
REVIEWS

Beyond Rational Economic Man

Robert Skidelsky, Beyond the Welfare State, The Social Market Foundation, London, 1997

Reviewed by Mark Latham

THE reform of the welfare state has become one of the great enigmas of governance and political debate in the Western world. While social democrats like Tony Blair and Bill Clinton boast of wanting to 'think the unthinkable', they are yet to present the type of legislative program on which lasting reform might be based. On the other side of politics, welfare policy remains synonymous with reducing the role of government; yet it is not clear how the work of the free market might break the personal despair and disenfranchisement associated with entrenched poverty. In Australia, the greatest shortcoming of the federal Coalition lies in its failure, especially during 13 years of policy-making in Opposition, to think through and promote a program of welfare reform. No more creatively, however, some elements in the Labor Party still regard welfare policy as simply a matter of wheeling out more money for more programs of the old kind.

Despite massive changes to society and its economy over the past 30 years, the political system is still trying to work out how to reform the relationship between the state and its citizens. Changes to the structure of welfare, at best, have been incremental, even though the evidence everywhere shows that old systems of open-ended transfer payments and service provision have failed to break the cycle of long-term poverty. Much of the policy-making process appears gridlocked, not just by a paucity of ideas but by the unwillingness of politicians to upset the entitlements and expectations of those in the electorate who have grown dependent on welfare. Public policy requires a new paradigm and direction for the reform of the welfare state.

Few of these answers, however, can be found in Robert Skidelsky's slim and densely argued book. Skidelsky, biographer of J. M. Keynes and head of the Social Market Foundation, a recently formed London think tank, echoes the age-old view of libertarian economics: that welfare recipients become lazy and manipulative once presented with the comfort of income support. 'High levels of social protection weaken the incentive for people to work by raising the reward for leisure' (p. 74). Skidelsky believes that the welfare state, in developing systems of social insurance to deal with moral hazard (whereby people maximise their satisfaction at other people's expense) has, in fact, made this problem endemic. He argues that social welfare, as 'a tax on efficiency, liberty and morality' (p. 83), needs to be replaced by the self-discipline and incentives arising from personal welfare and private insurance.

The problem with this analysis is that it positions welfare recipients solely within a framework of rational economic decision-making. Skidelsky maintains that people become dependent on public income support because they see this is a rational way of maximising their economic welfare. Yet the evidence about long-term poverty suggests that disadvantaged people, having lost the skills and habits of regular work and rewarding social contact, are more likely to make perverse decisions about their well-being. Whenever, for instance, I visit the public housing estates in my electorate in south-west Sydney, it strikes me as totally irrational for so many citizens to have to endure high rates of unemployment, family breakdown, drug dependency and street crime.

Skidelsky admits that he has had little personal contact with the welfare system, beyond the education of his children. This illustrates the problem of applying bold economic theories in a manner divorced from social circumstance. It is absurd to believe that welfare recipients have rationally manipulated the welfare system when, in cases of entrenched poverty, people have been forced to live without any satisfying degree of economic or social participation. In truth, welfare analysis needs to reach well beyond the parameters of 'rational economic man'. It needs to examine other aspects of human behaviour which might lead to a more productive agenda for welfare reform.

A starting point is to understand how the human condition has been set apart from the animal world by a yearning for recognition — the acknowledgment that each of our lives holds worth and value for others. As Francis Fukuyama (1992:xvi) has argued:

Human beings, like animals, have natural needs and desires for objects outside themselves such as food, drink, shelter and, above all, the preservation of their own bodies ... but in addition, human beings seek recognition of their own worth, or of the people, things or principles that they invest with worth. The propensity to invest the self with a certain value and to demand recognition for that value, is what in today's popular language we would call self-esteem ... It is like an innate human sense of justice.

This concept of recognition takes us a long way towards a comprehensive understanding of the relationship between citizens and society. It explains why many aspects of economic activity are outside the bounds of rationality, such as the accumulation of income and assets beyond the capacity of any individual to consume them. Libertarians like Skidelsky need to appreciate that, beyond the satisfaction of basic material needs, the role of money in society is primarily to do with the search for status or recognition. Given the social stigma now attached to most forms of public income support, it is difficult to see welfare dependency as rational behaviour. In the popular culture, transfer payments have become a symbol of personal failure and worthlessness.

Recognition theory also helps with an understanding of the social problems arising from entrenched poverty. It explains the sense of non-material loss people

feel when they face unemployment: the hopelessness that comes from a loss of self-esteem and social worth. It explains why the victims of poverty, without the capacity or opportunity to excel by conventional means, might seek recognition through various forms of negative behaviour, such as the escapism of drug use or trying to impress their peers with acts of vandalism and other property-related crimes. It explains how teenage pregnancies are more likely to be motivated by a yearning for recognition — the unique love and status arising from the mother-child relationship — than by the quest for single-parent welfare benefits. Most of all, the concept of recognition helps to explain the tragedy of intergenerational unemployment: how the idle and educationally disadvantaged of one generation can become role models for the next.

From this perspective, one can appreciate the shortcomings of both sides of politics on the question of welfare reform. The libertarian Right has erred in believing that welfare solutions can be found only outside the welfare state: in labour market efficiency, savings incentives and robust individualism. Rational incentives succeed only if people see a link between their own circumstances and the incentive system. Citizens are not likely to gain recognition within the market system if their prospects for economic participation are next to zero. This reflects the hardship of social exclusion in an open economy: the longer people stay unemployed, the less likely they are to find work; the longer the term of unemployment, the greater the chance of alienation and anti-social behaviour.

Equally, the political Left can no longer assume that passive forms of welfare create the basis of active citizenship. In an information and recreation-rich society, people are more likely to judge their well-being through the development of skills and social participation than by reference to a material (and rather arbitrary) poverty line. Social democrats can no longer feel satisfied with the impact of cash transfers and universal service provision. A new bundle of welfare issues now dominates the public agenda. Policy reform needs to focus on the ways in which the state might aid the spread of social recognition. Indeed, there can be only two purposes to the public provision of welfare: to move people back into work, and to develop their skills and status. This approach gives government an important role on both sides of the new labour market: strengthening the demand for work through its role as an employer of last resort at a local level; and, on the supply side, embracing the value of life-long learning.

Active welfare, however, involves more than the creation of social opportunity; it also means demanding from citizens the discharge of social responsibility. Without effort in society there can be no achievement or recognition. This is why income support needs to be linked to the reciprocation of responsibility in employment programs, education and training, and the crucial role played by parents as educators in the home. If citizens are not willing to exercise responsibilities of this kind then governments should not be willing to maintain the payment of full benefits.

Welfare reform also requires from the public sector a different scale of public provision. While the old Left and new Right have argued for decades about the raw

size of government, concerns about the scale and quality of state interventions have been overlooked. The mass scale of public bureaucracies has prevented citizens from building the bonds of mutual interest and community. Large, centralised departments have caused considerable public resentment, rather than the type of social trust and recognition arising from a smaller, more virtual scale of public provision. The more people feel that they belong to society and its organisation, the less likely they are to engage in negative forms of behaviour.

This is where the devolution of public governance is so important: forcing the state to shed many of its functions as a service provider, while maintaining its role as a service funder and regulator. The freely formed associations of civil society, creating opportunities for shared trust and cooperation, are crucial to the prospects of mutual provision in our society. During an era of globalised markets and work, they are the best way of conveying to citizens the benefits of social belonging and recognition. As ever, the organisational scale and purpose of the public sector are more important than issues of size.

For those still committed to a small government agenda, a more satisfactory critique of the welfare state can be found in David Green's *From Welfare State to Civil Society* (1996), which has been reviewed in *Agenda* by John Savage (1997). Unlike Skidelsky, Green argues outside the limits of rational economic man by pointing to the value of social belonging and mutual associations. This type of argument resembles some of the policy work of the communitarian movement in the United States. It helps to highlight the way in which, on issues as diverse as economic globalisation and welfare reform, the conventional Left-Right divide no longer represents a satisfactory way of dealing with public policy. Neither the libertarian Right (with its focus on materially self-interested behaviour) nor the old Left (with its romantic attachment to altruism) appears capable of progressing an effective agenda for welfare reform. The next generation of welfare policy will need to rely on a third way, reflecting the value of recognition theory and the construction of a new relationship between citizens and the state aimed at social belonging. From this perspective, Skidelsky is more likely to be remembered as an outstanding biographer than an influential welfare reformer.

Reference

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