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The Opportunity State

Colin James, December 2011

THE OPPORTUNITY STATE

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Colin James*, 2 December 2011

I start on 13 December 1967 with the report of the Royal Commission on Compensation for Personal Injury. This was a step-change in social policy. I think another step-change may be forming right now.

The royal commission went far outside the brief set by the conservative National party government of the time. The commission recommended replacing the dysfunctional and unjust tort-law-based system of insurance with a state-run universal no-fault scheme, with automatic medical treatment and earnings-related entitlements funded by levies, eventually set up in 1974. [1]

This was in concept more welfare than insurance.

That National government also appointed a Royal Commission on Social Security, which reported in 1972, just as the National party was losing office to an ambitiously social democratic Labour government. This royal commission signposted an important conceptual shift in the role of the state from "security" to "welfare".

The 1972 Royal Commission's core principle was that the state should "ensure...that everyone is able to enjoy a standard of living much like that of the rest of the community and thus is able to feel a sense of participation and belonging to the community". Where income maintenance alone was insufficient, as for a physically disabled person, the aim should be "to improve by other means and as far as possible the quality of life". And the commission thought that "the objectives of the social security system may quite properly be expanded to cover a much wider field of public welfare than hitherto".[2]

The state was no longer to be just a guarantor of security against unforeseen or unavoidable misfortune. It was to be an agency for the promotion of the welfare of every one of its citizens. This was social democracy writ on tablets of stone.

The result was a big expansion of the range and generosity of benefits and grants. A domestic purposes (sole parents) benefit was established in 1974. Supplementation benefits followed. A universal pension at age 60 at more than twice the previous level was introduced in 1976 (subsequently the age went to 65 and the payments were cut). Tertiary student grants and subsidies were expanded and benefits for special circumstances and special needs were added over time.

Beneficiaries were no longer expected to live only a basic life but instead to share at least some of the conveniences of people in wage-work: television sets, videocassette players, automatic washing machines, cars, at least some travel. Overall, social welfare income maintenance, net of unemployment benefit, went from 7% of GDP in 1973 to 11% in 1983. This was a major contributing factor — compounded by rising expectations for, and costs of, health care and education — to a steep rise in the tax take from around 25% of GDP where it had been for a quarter of a century to around 35% by the 1990s.

Much of the history of social policy since then in New Zealand has been one of tension between rising expectations of state, or state-funded, services and attempts to contain the costs.

The baby-boomers who dominated the 1984-90 Labour government brought with them two

[1] The National government did not welcome the report. In 1971 it set up a select committee of Parliament to navigate round the commission but instead the select committee found the tidal flows too strong and unanimously supported the commission's proposal.

[2] Report of the Royal Commission on Social Security, p. 65-66.

tendencies. One was a high value on individual freedom, which readily accommodated the fashionable neoliberal ideologies. The other was a neo-social democratic idealism, or left-liberalism, which had fuelled protests against the Vietnam war, rugby with apartheid South Africa and the plan to desecrate the beautiful Lake Manapouri to generate electricity for an aluminium smelter and which accommodated a renewed push by Maori for indigenous rights and redress of past injustices. The outcome of this unresolvable tension between right-liberalism and left-liberalism was an incoherent policy combination: economic deregulation and internationalisation removed the foundation stone of 1930s social security, the "guaranteed job" which provided an adequate income for families, and most subsidies were also removed; there were tighter targeting and co-payments for some state services which were at odds with the social democratic ideal (never fully achieved) of universal provision; and there was substantially higher spending on social programs, particularly housing, tertiary education and assistance to Maori. The government was both less and more social democratic. The Labour party split deeply three ways as a result.

In the two decades since then social policy and programs have been generated, adjusted or influenced by a variety of economic and social changes or imperatives and by a variety of motives.

One imperative has been rising public demand, either self-interested or involuntary. Health spending has risen faster than inflation to meet increasing demand driven in part by technological advances, in part by poverty and in part by people living longer. Unemployment benefit numbers have risen and fallen with the economic cycle. The numbers in tertiary education have climbed steeply, driven by economic opportunity and the economic imperative in a globalised society of acquiring skills or getting a meal ticket – that is, a degree or certificate of some sort. The numbers on national superannuation, the state pension, are set to rise steeply from this year.

A second imperative has been me-too-ism. That has given us middle class welfare: for example, favourable tax treatment for the better off and interest holidays and writeoffs for tertiary students, who come more from better-off backgrounds. The educational meritocracy of the 1960s has generated a self-perpetuating class system for its children and grandchildren.

A third imperative has been the rise of inequalities to the point where economists not of the left have recently begun to debate their impact on economic performance.[3] Deregulation and the hollowing out of manufacturing has created a self-propagating underclass, now into its third generation, dependent on benefits.

A fourth imperative, related to the third, stems from costly failures in child-raising which produces suboptimal teenagers incapable of working for a living. In the early 1990s a "parents as first teachers" program tried to address this. In the late 1990s a multi-agency attempt to "break the cycle of disadvantage" by targeting families with a known history of delinquency and crime aimed to rescue the children before they went down that path. A "green paper" on "vulnerable children" is now out for discussion. The Labour party proposed in the election campaign to make all its social policy child-centred.

A fifth imperative, related to child-rearing failures, is a concoction of poor physical and mental health, drug-taking or addiction leading to petty and then serious crime. The response has been a mixture of costly punitive measures (prisons) and attempts at prevention (among them military and other camps for wayward youths) and, more recently, more intensive case management to divert youths from unemployment into training and employment.

A sixth imperative has been high immigration to offset high emigration (about 1.7% a year). New Zealand society has been rapidly diversifying. That generates new social policy issues related to cultural differences.

[3] Lawrence Summers, "We have to do better on inequality", *Financial Times*, 20 November 2011.

One motive in devising or adjusting support programs has been to try to get more beneficiaries into work, for their own good and for society's good. "Dependency" is often characterised as damaging to morale and morals and is seen as self-perpetuating: both well-off politicians and advisers and some advocates for beneficiaries, including the Maori party, share this view, though they often disagree on the remedies.

Associated with this has been a second motive: reciprocity. State help creates an obligation, both major parties have said. Among some, the language slips from efficiency to moralising: obligation is duty and the state's help is the modern equivalent of a charity. Some beneficiaries are said to make "lifestyle choices" (such as having babies to keep the domestic purposes benefit) or, in the words of the current Prime Minister, "bad life choices".

A third motive arises from fiscal imperatives. We can't afford it: a mini-budget in December 1990 cut benefits by an average of 10% from 1991. Superannuation payments were reduced in 1985. Since 2008 some programs have been pared.

Related to this is a fourth motive: economic efficiency. A large welfare state undermines general economic welfare by diverting resources from productive enterprise. The shift in the global economic and political balance sharpens this factor. We have been used to comparing ourselves with rich northern European states which have had generous social policy systems. Not only are they now cutting back but we will find the comparator states in the trading environment of the 2010s and 2020s are in Asia and elsewhere and, while they will expand their state assistance, they are most unlikely to reach 1990s European levels. They think differently and have different moral, social and cultural norms. That is a push factor from abroad for change.

A fifth motive is to reduce the cost of services and/or improve their efficacy by contracting out delivery of social services to non-government agencies: primary health care, skills, early childhood education, family interventions and, most recently whanau ora to serve Maori needs. Cost-effectiveness in this context comes from enthusiasm, a part-voluntary workforce or partial funding by philanthropy. Efficacy is believed to come from greater flexibility and entrepreneurialism than rule-bound state agencies can allow themselves. There have thus been attempts to write flexible contracts, and we can expect new attempts from the Better Public Services project, the report of which is now in the Prime Minister's hands. And there is a pull factor: generations X and Y expect their goods and services, including from the government, to be customised. (Note in passing that there are nearly 100,000 community and voluntary agencies, most tiny, about half in social services. The 1999-08 Labour government also toyed with "social entrepreneurs" to enhance outsourcing and contracting out and generate new ideas as well as new energy, but this idea was summarily ended after two of them got bad press.)

Fiscal pressure, economic efficiency and efficacy were the primary motives in the decision to set up the Welfare Working Group (WWG) of academics, professionals, NGOs and officials which reported in February. The WWG formed the basis for the government's youth policy announced in July and welfare reform policy announced during the election campaign.

The most interesting recommendation in the WWG's report, adapted from the Accident Compensation Corporation's practice, was to apply actuarial assessment to assess long-term cost liabilities and work out the return on investment in pre-emptive action. The idea is to project long-term liabilities as virtual future funds, on which actual here-and-now investment could be predicated on a virtual net present value basis, delivering returns on the investment which outweigh the future liabilities.

This promises to inject some financial analytical rigour into policymaking. To this Sir Peter Gluckman, the Prime Minister's Chief Science Adviser, is aiming to add scientific rigour.

A report Sir Peter and Professor Harlene Hayne published on 1 June[4] incorporated contributions from a group of eminent specialists in aspects of social policy and drew on Sir Peter's own work on epigenetics and the Dunedin longitudinal study, now in its 38th year. It made a strong case for intensive early intervention to rescue children from initial poor nutritional, emotional and cognitive development so they can fulfil the 1972 ambition that all should be full citizens.

I think these pushes for greater analytical rigour constitute a potentially profound and important development in how citizens, advisers and politicians come to view social policy. Prejudice, instinct and focus groups are more convenient and comfortable — and politically rewarding. But they don't work.

Of course, telling us that something should be done does not tell us what to do or how to calculate what returns we might get. That opens up room for ground-breaking research. There is no compelling reason why New Zealand – small, flexible and specialising in generalists – could not be the laboratory.

To be that laboratory, we have to think in new ways.

The first is to recognise that labour is global. The fourth great 21st century globalisation, along with information, capital and finance and goods, is people. Around 3% of the world's people live outside the borders of their birth country. Asian nations' share of New Zealand's population went from 3% in the 1991 census to 9% in 2006 and is likely to be 11%-12% in next year's census. That injects a diversity factor into any discussion of social policy (in addition to the fact that 35% of the under-25s are Polynesian).

I have suggested elsewhere[5] that labour, or work, may now be a sort of new global commons, appropriated by some to the exclusion of a universal claim to the means of sustenance. What social policy is realistically available to a government in this porous globe of transient people and jobs? We have not really begun to think through the degree to which nation-specific and nation-protective social policy is practicable, any more than is nation-specific and nation-protective economic policy. Social policy is not a closed system.

A second way of thinking about social policy that is gaining some ground is intergenerational. Issues of intergenerational equity are coming on to the table. The Treasury's next 40-year fiscal projections, to be published in February 2013, will be backed by more extensive research and public debate, including published papers and a conference in December 2012.

A third way of thinking about social policy is custodial. We have been accustomed to thinking of social programs in short timeframes. We do not adequately factor into social policy decisions and actions the sense that we here now are custodians of the inhabitants of a future society. We are patchily beginning to think of the physical environment and ecosystems in terms of a custodial role to ensure adequacy for future generations. We have yet to think of society in that way. We just have kids, end of story.

A fourth way of thinking about social policy, related to the third, is to see society not as problem but opportunity and not just as social or civil or personal or moral opportunity but economic opportunity. One way of doing that is to think of a well-functioning society as infrastructure — like roads, or broadband or, if we stretch our minds a bit, like the natural environment and ecosystems and education and support for innovative start-up firms. Infrastructure is not, to use Finance Minister Bill English's phrase for some social programs, a "nice-to-have". It is a necessity. Neglect of infrastructure, as we found after the neglectful 1990s, has an economic cost. It is good economic sense to invest in and maintain

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[4] Office of the Chief Science Advisor, *Improving the Transition. Reducing Social and Psychological Morbidity During Adolescence*, May 2011 (issued publicly 1 June 2011).

[5] Colin James, "An orphan on the common", New Zealand Institute of International Affairs conference, 20 October 2011, accessible at www.ColinJames.co.nz under "Speeches, papers and briefings".

infrastructure. Logically, both conservatives wanting a cohesive society and left-liberals wanting equality of opportunity should be able to think in this way.

If we think of society as infrastructure, we are far more likely to invest in maintaining it in good condition than if we think of "welfare" and other "social" spending, such as housing, health and education, as cost. And the return on that investment is that not only will more people "feel a sense of participation and belonging", as the 1972 royal commission urged, but they will be or become productive members of the workforce, pay taxes and incur less expense to the rest of society in health, mental health, drug dependency and crime, not to mention income assistance. In this way of thinking, current investment in a well-functioning society generates a subsequent return.

These ways of thinking might also lead to the rescue of the word "welfare". It now equates to indigence and failure; it needs once again to represent wellbeing. That is what the 1972 royal commission really thought it was recommending.

That was 40 years ago. The royal commission looked out on a brave new world. It is time for another brave new world, in which the opportunity state replaces the welfare state.