basis of their performance.¹⁶ Moreover, a large structure would be required to organise the scheme and the cost of administration would be high.¹⁷ No less important, the Task Force believed that some individuals would be forced to save in a manner less satisfactory for them. Low earners might be forced to save for retirement purposes when they could well prefer to save in other ways (such as paying off a mortgage) or to accept a lower income in retirement.¹⁸ They might also prefer to carry on working for longer. Maori accustomed to meeting retirement needs in communal ways could be disadvantaged, and so too could the self-employed. A self-employed person, for example, may prefer to invest in his or her own business, and such an investment may well prove to be a sounder method of provision than a deferred annuity.

Earlier in the century, it was possible to assume that most people were employees, but this is no longer true. The labour market continues to change, with far fewer workers now expecting to spend their career with one employer. By 1991 one fifth of employed people in New Zealand were self-employed, up from 14 percent in 1981, partly because of greater use of out-sourcing by firms and government agencies.¹⁹ Small businesses employing fewer than five people are also increasing, up 13 percent in the period 1987-1991.²⁰ For all

these reasons, the more flexibility that is allowed in savings patterns the better. In a fast-changing world people should not have one hand tied behind their back by a well-meaning but misguided paternalistic state.

COMPULSORY STATE PENSIONS

Many Western countries had introduced compulsory contributory schemes by the first half of the twentieth century. The lessons from all are similar. In particular, they crowded out private alternatives which were available in abundance before state intervention. In Britain, the Widows, Orphans and Old Age Contributory Pensions Act 1925 introduced contributory pensions of 10s a week for insured workers or their wives, payable between the ages of 65 and 70. At 70 they would be entitled to a non-contributory pension without a means test under the Old Age Pensions Act 1908, which had originally provided a maximum pension of 5s per week for individuals aged 70 or over, subject to a means test and so long as applicants had not received poor relief in the previous two years.²¹

The 1925 British scheme was not fully funded. All contributors were eligible for benefit from January 1928, long before their own contributions had earned them a pension. Only those entering the scheme at 16 paid for the full cost of their own pension.

The earlier 1908 Act had provided a basic safety net, and though it reduced the incentive for self-provision it did not displace private endeavour very significantly. The 1925 Act, however, by forcing payments of 9d per week (4 1/2d from employees and 4 1/2d from employers, displaced private provision in a more serious manner. It also established a pattern of introducing benefits that were described as 'contributory' but not actually paid for by the contributions.

Similarly, the 1898 legislation in New Zealand did not significantly displace private effort, but the 1938 Social Security Act had a greater effect (see Chapter 6 for details of these Acts). It also effectively enforced the least popular of all the methods by which people had been voluntarily providing for their retirement, namely the deferred annuity. Strictly speaking the 1938 Act did not provide an annuity in the true sense—but it was defended by politicians as if it were a deferred annuity scheme, when in reality the costs were met from current revenues. The tax increases were disguised as insurance contributions. In Britain deferred annuities had been decisively rejected during the previous 40 years. They had been available since 1864 and had proved unpopular. New Zealand's experience was similar, as David Thomson's study has found.²²

Were such schemes unpopular because of short-sightedness, or for the simple reason that most people preferred other methods? British commissions of inquiry at the end of the nineteenth century had understood clearly what the different methods of provision were. The Royal Commission on the Aged Poor of 1895 listed the 'indirect' forms of provision for old age. Expenditure on educating children was considered important, because it equipped the children with the skills necessary to command higher earnings which, in turn, would enable them to support their parents.²³ Savings in cooperatives, savings banks and penny banks were also increasing.²⁴ The commission found that even the poorest people could put something aside and generally did, unless they lived a dissolute or drunken lifestyle.²⁵ Octavia Hill, a respected philanthropist of the day, told the commission why people mistrusted deferred annuities:

They feel that if they invest their money in other forms, it brings in a better and happier return. They prefer educating their children well, and getting them into better positions, or buying a small business or having a little house, or getting a quantity of furniture, or something which they have, and have to leave, and to give and use.²⁶

Attitudes in New Zealand before 1938 were similar, but more reliance was placed on the purchase of land or property than in Britain. From the earliest days of colonisation, the dream of property ownership was of special importance to New Zealanders.

The British Royal Commission on the Aged Poor concluded that indirect methods were "at least of equal value" to the direct method of providing a deferred annuity. They also noted that there were many opportunities to purchase deferred annuities which had not been taken. This, they concluded, was because deferred annuities were not wanted, not because of an absence of the artificial inducements advocated by reformers.²⁷

Deferred annuities were unpopular simply because there were better alternatives. The total assets held in institutions such as savings banks, industrial life assurance companies, friendly societies, building societies, co-ops, the Post Office Savings Bank, and the Trustee Savings Banks, and in the form of national savings certificates, had increased rapidly.²⁸ The deferred annuity was considered disadvantageous because the capital sum being accumulated never became available for any other purpose. It was used to purchase an annuity, but many preferred to hold on to the capital in case it was needed in emergencies or, if it was never called upon, to make a bequest to their children.

The deferred annuity required payments to be made for many years, starting early in life, preferably before the age of 30. Apart from their inaccessibility, some schemes did not provide for early death, so that if the insured person died young, the premiums were lost completely. To overcome that drawback, schemes which provided a death benefit became available, but they were more costly. In 1864 Gladstone had introduced the Government Annuities Act to provide life assurance and annuities through post offices and, under the Government Annuities Act 1882 the scheme was significantly extended. Two annuity tables were offered: one provided for return of premiums on early death while the other was non-returnable. A single premium or an annual premium could be paid. But, despite their ready availability through the Post Office, few people took up deferred annuities. In the first nine years after 1882, only 820 returnable and 360 non-returnable annuities were purchased.²⁹ In New Zealand similar provision was made under the Government Annuities Act 1869, but few were attracted.³⁰

Prudential, the biggest of the industrial assurance companies, had also found difficulty in selling deferred annuities in Britain. The manager of Prudential told the Committee on Old Age Pensions in 1896 that under a scheme for deferred annuities launched in 1882, there were only 37 existing policies, whereas a life endowment assurance policy maturing at age 65, with an average premium of 2d per week, had attracted 400,000 customers within 12 months.³¹

In addition, many people did not have the attitude towards retirement that prevails today. Not everyone wished to 'retire' in the modern sense; some were even ashamed at the implication that they would become worthless. It was commonly supposed that a man would work, leading a 'useful life', until he died. A friendly society member, for instance, who chose this course would find that if he became ill he could obtain sick pay of about 20s a week for the first six months of any illness. This was far more than any pension he might receive. If he went back to work again and managed to work for 12 months (sometimes six months), he was again eligible for 20s a week sick pay. Or, if he went back to work after, say, a week, and contracted a different illness, he remained eligible for 20s sick pay. A great many society members preferred to continue working with the security of sick pay being available if needed. The prospect of working for ordinary wages of 20-30s a week, with the fall-back of 20s a week sick pay when ill, was more attractive than being pensioned off at 10s a week. And if a person became too ill to work at all, then sick pay of 20s was paid for six months, followed by 10s for a further six months, and 5s thereafter.³²

Moreover, many people were only willing to sacrifice present spending power to a limited extent. Contributing for a deferred annuity meant an

opportunity cost at the time, in return for a rather remote benefit in old age. To many people, straightforward saving was more attractive: they could provide for a rainy day whilst still having cash available for immediate expenditure in emergencies. For those with only a small cash margin available, this was an important consideration.

For individuals who expect to make provision for all their lifecycle needs, saving is a method of achieving independence. People may save, for instance, to prepare for predictable lifecycle changes, such as old age and having children; to protect against contingencies like illness; to acquire assets; to invest in business; or to leave a sum of money to their children. There are many people whose income at various stages of their life will not meet their immediate needs, but whose lifetime earnings are sufficient so long as they are evened out through saving and insurance. Married couples with children, for instance, may feel the pinch while their children are growing up, but if they save before their children arrive they will have a better chance of coping. There are also many who will be capable of self support only through mutual insurance, as the history of the friendly societies shows.³³

A flexible legal framework for savings would allow far more people to provide for themselves throughout their lives, and it would create the space within which new schemes for self-support could flourish. Again, past experience gives us an idea of what may be possible once providers are set free to use their ingenuity to meet people's needs. For instance, by the turn of the century organisations were offering schemes which combined insurance against illness or early death with ordinary saving, both for short-run emergencies and long-run contingencies. Such arrangements were right for their own time. No doubt today's needs are a little different, but there are still many whose incomes are sufficient for self-support only if they combine insurance against contingencies with saving for lifecycle redistribution. Obstacles ought not to be put in their way.

TAX INCENTIVES

Historical experience makes a compelling case for flexibility and freedom of initiative. A compulsory scheme requiring a percentage of income to be paid to the state plainly reduces choice. So too does a scheme requiring a contribution to a deferred annuity scheme, albeit with choice of fund.

The same criticisms can be directed against tax incentives. This approach does not employ direct compulsion, but it comes from essentially the same stable as compulsory schemes for it is based on mistrust of personal choice. Tax breaks are designed to make long-term lock-in of savings more attractive.

But there is no reason to suppose that such inducement is wise. The Todd Task Force acknowledged the arguments about short-sightedness in personal behaviour³⁴ but did not accept that a deferred annuity was the best option, arguing that younger people may have good reason for their different priorities. Moreover, as the Todd Task Force recognised, tax inducements not only reduce the individual's ability to make appropriate arrangements for his or her unique circumstances, but also diminish competition to the extent that companies can attract funds for reasons other than their investment performance. Typically tax concessions are regressive in their incidence, favouring those on higher incomes.

On British experience, tax incentives may lead to schemes that impose heavy charges on consumers in ways which are not fully transparent. Such schemes allow all or part of the tax concession to be creamed off in charges or commissions to brokers. No less important, tax concessions inevitably lead to regulation, since any government must stipulate the type of pension that qualifies for a concession. On British experience, such regulations also diminish the ability of the financial services industry to respond to the wide variety of personal requirements. New Zealand's experience prior to 1987 was similar. A further drawback is that tax concessions of any meaningful size require higher rates of tax to be levied to compensate for the lost revenue.

The legal and fiscal framework should allow free scope for human ingenuity. As Beveridge argued in *Voluntary Action*, it was remarkable how so many of the great institutions that eventually proved popular began as a meeting of a dozen or so people in the evening after work, often in the back room of a public house. Some failed and some succeeded. In doing so, contended Beveridge, they changed the world:

In a totalitarian State or in a field already made into a State monopoly, those dissatisfied with the institutions that they find can seek a remedy only by seeking to change the Government of the country. In a free society and a free field they have a different remedy; discontented individuals with new ideas can make a new institution to meet their needs.³⁵

PROPOSALS

The availability of a desired level of income in retirement is, for most people, essentially a decision about the levels of consumption they wish to enjoy in their working lifetime and how much consumption they wish to defer through savings. There are no sound reasons for the state to wish to influence this choice. The best contribution the state can make to assist people's retirement savings plans is to manage the economy in a way that promotes growth, curbs

inflation, facilitates high levels of employment and minimises tax burdens, especially on savings. Beyond that, it should provide the same kind of basic safety net that it provides to other citizens who need income support and are unable to obtain it through their own efforts or voluntary private initiative.

Retirement income policies in New Zealand in recent years have moved in the desirable direction, and there is now a welcome political consensus in support of a voluntary framework without compulsion or tax inducements. However, the incentives for people to make retirement provision for themselves and their families are not as strong as they could be. The state's role continues to extend well beyond that of a safety net, and the high income tax rates (including the surcharge) needed to finance current levels of government spending (of which New Zealand Superannuation is a significant component) make savings efforts unnecessarily difficult. An extension of recent policy reforms is therefore desirable.

On current plans, the age of eligibility 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 2011. People are now fitter for much longer and have a good deal to contribute in the workplace well after they are 65. In the longer term, the retirement age, if it were to be set, could be linked to life expectancy. The safety net for people in retirement might be viewed as part of the general state safety net, with requirements to meet work tests dropped at an age when most people would be considered incapable of work and the administration of such a test would not be cost effective.

The present rate of New Zealand Superannuation is too high relative to average earnings. Ratios in other countries are typically lower, and a high rate discourages private savings. The link to wages should be abandoned and the rate set to coincide with the benefit system. The appropriate comparison is with the current invalids benefit, which allows for long-term costs, and for that reason was chosen as the rate for transitional retirement benefit. The 1995 net rate for a single person is \$173.06 (compared with \$197.76 on New Zealand Superannuation) and for a married couple \$288.44 (compared with \$304.24). This linkage was proposed by the Royal Commission on Social Policy in its 1988 report.

In addition to a better-designed income test than the present surcharge, at some future point 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.³⁶

Because any such changes involve a further break with the past, it would be right to give a long period of notice to allow preparation. The position of current retirees wholly dependent on New Zealand Superannuation should be protected. A reasonable future date for the introduction of income and asset testing might be 2011, when under these proposals the retirement age becomes 70. This will allow ample time for people to adjust and to make private provision. Alternatively, the introduction of improved targeting on these lines in conjunction with the removal of the surcharge might be feasible at an earlier date, particularly if substantial reductions in income tax rates are implemented in the next few years as this would improve the ability of many retirees to meet their own needs.

Under these proposals the solidarity of New Zealanders would no longer be based on the dubious claim that pensioners have a claim to share in current wages. Instead it would rest on the far stronger bond of knowing that the vast majority of citizens take personal responsibility for their own upkeep in order not to be a burden on others and that no one—either through misfortune or ill-judgement—will be allowed to fall below a certain point.

10. CONCLUSIONS

My aim in this book has been to examine whether welfare can be provided without the recourse to political coercion which typifies the welfare state. A reappraisal of the welfare state is necessary because, despite obvious progress in the 1980s, Western societies are still very much at the crossroads between liberty and its opposite. Oakeshott's distinction between civil association and enterprise (corporate) association helps us to see this reality more clearly than the contrast between capitalism and socialism, or between a market economy and a planned economy.

Liberty means more than a market economy. It rests on a high view of human character and potential, a strong sense of solidarity which is not political, and a view not that government is innately undesirable, but that it should be limited to the high purpose of maintaining and upholding the protected domain of initiative which *is* liberty. The champion of liberty upholds a rich and respectful view of human character, and emphasises our potential to lead lives in which we daily challenge ourselves to better our conditions and develop our talents and virtues.

By contrast, the mentality of the welfare state diminishes human character. Historically, liberty was a protest against the deference inherent in those hierarchical social systems which expected little of the individual but obedience. When Immanuel Kant described the motto of the Enlightenment, he suggested: *Sapere aude!* Have courage to use your *own* understanding!¹

Contrary to the common caricature, the ideal of liberty does not assume isolated individualism. It depends on a rich view of community—not a politicised community, penetrated at every point by political people and political concerns, but communities based on mutual respect and responsibility and a willingness to shoulder burdens for the common good.

And it rests on a high view of public life. Legislators are not 'in power' but 'in office'. Their task is to make the laws which protect the freedom of all individuals to make their contribution to making the world a better place.

The mentality of the welfare state takes no such high view of public life. On the contrary, it heightens the tendency for the political process to become a scramble for benefits at the expense of others and intensifies demands for benefits by right. Such rights mean that someone else has an entitlement to consume what others have earned or saved.

We must learn to see through demands for compassion when its measure is how much the government undertakes. And we must learn to see through demands for absolute security at the hands of politicians. Yes, there should

be a safety net; and yes, a helping hand should always be there, but not at the expense of total dependence. Help should be respectful and self-cancelling. Wherever possible, it should be a pathway to self-support.

The principle underlying the proposals advocated here is that individuals should accept responsibility for their own upkeep, wherever possible. At the same time we should always help people who are down on their luck, in the hope that they may become self-reliant as soon as practicable. The ideal to aim for is a three-part division of responsibility between (1) individuals and families; (2) the community as distinct from the political process; and (3) the government. The state should provide a safety net for all, but it should be something to which individuals resort only reluctantly and temporarily as a last resort. We should each plan ahead against foreseeable contingencies and make provision, perhaps through mutual associations like those of former days, or perhaps through means as yet undiscovered.

For those who fail for one reason or another, we should rebuild the tradition of philanthropy which is an indispensable part of a free society. But we must guard it from political infiltration, not least in the form of government grants provided from taxes. To this end, charity law should be changed to ensure the genuine independence of voluntary welfare associations, though such voluntarism should be encouraged with tax concessions to individuals.

Parents should assume responsibility for their children's education and the government should assist only those with insufficient resources. All schools and institutions of higher learning should be returned to civil society, and none owned or managed by the government.

Medical care should be paid for by insurance or out-of-pocket. Hospitals should not be owned by the government. Pensions and the provision of income for insurable contingencies should be a private responsibility.

The state's role in such an economy would be reduced to a point where its core functions could be financed with radically lower levels of taxation—probably just a goods and services tax of the kind currently in place in New Zealand—thus greatly increasing economic efficiency and dynamism. The abolition or drastic reduction of income taxes would put less pressure on both parents in a household to seek paid work, and allow many more people to become self-supporting, thus strengthening both family and social cohesion.

Through such a programme we can begin to restore to civil society the tasks that belong within the sphere of the people and confine government to its important but limited duties.

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	\$
DPB net of tax for one child (weekly)	198.30
Annual income net of tax	10,312.12
Pre-tax annual income**	12,607.40
Weekly pre-tax income	242.45
Family support, one child	42.00
Total weekly gross income plus family support	284.45

- * Difference between \$284.45 and DSW figure of \$283.45 due to rounding.
- ** Pre-tax income based on 15% tax on first \$9,500, then a marginal rate of 28% on income over \$9,500 (24% plus 4 percentage points to allow for phase-out of benefit).

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