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**The Road Back From Social Decay to Social
Cohesion**

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THE ROAD BACK FROM SOCIAL DECAY TO SOCIAL COHESION

What would an impartial observer say about the implications for social cohesion of the extensive income redistribution which governments have undertaken over much of this century in New Zealand and other western countries? What would the same observer say about the implications for social cohesion of the economic reforms that have occurred in recent years?

It would be difficult to find an impartial observer with the breadth of knowledge and perspective required to answer these questions with real authority. We need a late twentieth century Alexis de Tocqueville, the French aristocrat and critical friend of democracy who wrote the famous book *Democracy in America* after his visit to America in the 1830s. But we can perhaps gain some hints as to what de Tocqueville might have said from his remarks about the forces at work in America and Europe in the first half of the nineteenth century.

De Tocqueville was struck by the differences between what motivated people in America's fledgling democracy and in the decaying monarchies of Europe. He observed:

In the United States, as soon as a man has acquired some education and pecuniary resources, either he endeavours to get rich by commerce and industry, or he buys land in the uncleared country and turns pioneer. All that he asks of the state is not to be disturbed in his toil and to be secure in his earnings. Among most European nations, when a man begins to feel his strength and to extend his desires, the first thing that occurs to him is to get some public employment.

What also impressed de Tocqueville was Americans' propensity for civic association. He saw this as critical to their ability to make democracy work. He observed that Americans of all ages, all stations of life and all types of disposition, were forever forming associations:

There are not only commercial and industrial associations in which all take part, but others of a thousand different types - religious, moral, serious, futile, very general and very limited, immensely large and very minute.

In a perceptive passage, de Tocqueville saw the place-seeking culture encouraged by the governments of Europe as "risking their tranquillity" and placing their "very existence in great jeopardy". He asserted that:

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.

Even at a time when democracy was taking root on both sides of the Atlantic, de Tocqueville was not entirely complacent about democracy either. He pointed to the

danger that people in democracies might become excessively dependent upon the state to provide their every need. Let me just cite one more observation by de Tocqueville to show how he described the risks of despotism inherent in the welfare state about 100 years before it reached its ascendancy:

Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood For their happiness such a government willingly labors, but it chooses to be the sole arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances: what remains, but to spare them all the care of thinking and all the trouble of living?

Alexis de Tocqueville was an outstanding analyst, but it is apparent with the benefit of hindsight that even he did not fully appreciate the extent to which democracies would encourage a preferment-seeking culture similar to the place-seeking cultures in the decaying monarchies of Europe. Such a culture is based on the view that there is nothing wrong with using the powers of the state to tax and regulate in ways which benefit those who are able to exert disproportionate political influence, even when this involves a huge cost to the rest of the community. In New Zealand, the preferment-seeking culture resulted in privileged and unproductive employment throughout the public sector (including in enterprises such as railways and forests), the protection of inefficient industries from import competition, inefficient work practices and the growth of a vast array of entitlements to social welfare benefits.

One of the big strengths of democratic political institutions is their capacity to enable societies to resolve issues by peaceful means. However, issues are often 'resolved' in democracies by the 'victory' of small, well-organised groups over the often non-comprehending and disorganised majority. They can also be resolved in ways that are detrimental to economic growth. This has caused some to doubt the ability of democratic countries to sustain economic growth and even to survive in the longer term.

New Zealand's declining economic performance before the reforms of recent years can be explained, to some degree at least, in terms of Mancur Olson's view that politically stable societies provide a favourable environment for the preference-seeking activities of interest groups. Indeed I was fascinated to discover a dozen or so years ago when I first read *The Rise and Decline of Nations* that Olson used New Zealand as a mini case study of this hypothesis. The Swiss writer Peter Bernholz takes this argument further and suggests that there is a tendency in "unrestrained" democratic regimes toward ever-increasing intervention in favour of particular interest groups and "shifting" majorities. He warns that 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 the histories of Argentina and Uruguay, which around 1930 were amongst the wealthiest democracies, show that such things do happen.

Before the intervention of politics into economic life reaches the point of 'killing the goose that lays the golden eggs', the 'goose' may display symptoms of reduced productivity and increased susceptibility to illness over a long period. Such symptoms were particularly evident in many western countries during the 1970s and 1980s and frequently led to reform efforts.

There is, of course, no guarantee that any government will introduce appropriate reforms before a major breakdown occurs. But as symptoms of malaise increase, the greater potential for an 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 economic reforms that have occurred in New Zealand since 1984 provide a good example of the ability of democracies to reform themselves before economic and social breakdown becomes cataclysmic. These reforms have changed the 'rules of the game' in ways which have transformed political decision making from what Peter Bernholz describes as unrestrained democracy into a system in which legislation such as the Fiscal Responsibility Act 1994 has reduced the scope for political opportunism. We must all remain vigilant to ensure that the system does not once again become unrestrained.

The implication of what I am saying - that the general course of government policies since 1984 has made democratic institutions more secure in New Zealand - is obviously in direct conflict with the view that New Zealand had a highly cohesive society until the early 1980s and that the policies followed since then have led to a loss of social cohesion.

The argument that free market policies lead to a loss of social cohesion appears to rest on several propositions which need careful examination. For example, some people say that such policies result in the rich getting richer while the poor get poorer. Related to this is the argument that such policies are responsible for social misery associated with unemployment levels that are still too high. And then there is the argument that free market policies have adverse effects on public attitudes - extreme individualism is said to be replacing the caring and sharing attitudes of the past.

Is there any basis for any of these views in either the international evidence or in data on what has been happening in New Zealand?

First, let us consider whether free market policies result in widespread opportunities or whether they just benefit the wealthy. The weight of international evidence should by now be sufficient to convince everyone - except perhaps those for whom reality seems to be the creation of their own imagination - that greater economic freedom leads to higher economic growth. Economists, who are notorious for their capacity to disagree with each other, now show remarkably widespread support for policies with a focus on fiscal rectitude, free trade, privatisation, undistorted market prices and restriction of government intervention to areas like basic education and infrastructure of a public good nature. This was commented upon in the following terms by Dani Rodrik of Columbia University in a recent issue of the *Journal of Economic Literature*:

What is remarkable ... is the extent of convergence that has developed on the broad outlines of what constitutes an appropriate economic strategy Faith

in the desirability and efficacy of these policies unites the vast majority of professional economists in the developed world who are concerned with issues of development.

Contrary to the position in the 1980s, the current head of the department of economics at the University of Auckland, all the economics professors at Victoria University, and the University of Canterbury economics department which has always had a free market orientation, would, I believe, be part of this professional consensus. Of course there are still New Zealand academics such as Bryan Gould of the University of Waikato and Jane Kelsey of the University of Auckland law faculty who think it is just some international 'New Right' conspiracy.

There is also strong international evidence that the opportunities associated with economic growth are generally widespread. For example, in his recent study for the Business Roundtable on *The Links Between Economic Growth and Social Cohesion*, Winton Bates has shown that there is generally a close association between rates of growth in average incomes and rates of growth in incomes of people in the bottom 60 percent of the income distribution. The evidence also suggests that people in the bottom 20 percent of the income distribution tend to have better prospects in countries with relatively high rates of economic growth.

There is also evidence specific to New Zealand that the benefits of the sustained economic growth that has occurred in recent years are being widely shared. There has been substantial growth in employment for all ethnic groups, both sexes and nearly all age groups.

The argument that free market policies are responsible for the misery associated with the high unemployment levels experienced during the period of reform confuses symptoms with causes. It took decades for incipient problems in New Zealand to become obvious - and the 'hang-over' effect means that all social indicators don't immediately improve once policies change.

Those who argue that the direction of policies since the early 1980s has been in the direction of 'greedy individualism' seem to imply that people become less greedy and more caring for the well-being of others as voters than as citizens - that they will not extend a helping hand directly to less fortunate people but only very indirectly through political and bureaucratic processes. Were people really more caring in the 1970s than in earlier decades as governments became more heavily involved in income redistribution? David Thomson's book *Selfish Generations* tells a rather different story. Few people would deny a proper safety net role for the state, but the unseemly behaviour of people arguing for a larger slice of government budgets for themselves, without reference to the needs of others or society as a whole, is the unacceptable face of welfarism.

Robert Samuelson of *The Washington Post* recently drew attention to the hollowness of conspicuous compassion:

Compassion is society's reigning emotion of choice. It's the sanctioned sentiment of politics, journalism and academia. ... The trouble is that compassion so casually dispensed is debased.

It has evolved into a cheap political slogan and a glib test of social virtue that subverts political and even personal responsibility. Pursuing conspicuous compassion has become a form of status-seeking to see who's the most "caring".

I hope compassion is not lacking in any of us, even if we don't choose to wear it on our sleeve. But unless it is allied to effective answers to human problems it is limited in value, and can too easily become a cop-out for hard thinking. Even worse, the answers that many concerned people lobby for, in particular ever-increasing income redistribution, would exacerbate many social problems.

Governments which focus heavily on income redistribution can raise expectations to quite unrealistic levels and tend to face increasingly intractable demands and a decreasing ability to meet them. Their role becomes like that of 'the old woman who lived in a shoe' trying to distribute cake equitably among her squabbling infants. Should she give more to those who have been good, or should she give more to those who are most hungry (if she can work out how hungry they are) or should she give more to those who yell the loudest? By making herself the arbiter of how much everyone receives and trying to please everyone, the old woman spends an increasing proportion of time worrying that her children will misbehave when they get less than they think they deserve. This story obviously has the potential to end like the story of the dysfunctional family in the nursery rhyme.

There is one very good reason why people have a better chance of being able to co-exist peacefully in an economic system based on relatively free markets than one in which the government is heavily involved in determining the distribution of income. In a society based on free markets, people interact with each other for mutual benefit. They are bound together by a web of transactions in which all parties gain. By contrast, in a society based on redistribution, the gains which one individual or group receives can only come from some other individual or group - and all lose to the extent that the government takes a slice for the service it provides in cutting the cake.

In free markets there is, of course, always the possibility that some people will act opportunistically to try to get the better of others. But who will continue to trade with someone who develops a reputation for being untrustworthy? Competitive markets provide strong incentives for people to develop reputations for honest behaviour and adherence to rules of just conduct.

Another important component of modern societies is a sense of community spirit, which operates particularly within neighbourhood communities, amongst friends, in cooperatives and clubs. 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 very different ethnic backgrounds where there is mutual benefit to be gained. 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. The extensive research of the Harvard political scientist Robert Putnam on sub-national governments in different regions of Italy found 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. He argued in a lecture at Victoria University last week that in the United States and elsewhere there had been a decline in such valuable 'social capital' over the last 30 years or so, and that we needed to reinvent the YMCAs and YWCAs of earlier generations.

A similar case for what he called 'civil society' was argued by David Green in his book published by the Business Roundtable earlier this year. Green suggests that the philanthropic ethos in communities 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'. This philanthropic ethos was much stronger last century than it is now. Governments have largely displaced the friendly societies and other voluntary organisations which previously played a major role in the provision of social insurance.

The sense of solidarity with others will be reinforced if help for the less fortunate is seen increasingly as a community responsibility rather than a government responsibility. When governments are heavily involved in redistribution it is easy for individuals to view their moral obligation to help those less fortunate than themselves as discharged by the payment of taxes. When helping others 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.

The policy reforms over the period since 1984 may be viewed as having begun a process of re-discovering community values which were submerged by the welfare state. Some important factors which need to be taken into account 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.

Many supporters of economic reforms in New Zealand are motivated by a desire to see social programmes which provide genuine help to those most in need become more affordable. As a general rule it is true that higher economic growth generates additional taxation revenue with which governments can decide to maintain or increase welfare expenditure.

However, the issue of affordability needs to be considered with care. Programmes that seem affordable given current numbers dependent on them may become unaffordable if behaviour changes in response to the existence of the programme, or as result of changes in technology.

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, 12 percent. 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.

As it becomes technically possible to keep people alive for longer and longer, often using costly surgical procedures, we will need to debate at what point life-saving health care should remain part of the public health system. Difficult decisions increasingly have to be made about whether the benefits of extending life exceed the costs. Arguably such decisions should be made wherever possible by the individuals most affected, in conjunction with their families and medical advisers, rather than according to priorities devised by politicians or bureaucrats.

We also need to face up to the fact that policies that encourage family and social breakdown can never be affordable in any real sense. In this context, I suspect few people, even many of those who were among its original proponents, are happy about the more than fivefold increase in the proportion of the population now dependent on the domestic purposes benefit. Given recent trends, the DPB may soon become New Zealand's largest welfare programme. In 1976, sole parent families represented 10 percent of all New Zealand families. In 1991, the national figure was 24 percent. Asians coming to New Zealand are profoundly shocked by the rate of family breakdown in this country.

An Australian researcher Barry Maley has noted that over the last 40 years in Australia, New Zealand, Britain and the United States, a decline in 'family status', in the form of more divorce, more sole parenthood and more ex-nuptial parenthood, has also been accompanied by a rising crime trend. He writes that:

It seems unassailably clear that what we are confronting in these trends in Australia and across several nations with institutional structures similar to our own, is a common cultural movement, away from the biologically-based, stable, two-parent family. Equally ... none of these nations has been able to provide a substitute for this key social institution which ensures the development within children of those 'internal constraints' on criminal impulse which are the first line of societies' defence against crime and violence and other forms of barbarism. The tendency of these pathologies to cluster in certain districts suggests that, in the absence of strong family structures, this failure of socialisation has become especially acute where people are struggling on the margins of socio-economic well-being and personal competence.

It is clear that we still have a long way to go on the journey back from social decay to social cohesion. With the benefit of hindsight, it should be obvious to everyone that social decay is inevitable when people are kept in perpetual childhood - dependent and ill-mannered - in a welfare state. Social cohesion requires that citizens should behave as adults who accept responsibility for their actions. What does this imply about the role of the government? Alexis de Tocqueville put it this way in 1840 with remarkable foresight:

The sovereigns of the present age, who strive to fix upon themselves alone all those novel desires which are aroused by equality and to satisfy them, will

repent in the end, if I am not mistaken, that they embarked on this policy. They will one day discover that they have hazarded their own power by making it so necessary, and that the more safe and honest course would have been to teach their subjects the art of providing for themselves.

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