

THE LINKS BETWEEN ECONOMIC GROWTH AND SOCIAL COHESION

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PREFACE

"But, what about social cohesion?" In my experience many of those who ask this question are making the important point that we should not judge the success of economic policy reforms solely in terms of crude indicators such as GDP growth. Some, however, want to suggest that New Zealand's policy reforms have weakened social cohesion by placing too much emphasis on economic efficiency at the expense of equity in the distribution of income.

It seems to me that the habit that many economists still have of talking about trade-offs between efficiency and equity does not shed much light on the relationships between economic growth and social cohesion. It pretends to provide answers but it just raises difficult questions. What is equitable? Who should decide? What constitutional rules should govern the decision-making process? How should such constitutional rules be determined?

I have attempted to structure the paper in a way that will stimulate a fresh look at the links between some important economic and social variables. The paper proceeds by identifying relevant variables, observing the extent to which they are associated with economic growth and then considering why such associations might be expected to occur.

My conclusion that there are close links between economic growth and social cohesion is not a new discovery. Adam Smith identified such links over 200 years ago. It is obvious from *The Wealth of Nations* that Smith saw "improvements of art and industry", "civilisation", "order and good government" and "the liberty and security of individuals" to be positively linked together.

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SUMMARY

This paper considers whether continuing the current direction of economic policy in New Zealand - "down the free-market track" - will be detrimental to social cohesion. The central questions are whether the economic growth process is socially disruptive and whether a reduction in the role of government in redistribution of income would be more likely to weaken or strengthen social cohesion.

What is social cohesion?

In some countries when people talk about a threat to social cohesion it is obvious that they are referring to a particular source of disharmony such as conflict between religious or ethnic groups, a threat of secession, or the activities of a revolutionary movement. Fortunately, New Zealand is relatively free of such obvious social conflict.

The way the concept of social cohesion has been used by political leaders in New Zealand suggests that a range of general issues is involved. In this paper 'social cohesion' is defined in terms of:

- *widespread opportunity* for members of the population to share in the benefits of economic activity;
- *a high degree of personal security* - including a low incidence of crime and other social problems; and

- *voluntary commitment to constitutional processes* - involving sufficient trust in the fairness of the judicial and political systems to enable political violence and other unacceptable forms of conflict between groups to be avoided.

Is economic growth associated with more social cohesion, or less?

International evidence suggests that there is generally a positive association between growth and social cohesion.

Growth is usually associated with widespread opportunities.

The extent to which economic growth provides opportunity for the poor to improve their lot in an absolute sense is more relevant than whether it results in a more equal distribution of incomes. International comparisons show that there is high correlation between rates of growth in average incomes of the bottom 60 percent of the income distribution and overall rates of economic growth.

Growth is usually associated with fewer problems of personal security.

Growth is associated with longer life expectancy, lower infant mortality and lower unemployment. The increase in social ills that has occurred in many industrial countries over the last 30 years - including increased crime, drug use and welfare dependency - has not been associated with rapid economic growth.

Growth is usually associated with stronger commitment to constitutional processes.

High income countries - the countries that have experienced most economic growth in the past - generally have less political violence, greater political freedom and greater political stability than low income countries.

Why should we expect social cohesion to be associated with growth?

Sustained growth has often been accompanied by democratisation.

Growth has typically been accompanied by improved education, improved communication, greater population mobility and other factors which have led to pressures for the evolution of political institutions in democratic directions. In turn, democratisation has contributed to the resolution of issues by peaceful means. At the same time there have been tendencies in 'unrestrained' democracies toward ever-increasing government interventions which weaken economies and political systems. The reforms undertaken in New Zealand since 1984 provide grounds for optimism that these self-destructive tendencies will be restrained.

Growth-oriented policies promote social cohesion.

There is now a wide measure of agreement among economists that growth depends on maintaining economic policy fundamentals which ensure a high degree of economic freedom. Such policies lead to widespread opportunities for employment and skill acquisition and enhance the capacity of families to improve their economic security by building up savings.

Successful economic strategies require political credibility.

Although political instability can have positive effects on growth by reducing the influence of interest groups which promote government intervention, econometric evidence suggests that this tends to be outweighed by its adverse effects on the security of property rights.

Policy reforms require profound changes in habits and attitudes both in terms of what governments do and what people expect of governments. It is necessary for governments to have a credible commitment to reform - backed by a strong political base and a coherent and united economic team - for reforms to become embedded.

Economic growth and social cohesion both have the same cultural roots.

Institutions associated with the traditional family - particularly the requirement to provide for one's own conjugal household - encourage responsible procreation, the necessity to save and an achievement orientation or entrepreneurial spirit. Civic or cosmopolitan morality - involving respect for the property rights of others, observance of contractual obligations, freedom of the individual and acceptance of individual responsibility and equal rights for all regardless of factors such as race and religion - provides the basis on which people who are not linked by family or tribal ties can trust each other sufficiently to reap the benefits of specialisation and exchange. Family institutions provide the best basis for ensuring the security of children and other members of society who are unable to fend for themselves.

Voluntary community associations play an important role in maintaining a sense of solidarity within communities and in providing help to those in need. Many voluntary associations reinforce the role of the family and respect for the rules under which people co-exist peacefully.

Implications for the income redistribution policies of governments

Social cohesion is weakened by extensive redistribution at a national level.

- Attempts to impose corporate visions on the whole of society usually favour some groups relative to others.
- The rule of distribution according to needs involves the use of coercion in raising taxes.
- The assumption by governments of major responsibility for income security has largely displaced community organisations which previously played a major role in the provision of social insurance and has seriously weakened the role of the family.
- The use of the powers of the state to redistribute income encourages passive reliance on the state to provide 'entitlements' and investment in 'rent-seeking' activities to establish new 'entitlements' or 'compensation' for the results of misfortune.

The moral basis for social cohesion can deteriorate markedly in the space of a few decades if the good habits passed down from earlier generations, such as respect for the property of others, become lost. When governments put great temptations before people - as they do when they show a willingness to create new entitlements for 'victims' of 'misfortune' - they promote a general lowering of moral standards. Each 'entitlement' that is acceded to provides a precedent for others to seek further redistribution of income. Eventually, rent-seeking becomes an accepted norm and those seeking further entitlements claim to be merely exercising their democratic rights. Where this is allowed to continue the end result must be increasing conflict over a diminishing national product.

Extensive redistribution of income failed in New Zealand.

Policies of redistribution were supported by a large proportion of the population while they appeared to provide a modest degree of prosperity for all. The security such policies offered was illusory, however, because they encouraged a culture of dependence and rent-seeking rather than the achievement culture needed for wealth creation. Ultimately, the expectations raised by such policies could not be met.

Continuing down the "free-market track" will strengthen social cohesion.

The general direction in which policies have been heading since 1984 is toward restoring an appropriate balance between the roles of the private and public sectors, rather than toward minimisation of the role of the state or abrogation of the government's responsibility to provide a safety net for all. Continuation down the free market track will strengthen the basis for widespread opportunity and a high degree of personal security through growth of the economy. It will also strengthen social cohesion by restoring family responsibilities, respect for the property of others and a return to the tradition of philanthropy.

THE LINKS BETWEEN ECONOMIC GROWTH AND SOCIAL COHESION

It is very certain that, of all the people in the world, the most difficult to restrain and to manage are a people of office-hunters. Whatever endeavours are made by rulers, such a people can never be contented; and it is always to be apprehended that they will ultimately overturn the constitution of the country and change the aspect of the state for the sole purpose of cleaning out the present office-holders.

Alex de Tocqueville, *Democracy in America*, 1840.

1 Introduction

Over the last couple of years the view has been expressed that now that New Zealand has achieved some economic growth, the government should give higher priority to social cohesion.

This view implies that the policies followed over the past decade - policies which have led to higher growth rates - may be detrimental to social cohesion. The Alliance leader, Jim Anderton, has argued this explicitly. In his opinion, New Zealand is entering the process of making a fundamental choice: "either we carry on down the free market track to a minimal state, or we put on the brakes and say New Zealanders value their communities" (Anderton, 1995).

Some others who would like higher priority given to social cohesion at the expense of economic growth may see the choices involved as a continuous trade-off (following from the notion of a trade-off between equity and efficiency) rather than as a fundamental choice about whether to apply the brakes to current policies. The basic issue raised is the same: *Do policies which foster economic growth really have detrimental effects on social cohesion?*

What is 'social cohesion'?

Social cohesion is too nebulous a concept to be of much help in policy discussion unless it is clear from the context what people are actually talking about.

Various strands of communitarian thought have had an influence on leading politicians in several western countries in recent years. The one idea that they have in common is that these societies have lost something precious they once had. *The Economist* put it this way:

Communitarians suppose that American society, like other western societies, was once bound together by "solidaristic virtues". People lived in close and extended families, were good neighbours, and felt a sense of duty towards one another and to society at large. There was social stability, economic security, less crime, more respect for authority and a powerful sense of belonging (*The Economist*, 1994).

It is easy to empathise with those who feel that something precious has been lost, but how much of this feeling is just nostalgia? Do people who express these feelings really want governments to try to re-create a

'small town' society according to some idealised model of what life was like in the 1950s? Those who entertain the idea that governments should attempt to 'turn the clock back' need to ask themselves why we should stop at the 1950s. Even then, it was common to hear the view expressed that 'progress' had destroyed the sense of community that existed in the 'good old days' of frontier society or in various homeland societies where behaviour was said to be more civilised. It was also common to be reminded that in those societies were often riven by such factors as rigid class divisions, oppression of women and children, racial discrimination, family feuds lasting for hundreds of years, and tribal warfare.

It does not make sense to maintain the image in our minds of a cohesive society as a static society that could only survive if it were to be isolated from the rest of the world. To be useful, the concept of social cohesion must embody some notion of contestability in the modern world. How can a society be cohesive in any real sense if many of its members choose to live elsewhere when this option is available to them?

It is possible that a 'precious something' has been lost since the 1950s, but what is it? Some authors - for example, David Popenoe (1994) - see a great deal of significance in the fact that in modern cities the social ties among people living in close proximity are generally weaker than in traditional communities. People now frequently work some distance from where they live and move from suburb to suburb as family circumstances change. It is argued that this weakening of attachments to local communities tends to make families more isolated from the support of friends, relatives and neighbours and hence to have adverse effects on the development of children.

Is it plausible to blame increased geographic mobility for the social isolation of a substantial number of individuals and families? By and large, people live and work where they do as a result of choices that they make taking into account the interests of their families. Members of most families have no great difficulty in maintaining ongoing social interactions within several different groups such as friends and relatives, work groups and religious organisations which are geographically dispersed. The community ties that have the most beneficial influence on the quality of life and personal behaviour of individuals are not necessarily confined to the geographic locations in which they live. A widening range of communication options is making it much easier to maintain strong links with people who live in different locations. Moreover, there is evidence that in the United States, over the period since the 1950s when declines in civic engagement and social connectedness are often alleged to have occurred, the geographic mobility of the population has also declined (Putman, 1995).

There are strong grounds to argue that increased geographic mobility tends to promote social harmony (or at least peaceful co-existence) in the broader community by leading to interactions between a wider variety of people within and between different neighbourhoods. The involvement in mutually beneficial activities of people with different ethnic and religious backgrounds could be expected to break down tensions between them.

What then are the real issues concerning social cohesion? Factors such as family breakdown and the social isolation of some families no doubt contribute to social problems in many communities. But generalisations are hazardous. Threats to social harmony in one community may not be so significant in others and a quite different set of issues may be important at the national level. Some activities which may promote a strong sense of cohesion within one community (for example, political activities designed to obtain preferment from national governments) can be a threat to harmonious relations between that group and others.

The focus of this paper is on issues important to social harmony (or peaceful co-existence) at the national level. Even at the national level, however, the important issues differ between countries. In some countries, a discussion of social cohesion would focus immediately on conflict between religious or ethnic groups or threats of secession by particular regions. In others, at various times, the most obvious social issues to focus on would include crime, growing unemployment, widening income disparities, poor industrial relations, student unrest, and clashes between advocates of different ideologies.

As ideas flow from country to country, the conflicts between ideologies in different countries frequently have common elements. This century has seen tensions in many countries increase or recede, with the ongoing spread of democratic ideas, interspersed with the rise and decline of national socialism, fascism and revolutionary communism. Some commentators (for example, Jones, 1995a; Kurth, 1994; *The Economist* 1996) have noted that in the United States and Europe the values that underlie western civilisation are now coming under threat from a variety of sources. These forces include the re-growth of anti-scientific attitudes, evident for example in the activities of New Agers and post-modernist academics. In some countries, these forces also include the intransigence of various interest groups (for example, extremists among feminists, environmentalists and the 'right to life' movement) who are seeking to influence the rules that should govern society.

In New Zealand there is fortunately no obvious issue that poses an immediate threat to social cohesion. The way the concept of social cohesion has been used by political leaders suggests that a range of general issues is involved. For example, in discussing social cohesion in his State of the Nation address in 1994 the prime minister spoke of enhancing "involvement and participation", preventing and reducing "anti-social behaviour" and strengthening "the collective units that make up our society". More recently, Mr Bolger has said:

People in general know what economic growth is but are uncertain as to what is social cohesion. To me it means the maintenance of a society where everyone has the opportunity to achieve through individual effort, or, if unavoidable circumstances prevent this, the individual still feels a positive sense of belonging and is able to contribute to the best of his or her ability (quoted in Robinson, 1995).

Although not presented precisely in these terms, the underlying goals could be summarised as follows:

- widespread opportunity for members of the population to share in the benefits of economic activity, for example by being able to obtain an income and acquire skills;
- a high degree of personal security - involving a low incidence of crime and other social problems (such as failure of parents to care adequately for their children) and also protection of citizens against the arbitrary use of power by those in authority; and
- voluntary commitment to constitutional process - a sufficiently strong sense of all being in the same 'boat' now (whatever boats various ancestors arrived on) to induce positive attitudes towards fundamental 'rules of the game' (including rules relating to constitutional change) and to enable political violence and other forms of unacceptable conflict between groups to be avoided. This also involves trust in the fairness of the judicial system.

These three dimensions of social cohesion could be expected to be linked. For example, widespread opportunity and a high degree of security could be expected to result in more positive attitudes by all groups towards the fundamental 'rules of the game' in New Zealand.

There is obviously a need for caution in assuming relationships between such variables. The outcomes of the social experiments undertaken in many countries over the past century make it apparent that the forces shaping society are complex. All scholars should have good reason to be modest about their knowledge of these forces, no matter how much expertise they have in sociology, psychology, history, anthropology, political science, economics, or any other relevant discipline.

F A Hayek pointed out the implications of our knowledge limitations in the following terms in his Nobel Memorial Lecture delivered in 1974:

If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organised kind prevails, he cannot obtain the full knowledge that would make mastery of the events possible. He will therefore have to use what

knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate the growth by providing the appropriate environment, in the manner which the gardener does this for his plants... . The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson in humility which should guard him against becoming an accomplice in men's fatal striving to control society - a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilisation which no brain has designed but which has grown from the free efforts of millions of individuals (Hayek, 1984).

If governments can't create Utopia, what can they do to cultivate social cohesion? A common answer to this question in many OECD countries has been that governments should seek to moderate the socially disruptive consequences of economic growth through income redistributions. While this answer may have about it an aura of good sense and pragmatism, the underlying assumptions - that economic growth is socially disruptive and that redistribution of income promotes social cohesion - should not be remain unchallenged.

We need to ask:

- is there international evidence of any association (positive or negative) between economic growth and social cohesion?
- what is the nature of the links between economic growth and social cohesion? and
- what are the implications of these links for government involvement in redistribution of income in New Zealand?

The following sections of this paper set out to answer these questions.

2 International evidence of links between growth and social cohesion

In this section international evidence is drawn upon in an attempt to assess whether economic growth has or has not been associated with widespread opportunity, a high degree of personal security and voluntary commitment to constitutional processes.

How widespread are the opportunities associated with economic growth?

The economies with the most rapid rates of economic growth in the world over the past 30 years - the high performance East Asian economies - have relatively low and generally declining levels of income inequality (World Bank, 1993). There is broad agreement among those who have looked into the reasons for this that distributional outcomes in rapidly growing East Asian countries cannot be explained by redistributive policies of governments (Riedel, 1988). State-provided safety nets in these countries are modest and restricted compared with those provided in OECD countries.

The World Bank has suggested that the high performance East Asian economies are "unique" in combining rapid growth with highly equal income distributions (World Bank, 1993). On the evidence presented by the World Bank there is certainly no obvious relationship between economic growth and equality of income distribution if the East Asian countries are excluded. But this is of little relevance to the question of how widespread are the opportunities provided by economic growth.

Income equality does not provide a satisfactory indicator of widespread opportunity

Attention should focus to a greater extent on whether economic growth provides opportunity for the poor to improve their lot in an absolute sense rather than on whether it results in a more equal distribution of incomes. It is possible for economic opportunities for the poor to deteriorate substantially even though income distribution is becoming more equal.

The principle of distributive justice developed by John Rawls - which is often quoted by advocates of greater equality - suggests that income inequality is justified to the extent that it has the effect of raising the incomes of the poorest members of society. Rawls' approach is to consider the principles that people would choose to govern a society about to be set up if they were making these choices behind a veil of ignorance which prevents them from knowing anything about themselves or their position in the society. Rawls expresses the view that one of the principles of justice that would be chosen is that "social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all (Rawls, 1979).

It is questionable whether concern about minimum income security is as deep-seated and widespread as Rawls suggests. The way people 'vote with their feet', when they are free to choose where to live, suggests that an expectation of improvements in family income is usually a stronger motivating force than the existence of a social safety net.

The following thought experiment proposed by Edward Crane suggests that migrants to the United States could actually fare better than the average citizen if they did not have access to social services:

Suppose we increased the level of immigration, but the rule would be that immigrants and their descendants would have no access to government social services, including welfare, Social Security, health care, business subsidies, and the public schools. I would argue, first, that there would be no lack of takers for that proposition. Second, within a generation, we would see those immigrants' children going to better and cheaper schools than the average citizen; there would be less poverty, a better work ethic, and proportionately more entrepreneurs than in the rest of US society; and virtually everyone in that group would have inexpensive high-deductible catastrophic health insurance, while the truly needy would be cared for by an "immigrant culture" that gave proportionately more to charity (Crane, 1994).

Robert Nozick's entitlement principle probably has more affinity with most peoples' perceptions of justice and injustice than do principles which focus on the distribution of income. Nozick asserts:

The complete principle of distributive justice would say simply that a distribution is just if everyone is entitled to the holdings they possess under the distribution (Nozick, 1979).

Nozick's principle puts the focus on the question of whether goods have been acquired or transferred by just means rather than on the degree of inequality in income distribution. There may be a tendency for highly unequal income distributions to be associated with grievances about the way the state has defined and defended property rights in the past, but there is no reason why such a link should necessarily exist. This is particularly so in the modern world where differences in human capital are a major source of differences in wealth and incomes.

Nozick's principle suggests that morally justifiable (righteous) grievances about the distribution of wealth are unlikely to be resolved through generalised income redistribution arrangements. Such redistributions pander to covetousness and may do nothing to resolve legitimate grievances. Government intervention to achieve a more equal distribution of wealth by taking property from some people and giving it to others can itself be a source of grievance and ongoing conflict within society.

Where there are widespread opportunities for people to improve their incomes through their own efforts they are less likely to maintain a strong sense of grievance about injustices suffered by their ancestors. The opportunity cost of time spent dwelling on past injustices and investing efforts in seeking to have them rectified rises when people have productive things to do with their time.

Economic growth generally results in higher incomes for both rich and poor

An association between growth in incomes of the bottom 60 percent of the income distribution and rates of growth in average incomes is apparent from Figure 1. This figure draws together information on growth in per capita GDP and the growth in incomes of people in the bottom 60 percent of the income distribution in countries for which relevant data are available. (The information is fragmentary because it is based on household income surveys which are held infrequently in most countries. New Zealand is not covered. The World Bank's 'World Development Indicators' (World Bank, 1995) is used as a source of basic data.)

Fig. 1

Despite the fragmentary data on which it is based, the picture shown in Figure 1 deserves to be taken seriously because it also applies to other data sets and earlier time periods. For example, an association between growth in average income and growth in incomes of the bottom 60 percent of the income distribution is evident in data presented by Hollis Chenery (1984). Chenery's data on income growth for the bottom 60 percent of the income distribution is reproduced below, ranked by overall growth rates.

	Growth Rates (%)	
	Total	Bottom 60%
Korea (1965-76)	8.7	7.9
Taiwan (1964-74)	6.6	7.1
Yugoslavia (1963-73)	4.2	4.3
Turkey (1963-73)	3.6	5.1

Costa Rica (1961-71)	3.2	5.1
Mexico (1963-75)	3.2	2.4
Colombia (1964-74)	3.1	4.3
Brazil (1960-70)	3.1	1.2
Peru (1961-71)	2.3	2.3
India (1954-64)	2.3	1.6
Philippines (1961-71)	2.2	2.3

Some people may suggest that the data presented above tell a story about the growth of the middle classes rather than increased opportunities for the poor. Relevant information on growth in average incomes of people at the bottom of the income distribution (drawn together in Figure 2) suggests, however, that the poor also tend to have better prospects for income improvement in countries with relatively high rates of economic growth.

The rate of growth of average incomes in the bottom quintile of the income distribution tends to understate subsequent growth in incomes of the people in that category at the beginning of any period. This is because of the considerable movement of people between income classes that occurs from year to year. For example, tax data for New Zealand suggests that over the period since 1980 slightly over 25 percent of those in the lowest income quintile moved on to join higher income categories within one year (Barker, 1995).

Further evidence that economic growth is associated with widespread opportunities is provided by evidence on the relationships between economic growth and growth in real wages and employment. On the basis of an extensive survey of relevant international data and literature the World Bank recently concluded:

Economic growth is good for workers. This has long been true for those living in what are now the world's rich countries, and it has been spectacularly true for the newly industrialising countries of East Asia over the past few decades. Growth has reduced poverty through rising employment, increased labour productivity, and higher real wages (World Bank, 1995, p3).

Fig. 2

It is possible, of course, to point to some periods when economic growth in some countries has not been accompanied by higher real wages for large numbers of workers. For example, real hourly wages of non-supervisory workers have declined in the United States over the period since 1973, despite a modest increase in real GDP per head of population (Thurow, 1996). It seems to me to be more plausible to interpret this anomaly as reflecting factors affecting the supply side of the labour market in the United States over this period, rather than as a portent of future trends in the relationship between economic growth and income distribution in industrialised countries.

Labour market data specific to New Zealand suggests there has been widespread participation in the benefits of the economic growth that has occurred in this country since 1991. There has been substantial growth in employment for all ethnic groups, both sexes, and nearly all age groups (Barker, 1995).

Is economic growth associated with more or less personal security?

Some indicators of personal security are clearly associated with high per capita incomes. In 1993, average life expectancy at birth was 74 years for males and 80 for females in high income countries (those with per capita incomes greater than \$US10,000) but only 61 for males and 63 for females in low income countries (those with per capita incomes less than \$US700 per annum). The average under-5-years mortality rate in high income countries was 9 per 1000 live births and 103 in low income countries. Marked differences between high and low income countries are also evident for some other indicators such as the proportion of the population with access to safe water supplies (World Bank, 1995).

On the basis of other indicators of personal security, an association between personal security and high per capita incomes is less clear. For example, the United States and Sweden were among the top 20 countries in terms of numbers of murders per 100,000 population in 1990 and many high income countries have a high incidence of drug taking and drug-rated crimes (*The Economist*, 1996a).

The social ills of high income countries are not associated with rapid growth

The growth of social ills that has occurred in many industrial countries over the past 30 years has occurred while economic growth has been relatively slow. The economies of East Asia that have sustained the most rapid rates of economic growth over this period have generally had a relatively low incidence of crime and other social ills such as drug use, teenage pregnancy and welfare dependency (Population Council, 1995).

The East Asian experience conflicts with common perceptions that rapid economic growth upsets hierarchies and is associated with widespread personal adjustment problems. There is also a large element of myth in the common view that rapid economic growth in western countries in the nineteenth century resulted in massive social ills that were not corrected until governments became heavily involved in income redistribution. The most rapid gains in social indicators such as life expectancy, infant mortality and access to education in these countries occurred when their tax levels were much lower than at present.

The common perception that rapid growth is socially disruptive may be based on the view that it is associated with structural change. There is evidence to support the view that countries which have high rates of economic growth tend to have high rates of structural change. For example, OECD countries with

relatively high growth rates also tend to have relatively wide disparities between the growth rates of different industries (Dao, Ross and Campbell, 1993).

Despite assertions that are sometimes made to the contrary, rapid structural change is not always associated with high unemployment levels. During the 1970s and 1980s the more rapidly growing OECD countries, such as Japan and Norway, experienced relatively low levels of unemployment in combination with high rates of structural change.

Adjustment problems are often greater where structural change is associated with economic decline than when it is associated with growth. This is evident in greater political pressures for protection against import competition in periods of recession or low economic growth when fewer employment opportunities are available. Similarly, adverse movements in the terms of trade more often result in political pressures for governments to adopt protectionist strategies to postpone adjustment than do favourable movements in the terms of trade.

- Economic adaptability depends on experience

Eric Jones has suggested that the economic flexibility of societies is historically contingent. In his view, flexibility may be reduced in the early stages of economic development as customary means of social insurance are eroded, only to increase again with extended markets, greater wealth and a wider range of competent government agencies (Jones, 1995b). Also relevant in this context is Mancur Olson's view that prolonged periods of political stability tend to result in a 'hardening of the arteries', with distributional coalitions (special interest groups) arising to curb the mobility of factors, the rate of technological innovation, and the reallocation of resources (Olson, 1982). Jones (1995b) makes the point that, whether or not growth-impairing coalitions emerge in times of stability, they certainly emerge at times of threat, crisis and depression.

Problems of adaptation tend to be most severe when governments have a track record of adopting protectionist strategies to shield large parts of their economies from the need to adjust. Recent history in New Zealand illustrates how government policies to shield the economy from structural economic pressures resulted eventually in greater and more widespread personal adjustment problems when those pressures could no longer be resisted. In this respect, however, New Zealand's experience over the last decade has been relatively mild by international standards. Falls in average real wages of more than 30 percent were experienced in some countries of Latin America and sub-Saharan Africa after protectionist strategies proved unsustainable (World Bank, 1995, p99).

Problems of economic adjustment do not necessarily lead to social problems

There is evidence in a range of countries that crime rates, family violence and poor educational performance are positively correlated with unemployment and low incomes. But this evidence does not necessarily support the existence of a direct link between economic adjustment problems and anti-social behaviour. For example, an association between unemployment and crime may occur because people with criminal records find it difficult to obtain employment rather than because unemployment causes essentially law-abiding people to begin offending. (A discussion of some relevant evidence is provided in the background papers to the report of Australia's Committee on Employment Opportunities (1993, pp 67-85). See also Norton (1994) and Sowell (1995).)

The economic model of criminal behaviour does provide some grounds to expect increased criminal activity in periods of high unemployment. This model suggests that people move into and out of anti-social activities - including such diverse activities as theft, corruption of politicians and public officials, tax evasion and welfare fraud - depending on factors such as opportunities available to obtain income from alternative uses of their time and energy as well as the probability of being caught and the penalties imposed. Examples of the application of such models are provided in the work of Cathy Buchanan and Peter Hartley (Buchanan and Hartley, 1992; and Buchanan and Hartley, 1996).

However, changes in unemployment levels do not appear to provide a good explanation of changes in anti-social behaviour over time. During the depression of the 1930s crime actually fell in many countries including New Zealand. Crime also rose rapidly in the 1960s - despite low unemployment levels (Matthew, 1996).

Furthermore, some groups subject to poverty are clearly more prone to become involved in anti-social activities than are others. For example, few members of the Japanese minority in the United States became involved in crime after the second World War, despite severe poverty and discrimination which limited the income-earning opportunities available to them (De Vos, 1992). Buchanan and Hartley (1996) argue that the economic theory of crime is consistent with the idea that family life and upbringing affects whether or not a person chooses to become a criminal. They provide three reasons why children from 'strong' families are less likely to choose a life of crime:

- parents are more likely to encourage children to attend school regularly, complete homework and receive other training that is useful later in holding legitimate employment;
- parents are more likely to be aware of delinquent behaviour in their children and prepared to provide immediate correction to deter such behaviour; and
- in societies with strong family ties, members of each family are more likely to seek to constrain the behaviour of each other member, since criminal behaviour may result in ostracism from society for the whole family.

Economic growth is associated with lower unemployment

Renewed concerns have been expressed in recent years about what appears to be a tendency towards the development of an 'under-class' in some wealthy countries. There is a fear that a sub-culture of poverty will develop among particular groups, with self-perpetuating syndromes of anti-social behaviour passed on from generation to generation through childhood experiences.

With little employment experience, people caught up in cycles of poverty might be expected to have particular difficulty in obtaining work even in a growing economy. It might be expected that a substantial proportion of the long-term unemployed would be so debilitated or embittered as a result of their experience that they would be reluctant to seek work.

However, the international evidence provides grounds for optimism about the ability of the long-term unemployed to return to productive employment as jobs become available. If people who have been unemployed for substantial periods were likely to become a permanent under-class, the ratio of long-term unemployed to total unemployed would be expected to be related asymmetrically to increases and decreases in total unemployment. The ratio would be expected to rise steeply as total unemployment rises in a recession and to fall gradually (or perhaps to continue to rise for a period) as total unemployment falls. In fact, the evidence for Australia, the United States, the United Kingdom, France and West Germany suggests that there has been a fairly stable relationship between this ratio and the overall unemployment rate, irrespective of whether unemployment is rising or falling (Committee on Employment Opportunities, 1993, p165).

Recent experience for New Zealand suggests that tendency for unemployment rates to ratchet upwards since the 1970s in some OECD countries is largely attributable to labour market regulation. Since the introduction of the Employment Contracts Act 1991 which has substantially reduced regulatory rigidities in the labour market, the performance of the New Zealand economy in terms of growth in employment and a decline in unemployment has been markedly superior to that of Australia (Kasper, 1996).

Is economic growth associated with stronger or weaker commitment to constitutional processes?

A commitment to constitutional processes involves the rule of law and widespread acceptance by the population of the legitimacy of the processes whereby laws are made and implemented. It is obviously weak where political decisions involve a high degree of coercion and subjugation of either majorities or minorities. It could also be expected to be weak where public good provision requires the near unanimous consent of the governed since the potential for strategic bargaining under a unanimity rule means that the costs of decision making tend toward infinity in groups of substantial size (Buchanan and Tulloch, 1962).

By implication, a commitment to constitutional processes requires constraint on the role of government, i.e. the scope of collective decision making. Extension of government intervention in decision making involves greater use of coercive powers and/or greater frictions and delays as a greater number of issues become subject to political negotiations to achieve consensus between different interest groups. Collective choice must depend either on coercion or consent or a mixture of both of these elements (Weede, 1995).

Unfortunately a commitment to constitutional processes depends on whether these processes yield beneficial outcomes to individuals. James Buchanan has pointed out that "[i]ndividuals acquiesce in the coercion of the state, of politics, only if the ultimate constitutional 'exchange' furthers their interests" (Buchanan, 1987). The effect of economic growth on the degree of acceptance of the most fundamental 'rules of the game' in any society could be expected, therefore, to be bound up with the issues discussed earlier of whether economic growth is associated with widespread opportunity and personal security.

Sustained growth is associated with political stability

High income countries, the countries that have experienced most economic growth in the past, tend to have low levels of political violence (as reflected in the number of coups and revolutions and political assassinations, an indicator used by Barro (1991)) and high levels of political freedom (as reflected in the Gastil (1986) indices used by Scully (1988)).

There is a striking association between political stability (as measured by Paolo Mauro (1995)) and per capita income levels. Mauro's index of political stability for 1980-83 was constructed by combining subjective assessments of several relevant variables relating to institutional and social change, industrial relations and terrorism. (Mauro's data are derived from the indices of 56 country risk factors published by Business International (now incorporated in EIU).)

High income countries are nearly all rated in either the first or second quintile in terms of Mauro's index of political stability, and few of the countries in this category have low per capita incomes or low growth rates. It is also apparent that nearly all countries that are characterised by a high degree of political instability have low per capita incomes and low growth rates (Mauro, 1995, p708-710).

This evidence of political stability rising with average income levels conflicts with the Marxist view that economic growth under a capitalist system would result in greater distributional conflict, leading ultimately to revolution. Various attempts to summarise Karl Marx's views suggest that his argument that capitalism is an explosive system was based primarily on his hypothesis that labour-saving innovation associated with the capitalist development process would result in increasing unemployment and low wages, and hence increasing misery among the working classes (see the summaries by Meier and Baldwin (1963), Barber (1967) and Heilbroner (1972)).

The evidence presented earlier that economic growth is generally associated with widespread opportunity for improved living standards provides a basis for proposing that economic growth results in greater commitment to constitutional process rather than increased dissension and conflict. When growth produces

widespread benefits, many people have a stake in ensuring that political institutions evolve in ways that enable issues to be resolved by peaceful means.

3 Why should we expect social cohesion to be associated with growth?

The international evidence discussed in the previous section suggests that economic growth is generally associated with:

- higher incomes for both rich and poor;
- fewer social ills - longer life expectancy, lower infant mortality, lower unemployment (the increase in crime and other social problems that has occurred in many industrial economies over the last 30 years has not been associated with rapid economic growth); and
- a high degree of political stability.

This evidence is more consistent with the view that there are positive links between economic growth and social cohesion than with the view that growth is a socially disruptive process.

There are several possible reasons why an association between economic growth and social cohesion could be expected:

- there may be a relationship between economic growth, democratisation and the resolution of issues by peaceful means;
- economic policies conducive to growth may also foster social cohesion;
- political credibility may be important to successful economic strategies; and
- growth and social cohesion may have the same cultural underpinnings.

My aim in what follows is merely to identify and discuss potential linkages, rather than to assess the relative merits of different explanations.

The relationship between economic growth and democratisation

Economic growth has typically been accompanied by improved education, improved internal and external communications, increased population mobility, urbanisation and other factors which have led to pressures for evolution of political institutions in democratic directions.

Such pressures are evident in the newly industrialising countries of Asia as well as in the West (Garnaut, 1989). As Eric Jones has pointed out, however, not all forces are working in the direction of democratisation and considerable tensions and unrest are involved in the process: there is a pattern of confrontation between old and new systems of ideas, and the new technology which reduces the cost of communications also lowers the cost of government propaganda and control (Jones 1995a). Perhaps, as suggested by Wolfgang Kasper (1994b), the critical test of authoritarian regimes in Asia will come as industries mature and come under pressure from new competitors. Kasper is sceptical about the willingness and ability of authoritarian regimes to create the institutional rules needed to control the increased rent-seeking that is likely to arise. As established firms attempt to use political connections to protect their market positions, parties which have been in control for long periods may become increasingly vulnerable to policy blunders and corruption scandals.

Democratisation could be expected to contribute to social cohesion because it enhances the capacity of societies to resolve issues by peaceful means. This is particularly important in times of crisis when social cohesion comes under threat because of the attractions of simple ideologies to disoriented and suffering people.

However, issues are often 'resolved' in democracies in ways that are detrimental to economic growth. This has raised doubts about the ability of democratic countries to sustain economic growth and even to survive in the longer term.

Joseph Schumpeter's prediction that the success of capitalism would undermine the social institutions which protect it was based partly on his view that the capitalist process gives intellectuals the freedom and means - via mass democracy - to question and attack these institutions (Schumpeter, 1950). Mancur Olson argues that politically stable societies provide a favourable environment for the growth of distributional coalitions which reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive (Olson, 1982). Peter Bernholz (1995) suggests that there is a tendency in 'unrestrained' democratic regimes toward ever-increasing intervention in favour of particular interest groups and 'shifting' majorities. He suggests that in this way the efficiency of an economy can be eroded to such an extent that in some future crisis the existence of democracy itself may eventually be threatened. Bernholz argues that Argentina and Uruguay, which around 1930 were amongst the wealthiest democracies, are telling examples of such developments.

Democracies may be able to restrain their self-destructive tendencies

Peter Bernholz acknowledges that "an excessive welfare or interventionist state may be reformed by cutting government regulations, taxes, and redistribution if only an opposition party with a corresponding reform program presents itself to the voters at the time of crisis" (Bernholz, 1995, p191).

There are some self-correcting mechanisms under majoritarian democracy which provide grounds for optimism about the long-term viability of this system, at least in countries where it is already well established. Although a majority may initially benefit from some redistribution of income from the rich to the poor, as redistribution becomes more extensive the probability that 'median voters' will benefit could be expected to decline. The point at which such policies cease to obtain majority support will be delayed if redistributions are primarily of benefit to the middle classes, as suggested by the Friedmans (1980). Yet, as redistribution becomes more extensive, the losses which the vast majority suffer as a result of its adverse effects on the health of an economy must eventually exceed the gains that they can hope to obtain.

Before the intervention of politics into economic life reaches the point of 'killing the goose that lays the golden eggs', it has been the experience of Western countries that the 'goose' displays symptoms of reduced productivity and increased susceptibility to illness over a long period. This should not be taken to imply that there is a linear relationship between increased intervention and a decline in productivity. Chaos theory suggests that beyond some point a process of economic and social breakdown may well become cataclysmic (see Parker and Stacey, 1995).

There is no guarantee that any government will accept and act upon an accurate diagnosis of the causes of decline in the health of an economy before a major breakdown occurs. But as symptoms of malaise increase, the greater potential for orderly change of government to occur under democracies may make a change of economic strategy less traumatic under this form of government than under authoritarian alternatives.

The potential for such changes in economic strategy to occur under majoritarian democracy is illustrated by the economic reforms that have occurred in New Zealand since 1984. I have argued elsewhere (Bates, 1996) that these reforms have changed the 'rules of the game' in ways which reduce the problems inherent in political decision making.

A corollary of this is that the economic reforms put into place in New Zealand have made democratic institutions more secure. If the parliament had not chosen to restrain itself (and ministers) by reducing the domain of politics over economic life, it is likely that worsening economic performance would have resulted in increasingly deep and widespread pessimism about future economic prospects in New Zealand. Under those circumstances it is not difficult to imagine scenarios under which commitment to constitutional processes might have become quite fragile.

The influence of growth-oriented policies on social cohesion

The evidence discussed earlier suggests that the growth process is typically inclusive. It usually draws large numbers of people into occupations in which they are able to earn progressively higher incomes and reduces the proportion of the workforce that is unemployed or engaged in low-wage occupations. The OECD and East Asian economies that have performed well in terms of economic policy fundamentals have provided the opportunity for large numbers of people to be involved in mutually beneficial transactions, involving increases in employment and higher real wages.

Although increases in GDP can occur in ways that do not necessarily provide increased opportunities for a large proportion of the population (for example, through mining for export by foreign investors using expatriate labour in remote localities), this is unlikely to be a source of sustained economic growth. Sustained growth involves an ongoing expansion of economic activity, which generates an increasing demand for goods and services of all kinds. There is thus good reason to expect sustained growth in any country to provide better opportunities for an increasing proportion of the workforce.

Growth prospects depend on policy fundamentals

There is now a wide measure of agreement among economists about the importance of economic policy fundamentals. Reflecting this mainstream view, the World Bank concluded as follows on the causes of the economic success of the high performance Asian economies (HPAEs) in its report *The East Asian Miracle*:

Fundamentally sound development policy was a major ingredient in achieving rapid growth. Macroeconomic management was unusually good and macroeconomic performance unusually stable, providing the essential framework for private investment. Policies to increase the integrity of the banking system, and to make it more accessible to non-traditional savers, raised the level of private savings. Education policies that focused on primary and secondary schools generated rapid increases in work force skills. Agricultural policies stressed productivity and did not tax the rural economy excessively. All the HPAEs kept price distortions within reasonable bounds and were open to foreign ideas and technology (World Bank, 1993, p5).

The World Bank went on to discuss the role of interventionist industry policies in promoting development in the HPAEs. While it failed to reach definite conclusions it noted that:

Unlike many other governments that attempted such interventions, the HPAE governments generally held costs within well-defined limits. Thus, price distortions were mild, interest rate controls used international interest rates as a benchmark, and explicit subsidies were kept within fiscally manageable bounds (World Bank, 1993, p24).

Cross-country econometric analyses, such as those by Barro (1991) and Barro and Lee (1994), support the view that countries which have such 'policy fundamentals' in place tend to fare better in terms of per capita income levels and growth rates. Results suggest that growth is higher when there is substantial catch-up potential, few price distortions and a small government sector. In these studies catch-up potential is measured by initial real per capita income relative to starting levels of secondary school attainment and life expectancy to reflect the possibility that countries with higher levels of human capital relative to other resources will be able to absorb new technologies.

Regression analyses by Easterly (1994), using a model which allows specifically for policy-induced stagnation, also support the view that price distortions can have important effects. Easterly found black market exchange rate premia (the differential between black market and official exchange rates) to be a good predictor of whether countries stagnate, and how fast they grow if they do not stagnate.

Strong support for the importance of economic policy fundamentals as determinants of economic growth rates is also provided by indexes of economic freedom, such as those constructed by Gwartney, Lawson and Block (1996). The index constructed by Gwartney *et al.* contains 17 components which cover performance over a wide range of economic policy including monetary policy, regulation, taxation and restrictions on international exchange. The authors found that no country with a consistently high economic freedom rating during the period 1975-1995 failed to achieve high levels of per capita income. Countries with high freedom ratings were also found to have higher growth rates, on average, than countries with low economic freedom ratings. Although New Zealand was given a low economic freedom rating over most of the period considered, it had improved to second place (behind Hong Kong) by 1995.

What effect would the economic policy fundamentals be expected to have on social cohesion? When such policies are firmly established they lead to widespread opportunities for participation in employment and reduce the likelihood that individuals will become unemployed for long periods. They provide conditions favourable for many people to invest in skill acquisition and hence good prospects for them to earn higher incomes. Growth in personal incomes promotes higher savings rates and hence greater capacity for individuals and families to support themselves in periods of illness or unemployment.

This account could not be interpreted to imply that all that is involved in establishing conditions favourable to both economic growth and social cohesion is for technocrats to pull some levers or press some buttons. Profound changes in behaviours and attitudes are required for the successful implementation of economic policy reforms.

The importance of political credibility to successful economic strategies

The possibility that political instability could have positive effects on economic growth prospects was raised by Mancur Olson (1982) who argued that long periods of political stability create conditions favourable to an increase in the influence that distributional coalitions (interest groups) have over governments. More recently, Olson has argued that political instability can also weaken growth prospects because political leaders who fear replacement are more likely to expropriate assets for their own use (Olson, 1993).

Uncertainty concerning future policy directions could also be expected to have an adverse influence on both domestic and international perceptions of the security of property and contractual rights and hence on incentives to invest. Econometric analyses by Barro (1991) and Barro and Lee (1994) suggest that political violence, as indicated by numbers of coups and revolutions and political assassinations, has a significant negative impact on economic growth. Knack and Keefer (1995), using indicators derived from international investment risk assessment services - which measure such things as risk of expropriation, adherence to the rule of law and the extent of repudiation of contracts by governments - have provided stronger evidence that the quality of institutions that protect property rights is crucial to investment and economic growth. The existence of high quality institutions to protect property and contractual rights could also be expected to contribute to social cohesion by providing communities with greater security against violence and theft.

Policy reforms require profound changes in behaviour and attitudes

For policy reforms to become embedded there needs to be a reform of bad habits - both in terms of what governments do and what people expect of governments. Reforms frequently involve a movement from a situation in which the success of firms and individuals depends on their ability to obtain favours from governments (i.e. rent-seeking ability) to one in which profitability depends on ability to seek out markets, establish reputations for quality and reliability of supply, raise productivity and so forth. For example, the

decision to open an economy with high trade barriers to international competition alters the incentives faced by firms by taking away opportunities for them to benefit by being allocated import licences and increasing the rewards for investment in development of export strategies. This represents a profound change in the 'rules of the game' and in habitual behaviours, both for firms and governments.

Successful policy reform involves changes in the institutionalised rules that shape human interaction and guide behaviour. Douglass North explains the nature of institutional change in the following terms:

Institutional change is a complicated process because the changes at the margin can be a consequence of changes in rules, in informal constraints, and in kinds and effectiveness of enforcement. Moreover, institutions typically change incrementally rather than in discontinuous fashion. How and why they change incrementally and why even discontinuous changes (such as revolution and conquest) are never completely discontinuous are a result of the imbeddedness of informal constraints in societies. Although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions and codes of conduct are much more impervious to deliberate policies (North, 1990, p6).

The existence of informal constraints helps to explain why it can take several years for policy changes to become sufficiently embedded to have a positive effect on economic growth rates.

Political credibility is needed to overcome institutional rigidities

Entrenched interests need to be convinced that governing parties will carry out promised reforms before they begin to adjust. This means that governments need to display credible commitment to reform. The process is helped if entrenched interests know that governing parties have the capacity to carry out reforms and that they are in the interests of the government's own supporters (Weingast, 1994).

Some evidence of the importance of political credibility has emerged from a survey of entrepreneurs in 28 countries conducted by Borner, Brunetti and Weder (1995). The indicator of the predictability and credibility of laws and policies developed from this survey was shown to be a significant determinant of economic growth rates and to out-perform the indicators of political freedom and political violence commonly used in cross-country growth analyses.

The strategy which Roger Douglas has advocated on the basis of his experience as a minister of finance is designed to promote credible commitment to reform. His "ten principles of successful structural reforms" can be summarised briefly as follows:

1. for quality policies you need quality people in the bureaucracy and politics;
2. implement reforms in quantum leaps using large packages;
3. speed is essential; it is impossible to go too fast;
4. once you start the momentum rolling, never let it stop;
5. maintain public confidence through credibility and consistency of approach;
6. spell out objectives and intentions publicly in advance;
7. trust, respect and inform the electorate;
8. deal with public fears in a "gentle, sensible and consistent" way;

9. get the fundamentals right to promote economic dynamism; and

10. when in doubt ask yourself: "Why am I in politics?" (Douglas, 1990).

Some of these principles are still controversial in New Zealand but international evidence on successful reforms in other countries, for example Bates and Krueger (1993), supports the view that credible commitment is essential. Robert Bates and Anne Krueger reviewed policy reform attempts in Brazil, Chile, Ecuador, Egypt, Ghana, Korea, Turkey and Zambia. As in New Zealand, these reform attempts were generally in response to macroeconomic crises. The conclusions they drew concerning the structure and role of the bureaucracy are particularly relevant to the credibility of commitment to reforms.

The authors concluded that so called "policy technocrats" in the bureaucracy played a significant role in the implementation of reforms. Contrary to some previous theories of government, these bureaucrats were not 'insulated' from organised interests to avoid being 'captured'. They were committed to the reforms and actively engaged in building support for them among organised interests. Interest groups generally did not play a leading role in initiating or supporting reforms in their initial stages.

Similar conclusions concerning the importance of political credibility can be drawn from an Institute for International Economics report on the policy reform experiences in Australasia, the European Periphery, Latin America, Asia and some former communist countries. Of 13 hypotheses tested, only a few were considered by the author to receive quite strong support in terms of the experience of the countries considered. These included the need for reforming governments to have a strong political base and to provide visionary leadership, and for control of economic policy to be in the hands of a coherent and united economic team (Williamson, 1994).

The cultural underpinnings of economic growth and social cohesion

How deeply rooted are the links between economic growth and social cohesion? In order to explore the possibility that economic growth and social cohesion have the same cultural underpinnings, I propose first to consider some different views of cultural factors which may favour economic growth and then to consider what impact these factors may have in holding societies together.

The effect of culture on economic growth is a huge topic because 'culture' covers such a wide range of personal and social behaviours, values, and modes of organisation (Jones, 1995c). The way Max Weber and Joseph Schumpeter sought to shed light on the topic was to focus on factors which led to the transformation of traditionalistic economic processes (Macdonald, 1971). In Weber's analysis the person responsible for initiating the transformation was armed with a new spirit - the Protestant economic ethic favourable to hard work and acquisitiveness - rather than with new inventions or additional capital. Schumpeter saw this agent as a supernormal entrepreneur equipped with the idea for an innovation, and the energy, clarity of vision and capacity for making decisions needed to implement it. Whereas Weber saw entrepreneurs as motivated primarily by a sense of duty, Schumpeter saw them as motivated by such factors as the dream and will to found a private kingdom, the will to conquer and the joy of creating.

Culture and the economy evolve interdependently

Popular views which attribute the good performance of successful economies in East Asia to a Confucian heritage that places emphasis on such virtues as hard work and thrift may partly reflect the influence of Weber's ideas. One of the problems with this interpretation is that the rapidly growing economies of East Asia do not all share a common religious heritage (O'Malley, 1988). As Eric Jones points out, this interpretation also has difficulty in coping with chronological variations in growth within Confucian societies and during Confucian history:

Depicting Confucian-style values as substitutes for Protestantism is ironic in view of Weber's own emphasis on the unique features of the Protestant Ethic and the fact that, although Confucianism immensely predated the Protestant Reformation, it lagged enormously behind it in (supposedly) producing similar economic effects (Jones, 1995c).

Jones argues that the fallacy of this approach lies in taking currently observed culture as rigid and exempt from the reciprocal influence of market behaviour. It is also noteworthy that Weber, himself, apparently accepted that the direction of causation did not run entirely from culture to economic behaviour, i.e. he suggested that commercial ethics helped to shape Calvinism (Jacobs, 1992, p49).

Wolfgang Kasper suggests that Confucianism provides a useful example of how institutions can evolve over time:

Far from being the solid institutional obstacle to technical, industrial and economic progress which German sociologist Max Weber - the inventor of the term 'the Protestant ethic' - postulated (Weber 1947; 1951) Confucianism has turned into an enormous asset in modernisation and industrial success. The many traumatic experiences of East Asians during the first half of the 20th century and thereafter, as well as the need to compete in world markets and to participate in the global 'knowledge economy', have induced East Asians to adjust their traditional, rigid institutional order (Kasper, 1994b).

Peter Berger argues that although some cultures have shown remarkable continuity over long periods of time, people can change their beliefs and behaviour quite quickly in response to changes such as those involved in migration from rural areas into large cities. He observes:

A multi-million dollar manufacturing company in Taiwan is not simply a peasant clan writ large. Nor is the CEO of a modern Japanese corporation merely a samurai in a three piece suit. There are cultural echoes, to be sure, but no more than that. More to the point, in some situations people can drastically change their beliefs and their behaviour, creating entirely new cultural patterns, often in amazingly short periods of time (Berger, 1994).

Entrepreneurship is linked to achievement orientation

The influence of Schumpeter's thinking can be seen in an attempt by Mark Casson (1993) to list cultural attributes that support sustained economic development. Casson argues that:

- a clear differentiation of science and morals opens up the possibility of economic progress through understanding of scientific laws that govern nature rather than through offerings and sacrifices to spirits;
- an emphasis on achieving ever-higher norms leads to a "high tension society" and continual exploration of the limits of human capability;
- an atomistic morality emphasises the potential of the individual for self-fulfilment;
- an emphasis on the exercise of judgment ("the hallmark of the successful entrepreneur") enables theory and pragmatism to be successfully combined in developing strategies for business development; and
- an atmosphere of trust reduces the cost of monitoring contractual compliance (and makes possible greater use of market rather than hierarchical processes for coordination).

The points in this list can be viewed as attributes of a culture in which entrepreneurship is likely to flourish. With the exception of trust, which will be discussed later, all the points in the list relate to achievement orientation.

Psychological studies, such as those conducted in the 1960s by David McClelland (1971), have shown that people who have a "high need for achievement" tend to exhibit entrepreneurial behaviours. Such people seek out tasks that involve a challenge and work harder than other people at such tasks. They also like taking personal responsibility for decisions and are interested in concrete knowledge of the results of such decisions. One interesting finding of such studies is that an increase in achievement imagery in historical literary documents (for example 'references to doing a good job') appears to have been associated with periods of economic development in ancient Greece and in England between 1400 and 1800 (McClelland, 1971).

Institutions related to family life provide important incentives for achievement

Brigitte Berger argues that it is ordinary people in their everyday activities - in their habits, practices and ideas - who create the basis for economic growth. In her view, for the creation of modern institutions to occur "the force of ideas must be powerful enough to enable individuals and groups to transcend the limitations of frequently stifling traditions and other obstacles in an often hostile world" (Berger, 1995a).

Berger suggests that a focus on economic achievement is associated, in particular, with the emergence of the "proto-bourgeois family" (Berger, 1995b). She observes that in the north-western part of Europe family-based cultural tendencies antedated the industrial revolution by centuries. The outstanding features of the proto-bourgeois family included the requirement to establish and provide for one's own conjugal household, a marriage system dependent on individual choice, family inheritance and the sanctity of private property. Together, these characteristics provided incentives for late marriage, responsible procreation, individual responsibility, hard work, training, parsimony and the necessity to save. They make possible a substantial departure from a tribal or feudal morality of consuming surpluses by feasting and celebrating.

The importance of such family arrangements were recognised by Adam Smith, who pointed out that ancient charters granted the inhabitants of the principal towns in Europe the privilege "that they might give away their own daughters in marriage without the consent of their lord, that upon their death their own children and not their lord should succeed to their goods, and that they might dispose of their own effects by will" (Smith, 1976, p397). Smith went on to argue that these charters were of fundamental importance in promoting frugality and accumulation of wealth:

Order and good government, and along with them the liberty and security of individuals, were, in this manner, established in cities at a time when the occupiers of land in the country were exposed to every sort of violence. But men in this defenceless state naturally content themselves with their necessary subsistence; because to acquire more might only tempt the injustice of their oppressors. On the contrary, when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition, and to acquire not only the necessaries, but the conveniencies and elegancies of life. That industry, therefore, which aims at something more than necessary subsistence, was established in cities long before it was commonly practiced by the occupiers of land in the country. If in the hands of a poor cultivator, oppressed with the servitude of villanage, some little stock should accumulate, he would naturally conceal it with great care from his master, to whom it would otherwise have belonged and take the first opportunity of running away to a town (Smith, 1976, p405).

Berger places emphasis on the influence of morals, religion and small-scale entrepreneurship, as well as family relationships:

For industrial culture to become rooted, a great variety of institutions congenial to it and supportive of it must be potentially available. Small-scale entrepreneurship ... appears to be particularly suitable. To flourish, small-scale entrepreneurs are compelled to develop all sorts of technical and social skills... Interaction networks have to be developed between entrepreneurs and suppliers, between sellers and customers, between entrepreneurs and other actors on the local as well as on the more distant scene (Berger, 1995a, p8).

One implication of this 'bottom up' view of the growth process is to bring into clearer focus the potential for modern entrepreneurial behaviours to develop among people whose cultural heritage is not oriented toward commercial activity. The commentary which accompanies much of what we see of the third world on our television screens has accustomed us to thinking of the barrios and favelas of Latin America and the shanty towns of Africa in terms of the concentration of social problems, political discontent and potential threats to constitutional processes. Berger suggests that in their efforts to survive, many of the people in these areas have established rudimentary social structures, anchored in the family, and skills in small-scale entrepreneurship (penny capitalism) that constitutes a dynamic potential for economic growth waiting to be unleashed.

People who can trust each other achieve more of the gains from trade

There has been increased recognition in recent years of the costs of protecting transactions against opportunistic behaviour and hence the importance of trust in enabling economic activity to take place at low cost. Mark Casson, one of the people to have written extensively on this topic, argues that countries that rely heavily on formal enforcement mechanisms to ensure compliance with contracts are disadvantaged relative to those in which participants in business deals are able to trust one another (Casson 1990). He suggests, for example, that the United States is disadvantaged relative to Japan by having a low-trust culture which is associated with a relatively high incidence of litigation.

Family ties are generally conducive to greater trust than are transactions with strangers, but there are limits to what can be achieved in dealing entirely through family networks. Transactions costs involved in dealings among people with similar cultural backgrounds could also be expected to be lower than in dealings among people with different cultural backgrounds, because of a lesser need to rely on formal contracts and enforcement processes. Gerald Scully has found that cultural heterogeneity tends to have adverse effects on the rate of economic growth; his empirical analyses suggest that the most culturally heterogeneous societies (measured in terms of ethnic and linguistic diversity) typically have rates of economic growth around 1 percent per annum lower than the most homogeneous societies (Scully, 1995).

Although it is all too obvious that cultural heterogeneity is often associated with low levels of trust in societies, it is also obvious that in order to obtain the benefits of international exchange (including capital flows and technology transfers) it is necessary for people with different cultural backgrounds to transact with each other. The cultural heterogeneity which tends to occur in cosmopolitan centres can facilitate international linkages and thus reduce transactions costs in dealing with foreigners.

Richard Pomfret (1994), observes that much of the rapid growth in recent decades has occurred within the hinterland of traditional commercial centres (usually port cities) which were open to international influences. Knowledge about foreign markets and local production conditions can be readily brought together in these cosmopolitan centres.

The advantages of cosmopolitanism have long been recognised. Adam Smith pointed out that industry tends to locate in coastal areas and along navigable rivers because the advantages of water carriage are such that "it is natural that the first improvements of art and industry should be made where this conveniency opens up the whole world for a market to the produce of every sort of labour ..." (Smith, 1976, p34). He went on to argue that "commerce and manufactures gradually introduced order and good government, and with them the liberty and security of individuals, among the inhabitants of the country, who had before lived in almost a continual state of war with their neighbours, and of servile dependency upon their superiors" (Smith, 1976, p412).

Adherence to cosmopolitan ethics provides the basis for trade

Trust between people who have no family or tribal ties is often necessary to achieve the benefits of specialisation and exchange. Such trust is not possible unless the people involved in transactions can be expected to behave honestly and to adhere to other rules of just conduct. By analogy with notions of

physical capital and human capital, a national reputation for adherence to such rules may be said to constitute a form of 'social capital' (Coleman, 1990; Weede, 1995).

Anthony de Jasay emphasises that, while enforcement by the state can make a positive contribution to respect for the laws of property and contract, we should not assume that state involvement is necessary or that its effects will always be positive. In antiquity and medieval times, markets flourished without publicly provided contract enforcement (Jasay, 1995).

Friedrich Hayek has provided a plausible account of how rules of just conduct may have developed spontaneously in the process of inter-tribal trade:

The growth from the tribal organisation, all of whose members served common purposes, to the spontaneous order of the Open Society in which people are allowed to pursue their own purposes in peace, may thus be said to have commenced when for the first time a savage placed some goods on the boundary of his tribe in the hope that some member of another tribe would find them and leave in turn behind some goods to secure the repetition of the offer. From the first establishment of such a practice which served reciprocal but not common purposes, a process has been going on for millennia which, by making rules of conduct independent of the particular purposes of those concerned, made it possible to extend these rules to ever wider circles of undetermined persons and eventually might make possible a universal peaceful order of the world (Hayek, 1984b p 372).

Commercial contractual law evolved as the economies of scale associated with a growing volume of trade provided incentives for merchants to develop improved enforcement mechanisms. In turn, the development of improved enforcement mechanisms made trade more profitable and thereby increased its volume. Although a number of courts handled commercial disputes, enforceability of contracts appears to have its origins in the development of internal codes of conduct in fraternal orders of guild merchants (North, 1990).

Jane Jacobs makes the point that the individual rights that emerged from the Custom of Merchants applied alike to all individuals no matter who they were or what their social status might be:

Neither rulers nor philosophers invented individual rights. Nor did nature invent them. Not Rousseau or Thomas Paine or Thomas Jefferson, much less the barons who extorted Magna Carta from King John on grounds of the rights their rank entitled them to. The strange idea of rights unconnected to status was what medieval serfs referred to when they said, 'City air makes free.' By getting to the city and subscribing to its extraordinary customs, they wriggled out of hierarchical law and into contractual law (Jacobs, 1992 p 39).

Cosmopolitan ethics thus emerged as a result of spontaneous processes in which people came together for mutual benefit. This spontaneous order expanded to provide the foundations of modern civilisation as a result of cultural evolution, i.e. the groups who observed cosmopolitan ethics were more successful than those who didn't. The spread of cosmopolitan ethics must have been based to a large extent on the fact that it extended the possibility of peaceful co-existence for mutual benefit beyond small groups, such as families, tribes and clans, whose members have concrete common purposes (Hayek, 1984b, p367).

Social cohesion depends on both family bonds and cosmopolitan ethics

Herbert Giersch makes an important distinction between civic morality (which is closely related to cosmopolitan ethics or the morality of the open society) and tribal morality. Civic morality offers the promise of individual achievement (freedom from coercion and discrimination) and in exchange it demands that individuals bear responsibility for their own actions. By contrast, tribal morality is instinctual, community-oriented and communistic. Under tribal morality the interests of the individual are subsumed in that of the group, and equality in meeting people's needs evolved as a norm for ensuring survival (Giersch, 1996).

Civic morality provides the basis for peaceful co-existence between people who may not know each other. Giersch (1996) suggests that civic morality has four components:

- respect for the property rights of others;
- observance of contractual obligations;
- individual responsibility and freedom from coercion; and
- a sense of community spirit.

He argues that the fundamental principle of cosmopolitan ethics is non-discrimination: "treat those who are more distant from you no worse than your friends and close neighbours"

Both civic and tribal morality can contribute to social cohesion. Giersch (1996) argues that tribal morality plays an important role in the family, where distribution according to needs is supported by adherence to traditional norms and taboos. The emotional bonds within the family have traditionally provided the basis for care of children to occur with minimal external intervention.

Tribal morality also plays an important role within neighbourhood communities, amongst friends, in cooperatives and clubs. David Green suggests that the philanthropic ethos in communities - which was much stronger last century than it is now - is based on a sense of solidarity with others - 'community without politics' - and a sense of duty to help those in need - 'duty without rights' (Green, 1996, pp 110-113). While the propensity of humans to form community associations presumably has its origins in tribal pre-history, a community spirit can develop among people with different ethnic backgrounds where there is mutual benefit to be gained from forming community associations. The modern history of countries with large migrant populations - such as New Zealand, Australia and the United States - provides plentiful evidence of this.

Many voluntary organisations reinforce the role of the family and encourage respect for the common rules which enable people to co-exist peacefully. Robert Putman (1995) points out that when Alex de Tocqueville visited the United States in the 1830s, it was the propensity of Americans to form associations of all kinds that most impressed him as the key to their unprecedented ability to make democracy work. Putman's own extensive research on sub-national governments in different regions of Italy suggests that the quality of governance varied according to the extent of longstanding traditions of civic engagement, as indicated by variables such as voter turnout, newspaper readership, and membership in choral societies and football clubs (Putman, 1993).

The bonds between people united by cosmopolitan morality do not have the emotional intensity of traditional tribal bonds but, as already noted, this cultural heritage has provided a basis for different groups in society to co-exist peacefully for their mutual benefit. One of the evolutionary factors which favoured the spread of the cosmopolitan ethic over the longer term has been the existence of multiple competing polities, the prosperity of which depends to a large extent in each case on an ability to maintain an environment attractive to mobile factors of production. At the time of the industrial revolution in Europe, this competition encouraged governments to curb their taxing powers and to offer more services in exchange for taxes (Jones, 1995b). Although these evolutionary competitive forces do not always dominate other influences, they do work consistently to encourage governments in open economies to remain internationally competitive and to weaken regimes which attempt to insulate themselves from international influences.

4 Implications for government involvement in redistribution of income

We have seen that there are good reasons for the observed association between economic growth and several dimensions of social cohesion. Some social cohesion is necessary for growth; growth promotes social cohesion in a variety of ways; and both growth and social cohesion have common institutional roots in the family and in cosmopolitan ethics. What are the general implications of these links between economic growth and social cohesion for the view that extensive government involvement in income redistribution helps to maintain social cohesion? Do these links have implications for the direction of government policies in New Zealand?

General implications for redistribution policies

Extensive government involvement in the redistribution of income is based on the view that society is a corporate association in which people are united by common goals rather than a civil association united by respect for the rules under which they live.

The view of society as a 'corporate association' (Michael Oakeshott (1975) uses the term 'enterprise association') composed of people united in pursuit of a common interest or objective might appear superficially to be likely to promote social cohesion. Yet, when we look more closely, efforts to unite citizens behind a common vision often involve attempts to apply tribal morality where it is inappropriate.

Attempts to impose tribal morality at the national level can have adverse effects on social cohesion of at least four kinds:

- because people do not all share the same wants, corporate visions for the whole of society usually favour some individuals or groups relative to others. When shareholders or employees dislike the corporate vision espoused by the leadership of a company they always have the option of disposing of their shares or resigning, but it is obviously much more costly for citizens to exit from a country under similar circumstances. When taken to extremes, corporatism and nationalism pose serious risks to individual liberty and the personal security of members of minority groups. Giersch (1996) cites the rise of National Socialism in Germany as an example of the instinctual morality of the tribe being taken up by a political party and imposed at a national level;
- attempts to apply the rule of 'distribution according to needs' to society as a whole must involve coercion. Government actions to meet the needs of some groups by taking income or wealth from others often add to social frictions;
- the assumption by governments of major responsibility for income security has tended to displace other mechanisms which play an important role in maintaining social cohesion. The increasing transfer of responsibility for the elderly, the ill and children from the family to government has seriously weakened the family as a self-reliant support organisation in advanced western countries. In these countries governments have largely displaced friendly societies and other voluntary organisations which previously played a major role in the provision of social insurance. There can be little doubt that this has had a negative effect on the strength of networks of civic engagement in advanced western democracies. (The current health of these networks has been the subject of considerable debate in the United States. Robert Putman (1995) argues in his article 'Bowling Alone: America's Declining Social Capital', that there has been a general trend toward social disengagement. However, the evidence supporting Putman's claim has been disputed (Samuelson, 1996).); and
- the use of the powers of the state to provide benefits on the basis of needs to people - individuals, families, industry groups, ethnic groups, corporations, unions etc - alters incentives in ways that are destructive of self-reliance and which tend to erode the moral basis of society.

The final point deserves some elaboration.

One way in which incentives change when governments apply the rule of distribution according to needs is to make passive reliance on the state a more attractive option to those 'entitled' to benefits. The effect of this can be to make 'beneficiaries' increasingly dependent on assistance rather than to help them to become self-reliant. The availability of government assistance can also result in a more general erosion of community values as people who would be reluctant to ask for help from their friends have no qualms in accepting 'entitlements' paid for from taxes levied on strangers. Another way in which incentives change is to alter the pay-offs between activities involving creation of additional wealth and those involving redistribution of wealth. William Baumol has found historical support for his hypothesis that:

... while the total supply of entrepreneurs varies among societies, the productive contribution of the society's entrepreneurial activities varies much more because of their allocation between productive activities such as innovation and largely unproductive activities such as rent-seeking and organised crime. This allocation is heavily influenced by the relative payoffs society offers to such activities (Baumol, 1990).

The term 'rent-seeking' refers to activities of individuals and interest groups which are designed to have the powers of the state used for their benefit. The activity of office-hunting, referred to in the quotation from Alex de Tocqueville at the beginning of this report, is an example of rent-seeking. Rent-seeking can never be appeased, whether it takes the form of seeking public employment or an entitlement to compensation for some misfortune. Each claim by rent-seekers that is agreed to provides a precedent for others to seek assistance or to claim compensation for the disadvantage they have suffered from the adverse effects of assistance provided to others. Where this process is unchecked the result of this competing clamour for the ear of government can only be an increase in conflict over the distribution of a diminishing national product.

In the light of the adverse effects of a rent-seeking culture it is not surprising that those engaged in seeking government assistance object to their activities being described as 'rent-seeking'. They can often claim with some legitimacy to be 'exercising their democratic rights' in accordance with established norms and conventions. As James Buchanan's definition of rent-seeking makes clear, the problem stems largely from institutions or norms of behaviour that promote social waste:

The term rent-seeking is designed to describe behaviour in institutional settings where individual efforts to maximise value generate social waste rather than social surplus. Again I should emphasise that at the level of the individual decision makers the behaviour, as such, is not different from profit seeking in market interactions. The unintended consequences of individual value maximisation shift from those that may be classified as "good" to those that seem clearly to be "bad" not because individuals become different moral beings and modify their actions accordingly, but because institutional structure changes (Buchanan, 1980).

The point that people engaged in rent-seeking behaviour do not thereby become different moral beings also applies to some degree to behaviours, such as tax evasion and welfare fraud, which more clearly involve a breach of the morality of civic society. When governments put greater temptations before people we should not be surprised if there is a tendency for widespread participation in anti-social behaviour to be rationalised through a lowering of moral standards.

It is easy to see how the moral basis of social cohesion can deteriorate markedly in the space of a few decades if the good habits passed down from earlier generations are lost. After all, as Aristotle said, "human goodness is the result of habit".

Implications for the direction of policies in New Zealand

What are the implications for government policy in New Zealand of the relationships between income redistribution and social cohesion discussed above? Has social cohesion been threatened or reinforced by the policy reforms that have occurred since 1984?

Colin James argues that support for welfare state ideas was so widespread in New Zealand prior to the 1980s that it can be described as a consensus (James, 1992). He argues that there was general acceptance that welfare state policies were needed to "domesticate" the economy and "make society fairer".

Although similar claims could be made about Australia, Europe and North America, James suggests that support for the welfare state was particularly widespread in New Zealand because of the pioneering role played by this country in implementing welfare state ideas. He also observes that New Zealand was a highly homogeneous society, "made for consensus".

James uses the concept of 'welfare state' broadly to include import licensing, public employment policies and an array of other protectionist interventions which sought to provide secure employment opportunities, a decent living wage, income support in adversity, shelter, education to the individual's highest potential, access to health care and support in old age. I think it is preferable to use the term 'redistribution state' because all these policies, including those designed to protect jobs, involve redistributions of income.

The redistribution state may have contributed to social harmony while it appeared to underwrite a modest degree of prosperity for all, but the security it offered was inherently fragile. It was fragile because it encouraged rent-seeking and a culture of dependence, rather than wealth creation.

The redistribution state failed those to whom it seemed to provide greatest assistance. Although Maori have long been major 'beneficiaries' of state assistance, they continue to score poorly in terms of the usual indicators of social and economic success. Richard Mulgan suggests that this led to a situation in the 1970s and 1980s where Maori leaders became increasingly disillusioned with existing government policies and increasingly "receptive to the ideas of cultural assertiveness that accompanied the worldwide ethnic revival. Their plight was similar to many other groups throughout the world who appeared to have been forced to exchange their cultural heritage for a position of social inferiority" (Mulgan, 1993).

Overall, the redistributive state can be judged to have had a negative effect on social cohesion because it raised expectations that it could not meet. When the extreme interventionism present in the 1970s became unsustainable, many people were disappointed and disillusioned by the failure of politicians to maintain the 'cradle to grave' security which previous policies appeared to promise. Fortunately, New Zealanders were able to wean themselves away from the worst excesses of the culture of dependence, using normal democratic processes, while it was possible to do so without massive social trauma.

It is reasonable to conclude from this that by strengthening the capacity of the economy to provide growing employment opportunities, the policy reforms that have occurred since 1984 have strengthened rather than weakened the basis for social cohesion in New Zealand.

Does this mean that if policies continue "down the free-market track" the results would be more likely reinforce social cohesion than to threaten it?

In answering this question it is important to be clear about the direction in which policies have actually been heading. There is no basis for fears that continuation in this direction would result in abrogation of government responsibility to provide public goods and a safety net for all. In the transfer of activities from the public sector to the private sector, the direction of policies has been toward restoring an appropriate balance. The test that has been applied is whether activities could be performed at lower cost in the private sector, and hence whether such a transfer is desirable.

Continuing the current direction of policies is more likely to reinforce the 'fair go' ethic of New Zealand society than to result in widespread adoption of an uncaring attitude toward the least fortunate members of society.

This view is based partly on the effects of growth of employment opportunities and increasing competition for labour. Despite its good intentions, the redistribution state did not provide a fair go for all, because the

limited security of employment and income that the government was able to provide to those who had jobs ended up reducing opportunities available to new entrants to the labour market.

The 'fair go' ethic will also be reinforced if help for the less fortunate is seen increasingly as a community responsibility rather than a government responsibility. Under the redistributive state it was easy for individuals to view their moral obligation to help those less fortunate than themselves to have been discharged by paying taxes. When discharge of this obligation involves voluntary contributions, donors are likely to be more concerned to ensure that their assistance is of some lasting benefit in helping recipients to help themselves.

A larger role for community organisations and a diminished role for the government in helping the less fortunate has the potential to bring to bear in this area the achievement values that have transformed SOEs over the past decade. Strong evidence is presented by Richard Prebble (1996) that top achievers in business have a highly developed sense of citizenship and community service. As minister for state-owned enterprises (SOEs) in the mid-1980s he approached 200 "busy and intelligent people" to staff the boards of SOEs. Although the financial and personal costs to these people of accepting this invitation were large, only three turned him down. It is a myth that most members of the business community live by the 'greed is good' ethic and have no sense of citizenship. The policy reforms over the period since 1984 may be viewed as having begun a process of rediscovering the core values which were hidden behind the icons of the redistributive state. The reform process is requiring critical examination of these icons (the existing mechanisms for income redistribution) to see whether they represent the best way for the core values held by New Zealanders to find expression.

Some important factors which need to be taken into account as this process applies to welfare policy have been identified by David Green:

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 the 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 risk of total dependence. Help should be respectful and self-liquidating. Wherever possible, it should be a pathway to self-support (Green, 1996, p198).

We have seen that both economic growth and social cohesion have their roots in family responsibilities and cosmopolitan morality. If governments continue down the free-market track this is likely to strengthen the role of the family because policies to protect members of society unable to fend for themselves will be developed with more regard to the way they affect family responsibilities. For example, policies for the maintenance and education of children would transfer increased responsibility from the state to parents, and policies for support of the ill and elderly would require individuals to make greater provision for themselves and their families.

Continuing down the free-market track would also enhance public morality by encouraging greater respect for the property of others. Rent-seeking activities, such as those involved in attempts to induce governments to establish entitlements for 'victims' of misfortune, still threaten the right of people to dispose of their income and assets as they determine for themselves. Claims that individuals or groups are 'entitled' to compensation because they are victims of 'circumstance' often have a strong emotional appeal, but this does not alter the fact that in order to grant increased 'entitlements' to some people it is necessary for governments to encroach further on the entitlement that other people have to the income that they have earned. The process is corrosive of public morals because each additional entitlement that is granted provides incentives for more and more people to claim compensation on the grounds that they too are 'victims'.

Governments will promote more realistic expectations of the levels of social support that are affordable if they continue down the free-market track. The question of whether current social policy 'entitlements' are affordable in the longer term needs to be approached cautiously despite the additional tax revenue

generated by improved economic performance. Projections of future government expenditure commitments often under-estimate the potential for behaviour to change in response to the existence of 'entitlements'. The proportion of the population eligible for some social policy 'entitlements' has been increasing at an alarming rate. For example, since 1973/74 the proportion of the population on sickness and invalid benefits has increased more than threefold and the proportion of the population on the domestic purposes benefit (DPB) has increased more than fivefold. Despite the exercise of greater restraint over social spending in recent years, substantial increases in numbers of people obtaining these benefits have continued to occur. Between 1990/91 and 1994/95 the number of people on sickness, invalid and domestic purposes benefits rose by 69 percent, 29 percent and 7 percent respectively (New Zealand Business Roundtable, 1996).

The issues involved emerge starkly in considering the 'entitlements' of people to costly surgical procedures that may improve the quality of their life or prolong life. Waiting lists for surgery have continued to rise rapidly in recent years despite large increases in the number of operations that have occurred - cardiac and cardio-thoracic procedures are up by 77 percent on 1990, knee operations up by 54 percent and hip operations up by 12 percent (Birch, 1996). The situation which has evolved is an unhappy compromise between the promise of an 'entitlement' to health care at public expense and the reality that access has to be rationed because the promised 'entitlement' is no longer affordable.

Continuing down the free market track will involve increased reliance on private insurance and precautionary savings to meet needs during periods of illness and unemployment; a return of the tradition of philanthropy; and limiting the government's redistribution activities to the provision of a basic safety net, to which individuals resort reluctantly and temporarily as a last resort. The transition may take some time, but a credible commitment to continue to move in this direction will reduce the incentive of people to engage in the divisive activity of attempting to offset personal misfortune by creating 'entitlements' to the property of others.

In considering future policies the relevant issue is what is best for New Zealanders. As a country New Zealand is still far from having an ideal set of government policies to facilitate widespread opportunities and a high degree of personal security among members of the population. Those who advocate a halt to policy reforms on the grounds that they may be socially disruptive have failed to recognise that the redistribution state is a fool's paradise - it promises much but delivers little. One of the lessons we should learn from the experience of public policy in the twentieth century is that large-scale redistribution of income by governments weakens social cohesion as well as economic growth.

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