Background Papers on Social Policy

PAPER ONE
ROLE AND GOALS OF SOCIAL POLICY

What is Social Policy

Social policy could be described as those policies which are centrally concerned with the question 'who gets what, and is that fair?' It is specifically concerned with people, the quality of their lives and the nature of their social interactions. However, these concerns and issues also arise in economic policy. All government activity is directed towards the promotion of the well-being of people in society. Economic management is not an end in itself but is the means of supporting a better life for people in New Zealand. The ultimate criteria for judging policies in rhe area normally known as economic policy are essentially similar to the criteria rhat are applicable to judging social policies. Though different statistical measures might be used in different areas, the overall aim is the same.

With that in mind, the dimensions of social policy become hazy. How are we to understand the distinction between economic policy and social policy? One means is to look at the institutions of the welfare state. It is relatively easy to make a list of health services, social welfare benefits, education, and housing assistance to get an idea of some of the major manifestions and instruments of policy. However, the identification of a common thread through these areas can prove to be elusive.

One possible way of characrerising social policy is to say thar it concerns those areas of government policy which revolve around equity. Equity is important in all areas of government activity, and equity issues arise in debate on macroeconomic and microeconomic problems, but social policy might be distinguished from those as being the areas where the concern of the state is essentially based on the equity aspects. The distinction, however, is contrived as all areas of policy are concerned with both equity and efficiency and the success of economic policy depends on the smooth running of society just as the achievement of social justice is supported by a strong economy.

For the purposes of the post election briefing, and for this annex, no strict definition is attempted; social policy is simply that list of activities that are normally understood to be social policy.

In this briefing we are including an unusually large and full account of social policy issues. There are several reasons for this. The first is that it is clear that a review of social policy is timely and there is a widespread expectation rhat an incoming government will be particularly interested in many aspects of social policy. There has been a slowly growing public debate on issues in education, health, cross-cultural relations and poverty. An institutional focus to such debates is provided by the presence of the Royal Commission on Social Policy. Therefore it seems timely that The Treasury put a particular effort into laying out the issues and principles behind social policy as a brief for the incoming Government.

Though this briefing gives unusual emphasis to social policies this does nor reflect the significance of social policies in the overall options available to the Government to improve the well-being of people in society. As will be made more clear later in this paper, the most important means of promoting well-being relate not to specific government interventions to deliver particular social services or to correct various inequities. Rather the most important set of policies are those which provide a consistent framework for the growth and development of a strong economy. It is the processes of production, distribution and exchange which are the basis of our economic wealth and also central to the quality of our social life. Those processes are carried out by many individuals and organisations and it is a mistake to regard the state as the central source of well-being for society. Certainly the state has a central role in the dispensation of justice, and a critical role in ensuring that the framework of rights and obligations within which economic and social transactions occur are designed to permit the development of a strong and fair economy and society. The most important means of putting this framework in place are described in the earlier parts of this briefing. The social policy section focuses specifically on those parts of policy in the areas of daily well-being where equity issues are raised most starkly.

In Chapter 3 of the brief current policy issues were outlined. This annex should be read as background to that chapter. It explores issues of equity and of the

concepts behind the state's role in social policy. It is concerned with the relationship between people and the state, and the role of other institutions in society. The general framework of thinking outlined in Chapter 1 of the brief, and the institutional concepts discussed in Chapter 2, remain relevant to social policy. This annex does not depart from those positions, but explores other aspects which tend to come into sharper focus when social policies are considered.

This first paper in the annex provides a brief introduction to the problems and issues to be confronted in an examination of social policy. After this are two theoretical papers. The first contains some philosophical background on ethics issues behind social policy and the second examines theoretical concepts of rationality that underlie the implicit models used in the briefing. These papers would not normally be included in a report to a minister as they involve an unusual degree of abstraction to derive a basis for policy analysis from first principles. However, the existence of the Royal Commission on Social Policy has required an examination of basic issues. Accordingly these annexes are attached for completeness. They may be omitted without loss of understanding, but may be referred to if the logic of some proposition requires confirmation. The final paper, while theoretical, has a more direct policy application. It is an outline of issues that need to be considered in evaluating social policy proposals. As such it constitutes a checklist of concepts and approaches for use when examining various social policy issues.

This opening paper of the annex on social policy is intended to provide an introduction to the issues. The next section begins with a discussion of the current state of society. It is followed by a section on concepts behind social policy and the normative ideas that are needed to understand social policy. The paper moves on to review the various sources of well-being for people in society; it explores the role of the individual, social institutions and the economy and points to the role for the Government and leads into the following section which examines the limitations on what governments can hope to achieve in social policy. This paper is intended to draw out some of the connections back to other parts of the brief.

The State of Society

There are many people in various forms of distress who together constitute worrying symptoms that all is not well in New Zealand society. The problems suffered by these people and the causes of them are the stuff of social policy. However, when considering the state of society in New Zealand today it is worth remembering that there is also much with which we may be reasonably pleased because there are many people for whom life is good and satisfying. Our

insriturional structures and cultural understandings are providing a framework within which most of the people, most of the time, are living at a high level of contentment.

There is paid work available for the vast majority of rhose who seek ir and rhe rates of pay are such that New Zealanders can generally maintain a lifestyle which is comfortable by past standards and reasonable by world standards. Though there is obviously room for debate about the acceptability of the distribution of income and wealth, there are clearly few extremes of the sort that may be seen in some third world countries. There are large established institutions of the welfare state which promote a great deal of income redistribution and provide a substantial 'social wage' through the delivery of education, health and other social services. There are specific support systems to assist the disadvantaged in the use of various services including housing, social work and institutional care. We have a population drawn from several cultural backgrounds. Maori culture is enjoying a degree of renaissance and Pakeha, Maori, Pacific Island and other groups live together with few overt acts of discrimination.

Some empirical legitimacy can be accorded this view of society by looking at the Social Indicators Survey. In 1981 the Statistics Department conducted a survey of the views and attitudes of New Zealanders to explore the degree of sarisfaction among the survey group with various states of well-being and rheir role in society in general. The overwhelming result was a response from those surveyed that they were generally pleased with all aspects of their lives and their social interactions.

However this rosy view of the state of society is misleading for social policy purposes. It is obviously true that though the majority may be comfortable, there are many real problems affecting groups and individuals throughout society. Because it is the business of social policy to focus on equity issues and to be concerned with any systematic disadvantage that may occur in society, it is these areas of social stress and deprivation thar ought to be the focus of social policy concern. If there is any significant inequality in the opportunities facing people in society, or severe inequality and deprivation in the access to resources and the standard of living of some in society then that is the concern of social policy. In particular if there is any pattern in the individuals or groups who tend to face lesser opportunity or enjoy a lower standard of living then that suggests a need to analyse the reasons for such unfairness and to explore whether there are grounds to redress the balance and whether there are rhe means to do so.

Because employment is the central means by which most people derive their material income and is critical to the social identity of most people, the emergence and growth of unemployment over the last ten years is a major restraint on the opportunities enjoyed by many people in society and is a significant cause of reduced standards of living for many people.

Alongside the stresses caused by the economic problems of unemployment are changing patterns in family life. The increasing incidence of marriage breakdown and the increasing proportion of families headed by a sole parent mean that many children are growing up in a family environmenr very different from the traditional family structure, and our schools, police and social agencies are facing large numbers of children suffering significant stress from their home environment.

A further issue which is of growing concern is the level of crime and violence in society. Though it may not be accurate to claim that there is any generalised decline in the normal social understandings and restraints which act to conrrol violence in society, it is clearly true that there is a growing number of people who feel sufficiently alienated from society that normal social restraints are of diminished effect.

A particularly worrying aspect of each of the issues identified above, and many other areas where society is not working as happily as it might, is that the problems and stress of unemployment, family breakup, and crime are heavily concentrated on Maori groups and the Pacific Island population. When combined with the grievances associated with alleged breaches of the Treaty of Waitangi, these raise questions of racial justice and are clearly associated with an increase in racial tension.

Obviously all is nor well with our society. Life is fine for many, but that does not mean that we have a social order which can be sustained with general acceptance by everyone.

An associated and worrying issue is that as well as these symptoms of social malaise there appear to be fundamental problems in the social institutions and policies that have been set up to promote a good society. The generalised belief that the welfare state is a robust and successful concept is now increasingly questioned. Some examples of these questions include:

— There is increasing criticism of the education system. Recent public opinion polls, in which education is frequently cited as one of the major problems facing society, demonstrate growing disquiet.

— There has been recent public criticism of the Housing Corporation. In particular it is accused of being mono-cultural and therefore ineffective in addressing Maori housing needs.

— The health system is showing signs of stress. The fact that over one million people now hold private health insurance policies may be an indication of reduced confidence in state provided health care systems.

The overall cost of those areas of government activity and of the income distribution system accounts for a very high percentage of overall government activity. As well as the annual cash flow there are huge assets tied up in schools,

hospitals, and housing. There are no robust management systems to provide incentives for the efficient use of those assets.

Though the cost is already high it is clear that the ongoing burden of benefits, especially the National Superannuation Scheme, will impose enormous increased costs on the state. Demographic projections demonstrate that as the baby boom generation currently in the labour force moves towards retirement age the burden of maintaining the National Superannuation Scheme in its present form n-ill become intense.

Another significant aspect of demographic change is the rapid growth in the Maori population. This carries the implication that any assumption that New Zealand is predominantly Pakeha with a small Maori minority will be shaken as the Maori proportion of the population grows. It also underlines the urgent need to ensure that social policies succeed in providing young Maori with appropriate education and employment opportunities. If our present performance in this area is maintained it is possible to envisage a society in 30 years from now with a large aging Pakeha population looking for income support from a smaller labour force increasingly composed of low skilled Maori. This vision is disturbing both from the point of view of social justice and in terms of the overall output and income of society.

In summary, there are already significant areas for concern in our social policy institutions and there is substantial public disquiet. In addition the cost of these services has grown enormously and demographic reality suggests that the presenr regime is unsustainable in the longer term.

The Analysis of Social Policy

A list of apparent problems is of very little use unless it is interpreted againsr some understanding of what would be better or acceptable. This raises questions about the nature of social goals and the objectives of social policy. Though it is easy to express generalised goals for social policy such as ' the achievement of a fair distribution' or 'giving everyone a fair chance', it is very much harder to translate such bumper-sticker thoughts into coherent policy. We need to have a means of understanding what criteria are applicable in deciding what is a fair distribution or a fair chance. Unless we achieve greater clarity in our understanding of the values behind policy then it will be hopelessly difficult to assess the wisdom and appropriateness of competing policy proposals. However we should note at the outset that this is an exercise that is inherently limited. We cannot hope to achieve anything more than some fairly generalised level of understanding

that needs to be tested against intuition and common sense when any particular issue is being examined.

Any attempt to clarify the goals of social policy involves the use of philosophy, anthropology, sociology, psychology, management theory, economics and various other disciplines. The issues are multi-dimensional. Clear solutions are difficult to achieve.

Having acknowledged that there is no one answer to the question of what is the correct objective for social policy and thar any discussion in this area is essentially based on value judgement. Paper 2 on ethics and social policy contains an outline of one way that such issues can be approached. After exploring some basic value judgements and ethical propositions the paper goes on to review various schools of philosophy to search for a suitable means of resolving debate in social policy. The paper suggests that there is no off-the-hook philosophy that would be suitable for all aspects of social policy. Instead it seems appropriate to attempt to draw from various different threads of philosophy in order to ensure that our policies will best meet the needs of people in society.

The paper suggests that one aim for social policy is to define and protect basic rights for all people in society while promoting the well-being of all. This involves a conscious melding of policies aimed at ensuring that those in the weakest and poorest position are protected, and also that the interests of all members of society are reflected in social policy.

When translated to a policy context this idea can be loosely expressed as the definition and protection of various 'standards' for different aspects of well-being for all people. The term standard is suggested with some hesitation because it seems to imply an ability co define levels of well-being with some degree of precision. In fact, this is a most uncertain exercise and the adoption of a concept of standards is simply a reflection of the belief that there are grounds for the Government concerning itself to ensure that everybody can lead a life at a level which is deemed to be acceptable, with opportunities which appear to be fair. To express this as a standard is to simplify the issue and to give it an excessive degree of apparent certainty, but it makes discussion easier and the term is retained for use later in the annex.

Though Paper 2 contains an attempt to derive a rigorous, logical basis for policy interventions and it attempts to draw on many threads of philosophical thought, we are aware of the risk of being seduced by such intellectualisation. In the final analysis the validity of an approach to policy in a democracy is to be tested not by the intellectual acceptance of philosophical bureaucrats but the political acceptance of votors. Attempts to establish a clear understanding of the philosophical underpinnings of political propositions are obviously helpful but it is still unrealistic to expect crystal clarity in social policy. The fact remains that

policy musr be delivered by people and be received by people and rhe idiosyncra-cies of personal interaction will tend to muddy the flow of academic analysis. Even if it were possible to derive an absolutely neurral truth abour the goodness of certain social goals, the policy put in place to achieve such goals would still be likely to vary depending on such points as the cultural values of the clients of rhe policy and technological change.

Paper 2 suggests that the defence of justice and the maintenance of equity are central to the role of the state. This role is derived from the need to maintain the rights of all people in society, and for the purposes of social policy the role translates into a double concern with the maintenance of an adequate minimum level (standard) of well-being for all people and the promotion of the best overall level of well-being for everyone. However, though a normative analysis suggests that the state has a role to pro note these collective goals, that does not mean rhar the state is always (or ever) tł best institution to achieve social aims, or even that the state is capable ໐ succ. in such areas. The next two sections look at some issues of how the economy and society and the Government itself can or cannot function to meet social goals.

Sources of Well-being

For most people, most of the rime, each individual is the person best able to attend to his or her own welfare. Most of our well-being is derived from our own efforts. It is work in the home or in the paid workforce which provides the goods and services that are needed to support society and to maintain living standards. In the final analysis the overall welfare of a society represents the sum of the efforts of its participants and their predecessors, combined with natural endow-ments. Though this discussion uses economic terminology and seems to equate welfare with the production of goods and services, in fact the analysis includes social values and networks. As pointed out at the beginning of the chapter, social policy is about people, and anything which contributes to the overall happiness of people (welfare, utility), including personal identity, social cohesion and cultural diversity is of value.

In terms of this analysis all work, whether paid or unpaid, is of value because of its contribution to the well-being of people. Clearly domestic work is of critical significance in a social policy context. Though most work in the home is unpaid, the contribution to family life, the raising of children, the maintenance of secure homes and the development of neighbourhood networks are all central to the health of society and the long-term viability of the economy. While a happy

domestic environmenr is at the heart of a well functioning society, cash income is also needed to permit access to a wider range of choice of goods and services.

At a personal level the efforts of individuals in the cash economy are mer by a contribution to their welfare which takes the form of the wages that are received in return for a productive effort, or interest and dividend income from goods thar are invested instead of being consumed. Those wages (or returns on investments) provide the core of cash incomes for virtually all households in New Zealand and are therefore central to rhe maintenance of lifestyle and rhe distribution of opporrunities. In addition, because paid employment is central to social identification it is an important source of self-respect and underlies a great deal of social interaction. Therefore, in both an economic sense through the production that is generated and in a social sense through social participation, employment is central to the success of society.

Once employment is identified as a central source of social well-being then the significance of economic policies is clarified. The social policies discussed in Chapter 3 of the briefing are mostly peripheral to employment. Employment levels are primarily a result of the success of the economy, the level of wages, the flexibility of the labour market and industrial regulation. Obviously the education of the labour force is also significant. Similarly the housing and health standards of the labour force and the maintenance of a cohesive society can represent further contributions to employment. However, the basic point is that because it is personal effort which contributes to social and individual well-being, the Government's main social priority has to be the promotion of a balanced economy in which employment opportunities will be generated so producing incomes sufficient to maintain an acceptable lifestyle. The discussion in Chapter 4, on economic management demonstrates that increased employment is not achieved by employment subsidies or expansionary macroeconomic policies, but by stable macroeconomic policies and a carefully structured set of microeconomic interventions which improve certainty and allow the development of appropriate incentives for investment and employment.

However, though the individual is the most important element in promoting welfare, obviously social institutions are also critical. The family, the tribe, friendships and charity (in its broadest sense including all sorts of voluntary effort) provide robust and caring support systems which round out the personal efforts of individuals and support those who are unable to help themselves. It is natural for us to care for one another. This can take the form of identification with group interests so that the support of the group is in one's own interest or it takes the form of an altruistic regard for those around us. Either way, this drive to support one another is part of the glue which binds society together and the Government must always be careful to perserve this source of social cohesion.

The voluntary social interactions that are found in day-to-day life provide an environment within which we can naturally pursue our own interests while simultaneously taking account of the interests of others. Voluntary transactions will only proceed where both parties can see a benefit. The sacrifices involved in family life reflect the long-term caring understandings (contracts) that people can enter into. No third party can hope to replace these sensitive understandings. Similarly the whanau, the hapu, the iwi, the church and friendship networks provide institutional contexts within which differences can be worked through and mutual support offered. Clubs and societies provide further opportunities for social exchange and the trading of obligations and favours. All of these social institutions provide a framework within which the individual can lead a richer and a more rounded life. They too are a major source of well-being.

Sometimes individual effort and social institutions are not adequate. Some individuals may be unable to find work, be incapacitated or otherwise disadvantaged. Some areas of social endeavour may be too complex for most forms of voluntary social institution and might require the deployment of substantial resources. In such contexts the Government, either local government or central government, is commonly seen as being able to offer a solution. Through its unique powers as the law maker, the law enforcer and the tax gatherer the Government is able to undertake some actions that no individual or institution in society could hope to achieve. These unique powers of the stare to require the co-operation of individuals and to co-opt resources are the basis for the often head cry 'the government ought . . . .' in response to many social problems. Clearly our earlier analysis of the nature of social policy identifies a role for the state in the protection of standards of well-being, and our listing of the sources of well-being suggests that though the individual and social institutions are central they may not be capable of solving all problems. However the Government is not omnipotent and there are inherent limits in what the Government can achieve.

What Can the Government Do?

Like all other actors in society the Government is bound by certain rude realities. It is no more able to create welfare than any other entity. Goods and services still require the application of effort by people. It is this basic fact that the Government is composed of people, and deals with people that forces the realisation that there are strong constraints on what the Government can achieve. The boundaries to the state can be explored in two general categories. The first relates to the inherent characteristics of the state as a collection of people. The second relates to the intrinsic difficulties of the state as a coercive organisation interacting with others.

The theoretical limits to the state have been examined in an earlier chapter of this briefing. Though it is often comfortable to think of the state and its coercive powers as a notional pure-minded benevolent entity, it is of course a collection of people with varying interests and incentives. This is the basic reason why, though the state is often suggested as a provider of certain social services, state organisations may often be relatively poor at such tasks. The incentives on state employees can sometimes be to promote employment within their agency rather than necessarily to provide the services that their clients want. Political pressure can sometimes be generated by state employees and their allies to ensure that state organisations are run in a way which suits the staff. The clients of stare organisations who may be diffused throughout society or who are often disadvantaged, can be less effective in providing a balancing political pressure. Therefore, in spite of the professionalism and dedication of most public servants and the integrity of the political process, government agencies can often be relatively weak at meeting the needs of society.

This is an example of a point made several times in the briefing: the institutions of the state cannot be regarded as perfect agents of society, or the taxpayer, or the user of social services, or the electorate. Though there exists a line of authority from the school teacher or the benefit clerk, through the permanent head to the Minister the links are many and the accountability weak. Even if the Minister is perfectly responsive to social wishes (and both public choice theory, which explains the limitations on collective decision making, and common sense suggest that is impossible) she or he cannot ensure that social wishes are met. A combination of unclear social goals (standards) and the plurality of social desires means that even with a will to firmly direct the system, government management systems need to be carefully constructed to counter a continual risk that the personal agenda of public servants may come to replace the aims that the Minister intended to meet.

Another dimension of this problem relates to the internal efficiency of state organisations. Because no one in a state organisation has a direct incentive to ensure that goods are used as efficiently as possible in order to maintain the profitability of the organisation, there is no built-in discipline to promote economy. It is sometimes suggested that profit should not be mixed with social programmes. However profit of some form or other is inextricably tied up with the provision of any goods or services. For example, it is nonsense to claim that there is no profit made in the provision of state health services. The staff in the hospital do not work just for love; they work for wages which are 'profitable' for them. Similarly the providers of goods and services to the hospital do so on a profit making basis. There is very little analytical difference between the profit drawn by the provider of labour and the profit drawn by the owner of capital. There is however an important difference in terms of the incentives facing those

involved in the business. The owner of capital aims to achieve a good return on the capital and to maintain the potential selling price of the-business in order to protect the investment, but the wage earner faces no such daily imperatives. The supposed moral claim that there should be no profit making in social services or that social service providers should not be privately owned, in effect becomes a requirement that there should be no incentives to ensure the efficient use of capital items involved in social services. The morality or logic of that proposition seems rather thin.

The inherent nature of the state as a collection of people therefore means that there are weak incentives and poorly defined agency relationships. As a result the state institutions are likely to be only imperfect as a means of delivery of social services for society.

The second boundary on the state's ability to achieve social goals involves its relationship with others in society. Everytime the state provides a social service it must do so by deploying resources which have been raken under coercion from members of society. Taxation involves a compulsory removal of income from those who have worked to earn it. Similarly, attempts to purchase social services funded by borrowing or by an inflationary unfunded deficit also represents a coercive reduction in the purchasing power of individuals. This reduction in reward inevitably leads to changes in work effort as people either reduce their work or alter it to reduce their tax burden. Similarly when payments are made to disadvantaged people or services are provided free or cheaply then further complex incentives are generated. The likelihood of undertaking paid employment is inevitably reduced by the offer of income support for those without paid employment. The uptake of social services such as medical care is inevirably increased by the provision of low cost services. This leads to a need to introduce rationing systems or to a rapidly growing budger cost which turns inro even further tax increases and incentive problems.

These incentive problems are explored more fully in later chapters. Here it is worth noting that they are an inevitable result of the interface between a coercive organisarion and the voluntary interactions between individuals. Voluntary interactions promote welfare; the interruption of voluntary interaction is intended to permit other forms of welfare to be developed. The cost of interrupting voluntary interactions is the loss of welfare that would otherwise have been created. The lesson here is that though the Government can carry out services which no one else is able to achieve, it is inherently limited in its efficiency in delivering such services and the services come at a cost in terms of the production that would otherwise be achieved by individuals in a voluntary trading environment. Though some important redistribution goals can be achieved through government action, this may be at a serious loss in terms of output forgone. Equity has a value: it also has a cost.

Equity and the Role of the Individual

Through this paper, and the chapters of the brief, much of the analysis is couched in terms of the well-being of individual people. Similarly, there is an emphasis on the role of individuals in determining their own fate through various choices over work, leisure and the use of social goods and services. This emphasis may sometimes seem to sit uncomfortably with the perspectives on society that accompany social policy. An emphasis on the individual might seem to underrate the significance of social institutions, and social interactions.

However, it is a basic message of these papers that caring for individual people is the centrepiece from which a strong social policy may be built. The next two papers explore this point in some depth and come to the conclusion that because individuals are important then equity matters. Because the well-being of the individual is the starting point of the analysis then redistributional policies that support a fair life for the disadvantaged may be seen to be necessary to any reasonable social policy.

Without a logical starting point of the well-being of individual people then policy is likely to be built on prejudice and the simple adherence co existing social structures. With a basis of respect for individuals then the role of equity policies can be established, as well as their costs and the limits of what may be achieved. The next two papers are an attempt to explore these foundations for social policy analysis.

PAPER TWO

ETHICS AND SOCIAL JUSTICE

One of the central components of any advice or decision in the area of social justice is normative analysis. This is because social justice is essentially about what ought to be. It focusses on questions of what is good, what is fair and what is right. These questions cannot be answered simply by careful and technical study of the nature of the world. It is a generally accepted point in moral philosophy that an 'ought' statement cannot be derived from an 'is' statement. That is it is not possible to set up premises of the form 'something is' and then deduce a conclusion of the form 'something ought to be'.

At a simple level this problem seems to be able to be addressed by subjecting any policy proposal to the test of 'is it fair?' However it quickly becomes apparent that test is very vague and ambiguous. To whom should we be fair? Who should be applying the test? Whose analysis should be used? How fair do we need to be?

In order to introduce some logic and rigour into such discussions and thus hope to lift debate above a simple airing of prejudice we need to analyse social propositions in the context of moral and political philosophy. The tools of deductive reasoning and a careful analysis of the meaning of propositions can be very helpful in bringing greater clarity co debate. The problem still remains however that any philosophical discourse that moves towards a conclusion must be built on premises which are themselves value judgements.

Concepts of goodness and morality derive from fundamental values which are not amenable to objective verification. They are, in-effect, an expression of faith and are unable to be proved or refuted. This does not mean however that social policy is beyond logical analysis, or that any policy is as good as another. Instead it means that in attempting to make a case for policies we must attempt to lay bare the value judgements underlying our position. The debate then can revolve around acceptance or rejection of those values, and the robustness of the logic used to derive policy prescriptions from that starting point.

There are both intellectual and constitutional problems in attempting to assert such a basic value statement in a briefing from bureaucrats to the Minister. Any such statement can never be proved absolutely and its usefulness for social policy depends on its acceptability to New Zealanders and to Ministers who are selected by the political process to make value judgements on behalf of New Zealanders. Strictly speaking this is not the preserve of bureaucrats who should attempt to minimise the personal value judgements that influence their work. However in many areas and especially in the area of social policy any policy analysis depends on an initial statement of a value judgement. The only way around this problem is to adopt a value statement as a basis for analysis and to make that value

statement clear so that those examining the future analysis can consider whether or not they share the premise.

The basic value that these papers on social policy is predicated on is that all people are equally precious, and promoting the well-being of people is the pre-eminent social goal. Though this is put forward as a value statement which cannot be proven, there are some arguments which may be canvassed to suggest its adoption.

The first argument in favour of the value of people is that it is a value that is widely found in day-to-day life and philosophical discourse. Christianity, and many other religions agree that as well as venerating God it is essential to cherish people. Darwinian evolutionists would tend to agree that actions in defense of the species (or the gene) are defensible actions. Those who prize rationality and cognitive enquiry would tend to place a high value of humanity as the most successful known exponents of those skills. Each of these reasons for placing a high value on people can carry its own philosophical baggage; a religions justification requires acceptance of a divinity; a rationalisation based on any attribute of humans (like rationality) can raise uncomfortable issues about the value of those lacking that attribute (like the insane or the intellectually handicapped). An approach which simply asserts that all people are precious and are a suitable object of social policy avoids all these drawbacks while establishing a position with the widest possible support.

A second reason for resting ethical discussion on the well-being of all people is that it is consistent with a democratic society. Our social policies are determined by a government which rests its authority on a system of one person one vote. It seems empty therefore to contemplate a social policy which denies the intrinic value and importance of all of those people.

A third reason is derived from an examination of alternative propositions, and the purpose of this analysis. Chapter 3 of the briefing is concerned with the best form and content of social policy. That inevitably implies that the nature and existence of various policies must be questioned. However if we started the analysis using any supposed ultimate good found in any institution or collectivity, that would seem to assert that people are each of a lesser value than the institution or their positions within it.

As with claims that true value if found in aspects of humanity, claims that value rests in collectivities carry with them social assumptions which make it difficult to achieve a general acceptance of the assertion. Any claim that the family or the whanau are good things can only be substantiated by reference to the good which they do for the well-being of people.

A claim that people are precious and their well-being important seems then to be a reasonably acceptable and defensible value judgement. Though it reduces analysis to an individual level it does not assert the priority of self over others, but

nor does it view people as a means to others' satisfaction. It cannot be proved but it is hard to see why reasonable people would want to dismiss it.

Social Institutions and Social Well-being

Having identified a central value judgement on which analysis can be built, we also need to remind ourselves of the goals of the analysis. The central issue in social policy analysis is to decide what set of policies and institutions should be adopted in order to achieve a social order which is as fair and successful as possible; how are we to promote social well-being? Obviously much of this discussion would depend on a positive analysis of the way in which society works and the success that could be expected from various institutions in meeting specified goals. However, as well as that positive discussion we need to establish criteria to be used in the evaluation of suggested changes. We need to have a means of deciding whether possible policy alternatives are in fact improvements on the present position.

The issues facing the Government in social policy are in fact issues of political philosophy. What kind of collective organisation is good? What is the right role for the Government? What roles and obligations do others in society have to each other in order to ensure the fairness of society? These issues of political philosophy obviously stem from prior conclusions of moral philosophy. In order to know what methods of social organisation and interaction are good, we first have to decide how to identify 'good'. We need not here explore the deep issues of personal interaction that moral philosophers have discussed. However, in examining and discussing whether political institutions are a good thing, we need to understand that from a normative point of view the answer must be associated with questions of morality and what is good.

It should be understood at the outset that this discussion is an attempt to establish a means of normatively deciding the value of policies and institutions. Though it emphasises individuals it does not offer any support to individualistic policies, or assert that individuals can be understood as autonomous beings remote from their society. The derivation of effective policy lies on the normative points established in this paper alongside political and sociological analysis, including the analysis in Chapter 1 of the brief on the role and limits of the Government and the discussion in the next paper on rationality.

Social Structures are Good in Themselves

For many years moral questions have been resolved by reference to religion. That which has been revealed as the word of God is good and those points which God has told us to obey are good. Adherence to these principles has helped to found strong societies with individuals having a clear idea of their rights and responsibilities. The ability to refer to overarching moral guidelines has allowed rhe development of confident social interactions and can foster economic strength.

However, as a basis for political analysis in New Zealand today, there are two major problems. The first is that religious revealed guidelines tend to be ambiguous on questions of how best to regulate society and constructing from holy sources can be a contentious process. That problem can however be addressed by theological debate. The second concern is that in our society there is clearly a substantial proportion of people who do not believe in the revealed truth of holy sources. There is no generally accepted Ayatollah to provide guidance for society. In that context, it is clearly unrealistic to expect that simple reference to revelation will be sufficient to command widespread popular acceptance of the validity of a moral position.

More recent argumentation has often revolved around the claim that society is good. This argument takes the form of asserting that particular forms of organisation have intrinsic value and need to be protected because of the good that they contain. These arguments lead to assertions of group loyalty and group interest which demand our support. That which is good is then seen to be that which supports the group.

A well developed example of this approach can be found in Marxism. Primary collective interests are seen as group (class) interests. Marxian analysis derives these group interests from a discussion on these processes of capitalism. There, the owners of capital are seen to systematically exploit the working class. That exploitation enslaves the working class and deprives people of their rights to dignity and liberty. A good act to a Marxist can therefore be those acts which further the interests of oppressed classes and tend to break down oppression. Analysis which does not put this group interest as paramount is likely to be attacked from a Marxian viewpoint because ignores the basic functioning of society.

However, this Marxian position does not provide an unequivocal reason for supporting class interests. Even if we accept the Marxian analysis of exploitation the critical nexus in the argument is that the exploitation affects people. It is the people in the oppressed class who are suffering and the support of class interests is a means to the end of supporting those people. Concern for class interests is not good in itself, but good because it supports the people in the class.

More local examples are assertions that the family and the tribe are good. They are seen by significant numbers of New Zealanders as being institutions which are valuable in their own right and as the proper way to organise society (or parts of it). People supporting this position would tend to say that that which is good is that which promotes the interests of the family or the tribe or that which the family or tribe want.

However, this creates the problem that it is not clear how the family or tribe can have an interest and even more difficult to understand how the family or tribe can have wants. Families and tribes are not organic entities with mortality, rationality or senses, they cannot feel pleasure and pain. They cannot make decisions and form preferences other than through the actions of their members. It is also true that people make collective decisions in the context of the family and the tribe. It is further true that the legal system can allow collecrivities to act as 'legal people' and thus to establish legal rights. However, none of these poinrs address the fact that families and tribes (and other collective organisations) are fundamentally collections of people. The family and the tribe do have great value; they are very important to society; their value is derived from the love and respect that people place in the family and the tribe. The family and the tribe are good; they are good because they are good for people.

Society is Good Because its Good for People

If social entities derive their value from the fact that people as individuals derive value from them, then it would seem that the individual person is the logical basis for analysis. Any analysis which asserts that various forms of social organisation are good in themselves, tends to rely on the fact that they are good for the people within them. Individuals however, are not amenable to sub-division and therefore an analysis based on the individual is a robust approach.

This approach may seem to be an introduction to a Pakeha liberal individualistic position. However, it does not necessarily lead to individualistic policy at all. It is simply an expression of the universally held view that real value is found in people. This is expressed for example in the Maori proverb: What is the most important thing; it is the people, it is the people, it is the people. From that initial tenet, Maoridom develops the tribes as organisations of value. Pacific Island societies express their value of people through various forms of widespread kin-group and community support. Pakeha society tends to arrive at families and state responsibilities. All of these revolve around the people and if we do not start our analysis at the interests, concerns and welfare of individual people, we will rapidly arrive at some very confused positions.

We should remember that the purpose of this discussion is to consider what principles and institutions will best permit the achievement of a fair society. Such an analysis must reflect the fact that society is composed of people. It cannot depend on an assumption that people like to associate in certain ways. That would simply be to assume the answer to the question. Similarly, it cannot assume that all people are motivated by altruistic concern for one another which leads them to wish to associate in certain forms of collective organisation. That again, is effectively to assume the answer and also to be very optimistic about society. This discussion does not mean that the existence of altruism or collective identification with 'group rationality' are denied. The implications of those factors are discussed in the following paper on rationality. Both of those concepts modify policy proposals; however, they do not challenge the validity of the well-being of the individual as the basis of analysis.

Having established that policy should aim to promote the well-being of people we need to decide how to identify such well-being. We also need to decide how to put together policies which can achieve at a collective level the best results for individuals.

Questions of how best to identify what people need and want relate to issues of the psychology of decision making processes, the sociology of identification with groups and the general question of rationality. This issue is explored in more detail in the following paper. For the purposes of this discussion it is simpler to assume that people's interests can be identified, perhaps by consulting their preferences. Therefore a policy which meets the collective wishes of people could be seen as a good policy because the good of society is addressed by meeting the needs and wishes of individuals.

The Collective Assessment of Personal Values

The problem then becomes how to determine whether various social approaches best reflect what people want. If we assume a world of rational individuals with clear preferences, and say that the goal of social policy is to achieve those preferences as much as possible, how do we do it?

How can we possibly know the preferences of all individuals? The range of options facing people is huge and the conceptual difficulty in understanding other people's preferences is not trivial. Even if we do know the preferences of individuals, how do we handle conflicts between the preferences of individuals whether expressed individually or through collective processes like the family or the tribe? When we are amalgamating preferences, should we simply add them up or is it a multiplicative process because the combination of preferences could be critical?

Similarly, when we are handling rhe preferences of different individuals should n-e weight each person's views equally, or should we give extra weight to intenselv held views? If we do put extra emphasis on intense views, how do we measure the intensity?

Before launching into an enormous discourse on these issues, ir is chastening co discover that theoretical analysis has established beyond any reasonable doubt that even if we know individual preferences, even if we have decided how we would compare preferences and what weights to give to individual preferences, ir is impossible to handle the conflict between preferences and so arrive at a social n-ill. There is no logically acceptable method of amalgamating the views of individuals into one collective set of preferences.

That does not mean that social policy analysis is a lost cause. On the contrary, it explains the purpose of elected government as a group to make collective choice in order to promote justice and well-being for all. It explains why institutions like Royal Commissions are needed and their function. It is the purpose of the Royal Commission on Social Policy to apply its wisdom and judgement to arrive at views of what will best reflect the interests of people. There is no mechanical formula and there can be no overarching claim that a particular policy approach is always right.

The other important conclusion to be drawn from this analysis is that we need to be very cautious about any policy that purports to meet the interests of all people. Instead, we should tend to assume that policies which give individuals as much opportunity as possible to control their own destiny will be more likely to give them the opportunity to achieve solutions which are good for them. So long as we have put in place policies to make sure that the advantage for rhe individual is not at the expense of other individuals, then we know rhat we are promoting the social good that we set out to achieve.

Another way of viewing this conclusion is that the only viable policy solution to social problems is a pluralist solution. Individuals possess a range of competing motivations which suggest that any one institution or incentive will only address part of each person's needs. Similarly, and more dramatically, the motivation and needs of different individuals will vary. A critically important aspect of that is the collective difference in the values of different cultures. In effect the discussion so far suggests that social policy ought to be aimed at the well-being of individuals in society, and the Government must exercise its judgement to promote that. There is no hard and fast mechanistic means of doing that, and instead precepts of ethics must be used to guide decision makers in the difficult choices between different interests. Before we can look at policy in particular areas, it is worthwhile to examine issues of moral ethics to see how these problems have been discussed in the past and it is also useful to explore questions of how public choice processes might help to ensure that the interests of all people are protected.

The critical question is how do we know that what happens to an individual or to a collection of individuals is fair. For many day-to-day purposes, people rely on prejudice, intuition, custom, manners and habit to guide their actions in a principled way. As a general rule, these methods are probably reasonable ar an individual level and for normal events. However, when the Government is considering basic issues of social policy and considering the desirable shape of social interaction, then more careful consideration is needed. The answer to whar is fair is essentially a moral judgement, but in order to arrive at that judgement we need to deploy such knowledge as we have of the behaviour of people, society,, and nature and to use logic to develop ideas from this knowledge. Though it is impossible to get from a statement of the form 'something is' to a statement of the form' something ought to be', it is necessary that statements of what ought to be are consistent with what is, or what realistically could be.

This note attempts to traverse the basis of ethical judgement and to examine philosophical approaches to interpersonal issues of justice and fairness. It does not hope to compete with Bertrand Russell as a review of philosophical thought; it does not purport to review all kinds of approach or to categorise using any definitive taxonomy. Rather, the aim of this note is to provide food for thought on the basis of our moral judgements and to suggest a way ahead for the Government in selecting principles to guide social policy decision making.

Individualism, Altruism and Ethics

The earlier note on individualistic analysis provided a logical basis for examining ethical propositions and policy approaches. Because the individual is regarded as the appropriate basis for analysis, then it is conceivable that individualism or libertarianism, could be proposed as the right approach to social policy. The purpose of this section of the paper is to explain why that is not correct and why an ethical approach to social policy requires a much wider ambit than a selfish pursuit of personal concerns.

Individualism asserts that each person's social responsibility is non-existent and the only responsibility is a personal responsibility to one's self. A modern protaganist of this view is the novelist Ayn Rand. She has put forward the position that each person lives for his or her own sake and the achievement of one's open happiness is the highest moral purpose. The logical corollary of this is that any self-sacrifice in the interests of another is both illogical and immoral and any expectation that someone else might make a sacrifice for me would also be immoral.

As a picture of humans and of the way people behave, this approach is glaringly inadequate. Acts of altruism are a frequent occurrence and are generally applauded. In order to examine whether this applause is correct or misguided, we need to consider where the altruistic drive might come from. In popular discussion, the justification of altruistic behaviour tends to rely on God-given guidance or on some assertion that certain actions are right in themselves. However, as a base of logical discussion these mysterious revelations are inadequate. What we need to understand is why a rational human being whose life is obviously a central necessity to any value would reach beyond totally personal concerns in deriving a 'right' mode of behaviour. One recently developing source of answers to this question is the newly emerging discipline of socio-biology. Socio-biology uses archaeological and zoological evidence of behaviour to examine where our social responses and patterns come from. As an approach it is based on Darwinian evolution theories and asserts that behaviour will reflect the imperative of survival.

One significant departure from nineteenth century Darwinian thinking is that instead of the survival of the species it is now more usual to consider the survival of the gene. The hypothesis is that the essential aim of all living things is to ensure the survival of one's own genes. Behaviour tending to promote the survival of the genes will dominate and therefore the behaviour exhibited by individuals will be a result of genetic selection in the past.

Valuing one's own genes seems to be akin to the individualism concept of valuing one's own life. If the dominant form of behaviour is that which attends only to selfish concerns, then altruism would be suppressed and would only emerge as an occasional mutant gene. There are social examples of lives which are led in a totally solitary self-interested style. Male meets female in a random annual basis, the female raises offspring to the point of independence then drives them away to fend for themselves. However these social examples are not human society nor are they found among primates. The nearest examples seem to be some mammals like the polar bear. Far from this solitary behaviour, the dominant behaviour among primates and among humans at all stages of evolution has been group behaviour with self-sacrifice (altruism) as a common behaviour pattern.

The socio-biologists have put forward three general explanations for the dominance of altruistic behaviour. The first is that kin altruism is a logical corollary to the protection of ones own genes. My relations share my genes and therefore I will wish to protect them. The second is that reciprocal altruism is a successful mode of behaviour in activities such as hygiene and acquiring food. Those beings refusing to participate in reciprocal altruism will tend to be shunned by the rest of the group and so their chances of breeding are reduced. The third concept of group altruism is basically a collection of the other two; kin groups tend to join

together for mutual protection and tend to encourage reciprocal altruism within the group. Such groups are more successful than solitary beings and therefore this genetic drive towards altruism will dominate.

Given the requirements of primates to gather food and raise offspring, this evolutionary theory explains the presence of altruism to those around us. It explains morality at a very basic level, but it is still insufficient to explain rhe behaviour of rational humans. The distinguishing characteristic between humans and other animals is our ability to undertake rational thought. The inevitable result of rational thought is an ever expanding perspective on all issues. As rational beings, we are able to comprehend abstract concepts of infinite size and variety. In particular, we are able to comprehend that there are more people with legitimate interests than simply our personal selfish interests or the local interests of our group. The ability to undertake sophisticated communication has brough with it the requirement to justify our actions to others. This means that a moral justification for an action cannot be that it suits me. Instead, a moral response to the question 'why should this be done' must be a response which is acceptable to the group as a whole. The size of the group is initially the small family group of food gatherers. Gradually, as rational thought and social interaction have expanded our horizons this has grown to include the tribe, the village or town, the class, the nation state, the ethnic group and all humanity. With our abilities of communication and imaginative rational thought is is now untenable to claim that the interests of one individual are in some way superior to another because of the colour of the other person's skin, or some other antecedent of another person. To adopt such an approach is to invite the logical approach that one's own inrerests are inferior to anothers. Self-interest among rational individuals dictates an acceptance of the equal interest of others.

This means that a characteristic of an ethical position for a rational being is that it must be impartial as between individuals. That is to say it is not an ethical justification for an act to say that it suits me, it is an ethical justification to say that it is a reasonable form of behaviour for all people. When combined with the earlier discussion of the socio-biologists we discover that an ethical statement must be rational and human: it must be impartial to be rational and it must involve care for others (altruism) to be human. Impartiality, and acknowledgement of the rights of others, and a care for the lives and well-being of others are the basic hallmarks of an ethical position which should underlie social interactions. Individualism (libertariansm) clearly fails to meet this minimal test and therefore should be rejected as a basis for social policy.

Interpersonal Judgement

The previous section derived an ethical position in moral philosophy, which is the justification for positions like the golden rule; 'do unto others as you would have them do unto you'. As a guideline for personal behaviour, that is very helpful but it does not in itself provide a clear guide on the role of the Government and the Government's responsibility in social policy.

From the requirements of impartiality and care for others we can derive the conclusion that policy should respect individuals and should endeavour to promote their well-being. That might include concepts of protecting individual rights and also providing for individual needs. However, because provision for the needs of one individual may involve taking goods from another and so possibly infringing on individual rights we still need to discover how the state should judge between the needs and rights of different individuals.

Many different philosophical positions have been developed on this point. They range from a total dependence on individual rights (including property rights) and a view that the role of the Government is simply to maintain a minimal state to protect individuals rights; through notions of social contract theory which involve a conceptual agreement that individual rights in some areas are surrendered in exchange for the greater good which interaction can provide; on to concepts of the promotion of the collective good where the role of the Government is to promote the greatest good of the greatest number even though from time to time that may mean that the interests of the minority are eclipsed by the interests of others. To simplify discussion, these three kinds of approach may be described as the rights based approach, the contractarian approach and the utilitarian approach. Though the following discussion will talk in terms of these three different approaches, it is emphasised that many positions in fact span different spots on the spectrum and it would do violence to many people's beliefs to attempt to fix them to one or other of these three very broadly described kinds of approach.

The Rights Based Approach

The rights based approach emphasises that the individual is sacrosanct. One clear statement of this is Kant's belief that people should always be regarded as ends, not means. Nobody has the right to use another person as a means to some wider well-being.

In terms of a discussion of human or civil rights, this position seems to underlie much of what is presently accepted as common wisdom. The basic characteristic

of a human is the ability to undertake rational thought and because rational thought can lead us anywhere, that means that personal independence is a necessity to protect the right to rational thought. Thinking is vacuous without rhe ability co communicate so freedom of speech is essential. Freedoms of movement and assembly are also associated with these collection of central rights which are necessary to ensure our ability to function as rational humans. Clearly, from time to time the exercise of these rights is inconvenient in the drive to promote wider social or economic well-being; sometimes the disruptive effect of the exercise of freedom of speech can interefere considerably with production. However, in a democratic society it is clearly accepted that this cost must be accepted in order to ensure that individual members of our democracy can continue to function as real people rather than as pawns in the system.

Where the argument becomes more contentious is in the area of property rights. Some writers (like Friedman) assert that in order to protect our rights to freedom of speech and thought, it is essential that individuals have free control of property. If the state can withhold property, it can effectively prevent communication. This means that the only protection of liberty can be found in a capitalist system without state interference in property rights. Other writers (like Nozick) go further and simply assert that property rights are in themselves an essential part of the bundle of rights that we are all entitled to and any interference with those rights is unacceptable. This means that any move by the state to remove property from an individual in order to redistribute it to other individuals is morally wrong.

The clearest recent expression of this kind of position has been given by Harvard philosopher Robert Nozick. He asserts that the correct principle of distributive justice is that a distribution is just if everyone is entitled to the holdings they possess. This means that the theory of justice in holdings is essential; this is as follows:

i   A person who acquires a holding in accordance with the principle of justice in acquisition is entitled to that holding.

ii   A person who acquires a holding in accordance with the principle of justice in transfer from someone else entitled to that holding is entitled to the holding.

iii   A person who acquires a holding in accordance with the principle of rectification of holdings is entitled to that holding.

iv   No one is entitled to a holding except by (repeated) applications of (i) to (iii).

The essential point then about Nozick and the rights based approach is that process is pre-eminent. So long as holdings have been acquired in a just process, the distribution of the holdings is fair; it is irrelevant to look to see whether someone has a large amount of holdings and others have small amounts so long

as the process by which they acquired them was just. Theft and extorrion are obviously unjust but voluntary market transfers are just.

The two main points to consider in analysing this rights based approach is first whether the rights which are asserted are in fact appropriate and second whether the process is historically possible. The set of rights (especially property rights) which are asserted, derive from a tradition of thought first stated by Locke. In giving effect to the first of the points under the justice in holdings (that is justice in acquisition) Locke envisages a state of the world in which individuals may acquire rights over previously unheld property. This envisages some notion of property as being unheld until an individual has personally exercised rights over it. It is by the actions of the individual (work) that rights to the property are obtained. From our discussion in the previous section, it is clear that this view of humans is totally unrealistic. In fact, humans are social animals. We have always worked jointly and therefore rights must always have been something which have been granted by society rather than taken by individuals. That which has been granted in the past must presumably be changeable in the future by a similar social consensus. Far from absolute rights over property, in the commonwealth it is an acceptable legal convention that property rights are all held from the Crown. While the Crown should not capriciously interfere with those property rights, the residual right to amend holdings remains with the Crown acting on behalf of society.

The critical point is not whether there are rights but whether they are absolutely sacrosanct. If as the rights based theorists claim, our individual rights derive from our individual being, then they cannot be amended by the state. If however, our rights have always derived from our existence as social animals and have been granted by the rest of society, then they are potentially amendable through a similar process.

The other concern with rights based approaches is that the maintenance of due process at all times is impossible. We know that from time to time individuals will take advantage of others and acquire improper rights over property. To ensure a true rectification of rights would involve mind boggling historical processes. Even in the short period of written history of New Zealand, it is clear that any attempt to rectify all wrongs would be incredibly complex and effectively impossible.

The other point to consider on rights based approaches is to abstract from the argument itself and look at its result. In effect, the outcome of the rights based position is that we should not concern ourselves if poverty (or extreme wealth among a small number) should appear. So long as these have been arrived at through voluntary exchange using due process they are proper. Many people in New Zealand, and certainly the terms of reference for the Royal Commission, suggest that this is not an acceptable position. The level of income and the

distribution of income is a real concern in our society and that concern cannot be removed by the protection of individual rights.

The Contractarian Approach

The notion of the social contract is a device which has been developed to permit consideration of collective goals and interests while recognising that individuals have paramount separate rights. The concept envisages otherwise free and autonomous individuals jointly agreeing to constrain their freedoms in order to take account of mutual interests and to permit the joint improvement in welfare that can be achieved through social co-operation.

There are many versions of social contract which have been developed by different writers. They take various different forms. A very general type of contract tends to be of the form that a policy is morally right if it is one that no one could legitimately reject as a basis for informed and unforced general agreement. This statement requires everyone to consider the interests of all others and makes it impossible to ignore the position of individuals or to abuse them in the pursuit of some wider goal. However, it also permits each individual to willingly accept some personal cost in order to participate in wider social goals.

The most prominent modern protagonist of a contract theory is the American philosopher John Rawls. He has suggested that in order to ensure that individuals will adequately take account of the interests of others, it is necessary to participate in a mental device which abstracts from the present position of individuals. We must remove people from their present property, tastes and interests and instead put them into a notional 'original position'. In that position, all people are equal and they collectively are responsible to agree on a set of moral principles to guide their lives in real society. The critical point is that in the original position, no person knows what position she or he will occupy in society. Nobody knows who will enjoy wealth and who will be poor. They similarly do not know whether they will prize culture and achievement or will prize sensitive social interaction. Therefore, in this aseptic world, all vested interest has been removed and Rawls asserts that the position that people would arrive at is therefore morally superior. This moral superiority derives, not from some moral purity of the motives of people in the original position, but from the fact that their ignorance means that they cannot advocate moral principles which are self-seeking. The fact that they do not know where they will emerge is equivalent to the test of devising a society and then permitting one's worst enemy to decide where in that society one will be placed. Rawls asserts that facing such a test, everyone will clearly in their own personal interests apply their best endeavours to developing a fair society.

Rawls claims that in the original position, two guiding principles would emerge.

i   Each person is to have an equal right to the most estensive total system of basic liberties compatible with a similar system of liberty for all.

ii Social and economic inequalities are to be arranged so that they are both:

    a   to the greatest benefit of the least advantaged;

    b   attached to offices and positions open to all under conditions of fair equality of opportunity.

These principles are to be taken in order; that is the first principle is pre-eminent and unless it is met the second principle does not apply.

The first principle is similar to the rights that are accorded to individuals under the rights based theories. The second principle is a rationalisation of inequality, but pre-eminently it is designed to ensure that the worst off are protected. This second principle, generally referred to as the difference principle, is sometimes described as the 'maximin' approach. That is to say it maximises the posirion of the person in the minimal position. This does not imply equality because inequality is justified so long as it improves the position of the worst off person.

This care for the worst off person is intuitively attractive. It certainly seems generally in keeping with social welfare concepts that have developed around rhe world. This consistency with generally held moral views is one of Rawls's own justifications for his position. He asserts that one of the functions of the philosopher is to explain the basis of generally held views. Similarly, a test of a good philosophy is whether it is likely to be acceptable generally. As such, the outcome seems not too far from commonly held views.

However, there are some difficulties with the Rawlsian approach. The first is rhat it seems strange that in order to arrive at a moral proposition which should inform the actions of people in society, we need to contrive a non-existenr and non-achieveable state. Can we really expect people to actually adopt such positions when they are not in that state? The reason why this matters becomes apparent when particularly details of the 'original position' are examined. In particular, the thickness of the veil of ignorance surrounding people in the original position, is a matter of contention. Not only does Rawls say that people should not know where they would end up in society, but he also says that people should have no knowledge of the probability of different distributions occurring given different sets of economic and social rules.

If instead people knew the risks of being poor were very low in certain society or very high in another, that may influence their choice as to whether a position which maximises the position of the worst off person is necessary. That is, people could trade-off among potential outcomes in a way which is not dissimilar from that which a utilitarian judge might apply. As with virtually any generalised philosophical statement, when carried to its extreme, the Rawlsian difference

principle can be made to look ridiculous. Do we really consider that a world in which 99 people had \$10,000 a year and one person had \$9,000 a year is superior to a world in which 99 people have \$11,000 a year and one person has \$8,500 per year. Rawls would assert that the first state is preferable to the second. However, many others would claim that in the original position, if everybody knew they had only one chance in one hundred of not achieving the \$ 11,000 they would tend to prefer that option, especially since the risk of losing \$500 does not seem acute.

This leads on to the other general opposition to the maximin principle-that it can be described as one which uses well off people to the benefit solely of the worst off. To a rights based philosopher in particular, this breaches the concept that people should not be used as means. Certainly Rawlsian philosophy cannot be regarded as one which takes account of everybody's interest.

The Utilitarian Approach

The development of utilitarianism is generally associated with Bentham and J S Mill. Since the concepts were outlined, they have been the subject of extensive debate between philosophers and social scientists of all types. The concepts can be considered at various different levels of definition. For some people, utilitarianism is a precise and correct approach and all that is required is debate over the mechanical steps needed to identify the optimal utilitarian position. For others, utilitarianism provides insights as to the best way of thinking about issues without actually giving precise answers to specific problems.

Brutally summarised, utilitarian theory says that the main concern of moral behaviour is the interests (utility) of individuals. The various different utilities of different individuals need to be collected together by some additive or average method. The result of this collection is then compared with the total utility that would be achieved under some alternative social outcome. The position with the highest utility should be adopted irrespective of the possible utility attaching to any given individual.

The main beauty of the utilitarian approach is that it explicitly aims to arrive at a collective view while building from individual concerns and positions. It overcomes the problem of excessively considering any one person's position because it automatically includes everybody in the utilitarian calculation. The process of utilitarian review simultaneously considers equity issues such as distribution, and efficiency issues like the total level of output; it therefore provides in one conceptual package a means of addressing all issues of social policy.

The moral force of the utilitarian position is that it is not undermined by self-seeking attitudes. Instead it takes people and their views as they are and does not (normally) apply judgements about the aspirations of individuals. Altruistic ambition can be included within the utility position of the individual, but the

whole result does not depend on some unrealistic expectation that individuals will always take account of the interests of all others.

However, there are many technical and ideological problems associated with utilitarianism. The first issue involves the identification of utility. What is it that is valued; some suggestions have included 'the absence of pain', 'happiness' and the 'preferences' of individuals. Depending on which of these or various other components of utility that are identified, we might arrive at quite different social policy conclusions.

A related issue is that whatever notional concept of utility we adopt, there is then a major measurement problem. All of the three possible components of utility that are listed above are not amenable to objective measurement. We therefore find ourselves needing to adopt proxies if utility calculations were to be attempted. One idea that is sometimes used is to measure 'bundles of goods'. The difficulty with this approach is that though it is measurable it is clearly materialistic and ignores wider psychological and cultural components of utility. An alternative approach is to attempt to measure utility through expressions of opinion. However, any attempt to measure satisfaction is notoriously unreliable and very difficult to interpret.

Another problem is that even once we have decided what utility is and how to measure it, there is no way of comparing the utility of different individuals. It is notionally possible to arrive at a range of utility positions for an individual which might give us insights into the changing relative utility of different goods and activities that an individual might have, but this cannot be simply set alongside a similar set of utility measurements for another individual.

A further difficulty is that problem identified earlier in the paper on the individual as the basis of social policy; even if we did know how to measure utility and how to compare the position of different individuals it is mathematically impossible to sum all utility orderings to arrive at one communal utility ordering.

Aside from this range of technical difficulties, there are some major concerns about the way that utility calculations might treat individuals. The particular problem relates to the rights and concerns of minority groups. How much is it morally correct for the majority to achieve its utility goals at the expense of the utility goals of the minority? Is it correct to sell out the interests of one person or a small proportion in order to improve the position of others? A large proportion of people might accept that some form of reduction in utility for some people is justified if others can benefit; very many people might for example agree that this is appropriate to some degree through income redistribution. A large number might even accept that attacks on individual rights and even life can occasionally be justified in extreme circumstances to protect the community and so maintain the utility of the majority. However, it seems likely that there are distinct limits to

this. There is probably very little acceptance that torture of a few people or the enslaving of people could ever be justified in the interests of the- majority. A commonly cited example is to suggest that a mechanical utility calculation could decree that a massive improvement in the material position of society would be justified even if the costs involved perpetual agony for one individual at the fringe of the world who was cut-off from all others; most commentators would assert that any such gain to society would be deplorable at the expense of the agony of the one lost soul.

As with Rawlsain analysis then, it seems that utilitarianism cannot stand up to being pushed to its extremes. It seems unacceptable to assert that the good of society or the good of the majority is always right and should always be pursued.

A Suggested Synthesis

All of the approaches discussed so far were demonstrated to have severe problems. As philosophies which would fully define moral approaches and could take an ethical approach to interpersonal judgement, each seemed to fail when pushed into various contexts. This could seem to leave us without guidance and unable to arrive at any clear position. However, there are two approaches which taken together may solve the problem for us. The first is to realise that though social policy is a very broad area, it does not encompass all aspects of personal interaction and therefore our moral positions need only be adequate to cover the situations which we envisage arising in social policy. The second is to trade off some elegance in theory for greater comprehensiveness of result by attempting some combination of approaches.

Much of the debate about each of the philosophical directions that have been analysed has been to test assertions that they give guidance in all moral dilemmas. The utilitarians have claimed that utilitarian analysis is always the best approach and any other approach will impose costs on society. Similarly, the rights theorists claim that the protection of individual rights is at all times the pre-eminent moral requirement. In fact, these positions render down to saying that the basic 'good' is either personal utility or personal rights. When looked at more carefully, it is clear that there can be many different goods. At a personal level, it could be a legitimate moral aim to pursue personal integrity, alternatively one could adopt a Christian target of saintliness or in a more twentieth century context one might aim for liberation (that is, the promotion of the dignity of people through direction of their own lives). Depending on the context in which activities are carried out and the goal which an individual or group pursuing, different activities may adopt a different morality. All of the goals listed above would meet the

minimal tests of a rational human ethical position as defined in the earlier section of this paper. All of them would probably avoid positions which would be generally regarded as outrageous but each of them would give rather different emphasis on day-to-day activity.

The Government similarly can have a series of goals which are more or less relevant in different areas of acrivit-y. For the purposes of this briefing, we are examining the Government's roles and responsibilities and also the roles and responsibilities of others in society for social policy. Clearly, in this area we must have an interest in the position of all individuals. We are concerned to ensure char collectively the positions of individuals are best cared for. However at the same time, in pursuing social policy, the Government is acting as a trustee for each member of society and so has a responsibility to protect rhe particular agreed rights. Whichever rights are agreed as attaching to individuals are central and precious. Social policy must protect such rights, while also attending to the overall well-being of all people.

In strict terms it is not possible to synthesise utilitarian and rights based approaches and that is not what is offered. Rather the concept is an acceptance of a plurity of goals which permits us to acknowledge and address the wide range of applications and preferences of people in society. Like Rawls a central tenet of social policy must be that the interests of the most disadvantaged are the first concern of policy. However like the utilitarians we cannot forget the interests of others in society so it is not sufficient to always attend to the need of the poor without regard to the cost.

One helpful approach in this trade-off is to re-examine the concept of rights in social policy. To rights based theorists a right is generally seen as an individual entirlement of self-evident authority. It supposes a concept of individuals entering into social interaction in the context of an already established set of rights which society may not question. This concept of a right which predates society is difficult to align with our anthropological knowledge of social developments which suggest society, interdependence and therefore rights, predate humanity and also would preclude any process of re-examination of fundamental social entitlemenrs. An alternative concept applicable to social policy areas is to see rights as claims by individuals on others in society which derive their authority from a social consensus. The precise composition of such rights in terms of access to various bundles of goods and services is clearly a matter of debate and is central to the consideration of equity in social policy. The aim of social policy then is both to define rhe protect basic rights (claims) and also to administer social interaction in a way which promotes the well-being of all.

That approach would suggest that the process of establishing social policy has to be a two step process. First it must identify the rights in each area of personal and social well-being and say how valuable those rights are. Then it must decide

what process will maximise social well-being and minimise the rhreat to rhose individual rights. In carrying out rhese two steps it will be necessary to explore the extent of any trade-offs in order to define appropriare minimum rights.

The first step of identifying the rights must be carried out within each area and in effect it is a central part of the process of idenrifying the principles and guidelines for social policy.

An example may help to clarify this point. In the area of healrh care, we may be interesred to promote the highest health status for all in the community, that we can achieve. However, the achievement of a collective goal in health status would not justify a failure to achieve an acceptable level of health status for a part of the population. Yet it is still not clear how we would define what the acceptable level is (that is, the personal right to health status). For example, it seems unlikely that we could define a personal right to a certain health status for each individual because clearly we cannot deliver on that; disease will always be with us and suffering and death will continue. We might instead say that we have a right to an a priori expectation of health status (possibly differing for differing age groups). Using this approach we wouldn't claim to deliver a given level of health status for each individual but would regard it as acceptable if each individual knew that they had an acceptable chance of enjoying good health. An alternative approach could be to say that we have a right to a certain quantity of health care. This could say that the quantity is an annual amount, a lifetime amount or an amount per illness. The problem with this quantum approach is it is not at all clear how it would meet the needs of any given individual with varying health difficulties. A further variation could be to assert a right to indefinite amounts of health care commensurate with ones health status at any given time. That is, because someone has cancer, they have a right to health care. However, in that case its still not clear how much health care. Is it an amount sufficient to achieve comfort (in which case how do we measure that) or is it sufficient to achieve recovery (which seems to be beyond our technical skills) or is it sufficient to ensure dignity.

It should be remembered that whichever of those formulations of right in the health area or whatever more sophisticated formulations were adopted, they do not in themselves say what the Government should do in the area of health care and how it should be done. That question still needs to be pursued under the issue of promoting the greatest good for the greatest number in the area of health care. In examining that issue, we need to look at the technical issues in the provision of health care, issues in possible forms of control in the delivery of health care and the way in which various individuals interests may interact. This leads us into issues to do with the best forms of decision making. The aim of social policy analysis is to consider what we should hope to achieve in each area and to consider what methods of operation will promote that achievement.

Trade-offs between individuals must be necessary to do that and utilitarian analysis permits that. However, those trade-offs should not be carried so far as to abridge individual rights and the normative judgement that the Commission must strive for is a definition of those rights.

Those rights must reflect New Zealand society as it is currently structured and present technical possibilities. The rights need not be the same as those we might have defined 50 years ago. Similarly, the rights are not some absolute right which the individual takes but are instead socially agreed rights which are offered for the individual.

This approach seems to meet the basic tests of an ethical system of morals that were established at the beginning of this paper. It also provides a basis for discussing policy and decision making.

PAPER THREE

THE CONCEPT OF RATIONALITY

Though normative analysis is essential in order to provide an understanding of the values and purposes behind policy, positive analysis is also critical to the development of effective policies. The purpose of positive analysis is to derive lessons from the way the world works in order to better inform the ideals that are derived from normative analysis. The aim is not to subvert the idealism with pragmatism but to ensure that policy is constructed of something more robust than pious hopes.

This paper explores some of the background of the type of analysis that is applicable to social policy. It examines the place of theory and suggests some of its strengths and limitations. It then examines the concept of the rational person. This is a concept which is central to much economic analysis and philosophical discourse in the areas of social policy and moral and political philosophy. It is an assumption which is adopted in order to permit effective analysis but the purpose and effect of the assumption is often misunderstood by critics who fear that it portrays an excessively stylised type of person and misses many nuances of behaviour.

Models and Theories in Social Policy Analysis

A common criticism of the processes of social policy making is that they are excessively dominated by intellectual abstractions. The critics tend to say that problems are clearly visible in day-to-day life and rather than considering these problems in a bureaucratic vacuum the Government should simply proceed with policies which will directly address the issues that are apparent. However there are several reasons why it is desirable to take a more deliberate approach to policy making. The first one is an essentially pragmatic reason. The purpose of policy is to ensure the betterment of the position of individuals. However it is in the nature of policy that it is a collective activity affecting many people at the same time. It is obviously impossible for policy makers to be aware of the personal difficulties facing all individuals. It is also obviously impossible for those responsible for the delivery of policy initiatives to deduce the intentions that the Government might have.towards some user of social services without a general understanding of the Government's purposes and views about the matter in hand. This means that though policy is intended to meet the needs of individuals in fact it must be made at a more abstract level and be expressed in generalised form. It tends to assume

that there is some average person or range of people who will fall within the ambit of policy and it aims to meet the generalised needs of those people.

A further reason for the adoption of a theoretical basis to policy making is that without a theory it is not possible to test the success of policy in any meaningful way. It is not possible to simply adopt a policy response to an apparent problem without having some implicit expectation of the way the world and the individuals in it will respond to the policy. For example the granting of income assistance is presumably intended to assist the recipients through increasing their expenditure power. It is implicit within the grant of such a benefit that the recipient is presumed to be made better off by the grant and therefore has not been effectively dissuaded from courses of action which could have rendered that person better able to look after themselves. That is, the policy is dependent on behavioural assumptions about the recipient of the benefit. If we have made no attempt to lay out these assumptions in a theoretical model then we have no means of testing whether the policy is effective. Certainly we know the money was paid, and that it was received. We have no way of knowing how it might have affected the behaviour of the recipient if we have neglected to address that question at all.

Theoretical modelling enables us to construct hypotheses which can be tested by comparison with the empirical data derived from our observation of the real world. The complexity and number of transactions and interactions that occur in reality means that we are unable to comprehend them all. The nearest we can get to understanding how human interactions proceed is to construct theoretical models of parts of social interaction. Obviously all such models are abstract from many observed details and are characterised as being 'unrealistic'. This unreality. is commonly criticised as demonstrating the inappropriateness of theory. However in fact very often it is the most unreal models which are the easiest to comprehend and therefore the most effective for revealing insighrs into some aspects of behaviour.

It is important to realise that the stylised versions of reality that are found in models are not intended to be seen as a picture of the way the world actually. works. Rather they are a deliberate selection of some aspects of the world that are relevant to the issue being considered. Other matters are deliberately left out to avoid confusion. The relevant question in critically analysing any model is not to explore the issues left out but to check whether the assumptions adopted for the particular exercise are relevant and appropriate to the question under examination.

So long as we remember at all times that each model is stylised and the assumptions behind it are critical to the results that are produced, then we may derive useful conclusions. Hopefully the conclusions can be tested empirically bur sometimes they can only be tested intuitively. Some social phenomena are not amenable to measurement but are nonetheless real; models which suggest effects

on emotions are obviously relevant to real world transactions but emotion is inherently subjective and difficult to measure in any robust way. The difficulty in measuring some hypotheses should certainly make us cautious but should not make us embarrassed about the use of models.

At different times through this briefing various different models are called on to examine different issues. Chapter 1 on the foundations of economic analysis outlines the basis of many of the theoretical assumptions and concepts used in these papers. In the area of social policy a particular aspect that is often sensitive is the way in which people are modelled and the assumptions that are made about their behaviour. The concept used in these papers is termed 'rationality'. This concept is now explained more fully in order that its uses and limitations can be better understood.

The Rationality of the Individual

The debate about whether or not people are rational decision makers has raged in the social sciences for many years. Most economists and many philosophers agree that the conceptual model of the rational person is a useful portrayal of the way people actually function. Others have however attacked this position. They have suggested that it is hopelessly optimistic to describe the average person as rational. It is unrealistic to regard individuals as always pursuing their own interests. It is more realistic to acknowledge that individuals are in fact dominated by their environment rather than assume an autonomous decision making process. To the extent that individuals do make decisions, they are prey to capricious influences which render them likely to make many totally unpredictable decisions which are not compatible with any rationality assumption. Even if it were accepted that people are rational and self-interested, they clearly do not have adequate information to make decisions consistent with these basic assumptions which will further their own interests, and therefore their decisions are largely random decisions made in the absence of adequate knowledge. The alternative vision is that humans are social beings, taking action in response to environmental influences. The appropriate level of study and policy is therefore whichever level of collective organisation is most influential for various forms of action. It is pointless to work on the unrealistic assumption that individuals control their own destiny and instead it is more profitable to look at the functioning of social organisations.

The response to this alternative approach is that it is empty to simply assert that collectivities exist and act if we have no means of understanding why they exist and why people support them. In order to arrive at that position, we need to look at the views and preferences of individuals.

The response to each of the attacks on the individualistic approach are straight forward:

— Rationality is in fact a very weak assumption. It is not necessary co assume that rationality means great wisdom or brilliant judgement. All it says is that individuals tend to choose between options on the basis of general goals which they are pursuing. These goals may be at any level of generality.

— It is clearly correct that many people are altruistic. That is not in conflict with the rationality assumption. The goals of individuals can and usually do, include goals that are relevant to the interests of those around them.

— Clearly it is true that all individuals are influenced by their environment. However, to assert that individuals do not choose is to asserr that all actions are totally determined by environment and individuals have no free will over their own actions. It is possible to construct cases in which individuals have no effective free will. The Jews being driven into the gas chamber clearly had no real free will available to them. However, any example of this sort is so obviously wrong and immoral that the fact that individuals do normally have a significant amount of free will is made more obvious.

— The assertion that individuals make capricious decisions in fact is an acknowledgement that an observer cannot always understand the reason why someone else has taken an action. This is not necessarily, an evidence of lack of rationality unless we assume that the observer at all times knows the correct behaviour. This could be interpreted as meaning that those who criticise the rationality assumption must regard themselves as super rational. That is a very difficult position to substantiate.

— It is true that all decisions are taken with limired information. However, to be rational does not imply omniscience. We all live in a world with limited information but that does not stop us exercising our judgement.

The criticisms of the concept of the rational individual generally refer to a much starker assumption than in fact is suggested. But even if they were all legitimate attacks, they still do nothing to sustain the case that groups in fact do decide and organise the lives of individuals in a deterministic manner.

Though the debate about rationality has raged for many years, as the debate is usually cast it is now a dead letter. This is because recent economic theory has progressed away from the stylised concept of the 'economic person' which has underlined economic thought for most of the century. Theoretical economic

people were fully rational. They possessed perfect knowledge and always maximised their own interests. This meant that their behaviour was regular and predictable and dishonesty was impossible in the face of other people's perfect knowledge.

More recent thinking has instead developed the concept of the 'contractual person'. This idea has been developed to help our understanding of the evolution and purpose of institutions as a means of meeting the objectives of the participants in an organisation. The contractual person is said to have 'bounded rationality' and to be opportunistic. The concept of bounded rationality still implies that individuals make decisions which will promote their goals, but without perfect knowledge; rather it is assumed that knowledge will be possessed differently by different people and that we have limited capacity to absorb and analyse knowledge. This limitation on knowledge allows the possibility of opportunism, which assumes that individuals are 'self-seeking, with guile'. Organisations therefore need to evolve which can as efficiently as possible provide incentives for self-seeking individuals so that their efforts will coincide with the common good.

It should not be understood that the concept of the self-seeking contractual person is supposed to represent a full description of real people. It has been developed for the particular purpose of understanding the effectiveness of institutional structures.

In a world of saints there would be no need for social policy or govermments. We would all be so tenderly considerate of each other that we would carefully meet each other's needs. However in a world where saintliness is limited, and some people some of the time put their own interests first, complex institutional structures become necessary.

Perhaps a wider and more palatable concept than either economic person or contractual person might be a concept we would term 'interactive person'. The concept would incorporate altruism because, as discussed in the annex on ethics, altruism is an intrinsic characteristic of humanity. Now we have the concept of a person who is rational, altruistic and opportunistic. This may seem inherently contradictory, but the problem is resolved when it is accepted that each of the attributes are limited. That is, the interactive person has bounded rationality, bounded altruism and bounded opportunism. The inclusion of each of these characteristics provide a basis for a richer analysis. The altruism and rationality combine in the analysis of ethics. The opportunism and rationality combine in the analysis of institutions. The inclusion of all three into an apparent contradiction illustrates the plurality of needs both within people and among people.

Group Rationality

The earlier discussion is couched in terms of individuals and their relationships with one another. However it is apparent that in many contexts individuals share goals and share interests. People decide that their interests will be best met by approaching situations collectively rather than endeavouring to solve problems or achieve success individually. This provides an explanation of team behaviour.

The example of the ream or the family is a case where individuals act as if the family were a joint centre of well-being rather than each of the individuals having separate choice. Some critics of individualistic thinking put forward a srronger approach where there is no 'as if. Instead the members of the group are said to accept the welfare of the group as their welfare. In consequence, the goals of the group become the goals of the individual. This would not be out of altruism on the part of the individual but from an identification of the individual with the group. Having made that identification the individual vanishes as a separate entity to be seen in terms of rational behaviour and instead the group must be studied as an entity.

For example the German historian and economic thinker, Weber, distinguished between two types of rational action. The first is *wertrational*, which emphasises the concept of socially created or given values or ends to which individuals or groups orient their actions as means to obtain those communal ends. The second concept is *zweckrational* which emphasises the individual who calculates chains of means and ends in the course of his or her individual action whose underlying end is his or her own benefit. The second type of rationality is the individual rationality that has been discussed in the previous section. The first type is a group rationality.

Concepts of group rationality have been used in developing an understanding of the microeconomics of Maori culture. Anthropologists such as Best and Firth suggest that pre-European Maori people were strongly motivated towards a wish to promote the welfare of the community. Similarly the joint ownership of land and the identity of interests that go with that joint ownership is central to Maori culture and Maori economy. Overall Firth described a communal system which insisted on co-operation and mutual aid and which extolled communal values over individual ones, yet where individual values had a place.

An important aspect of a group rationality assumption is that the members of the group may be understood to adopt particular roles in the decision making process. Whereas a rational individual may be seen as searching for information, analysing, choosing and acting, a group may have specialists in different roles. This could mean that people who function in a group rational model may have great difficulty in a society geared to individual interactions between autonomous

people. If they are used to following the lead of the group decision maker their ability to acquire and analyse information may be limited.

The idea that people used to group interaction may have difficulty in transactions between autonomous individuals is the critical point for social policy. The group identification of the whanau, the hapu and iwi are clearly significant in discussing policy initiatives appropriate to Maoridom. However this point does not of itself require that social policy should be predicated on an assumption of group rarionality.

Social policy is part of the role of state. It is part of the relationship between the state and the people. The state, however, clearly is not a separate sentient being, nor is it an example of group rationality. It is an assembly of individuals charged with administering the state's coercive powers for the common good. As discussed in the ethics paper the state cannot identify certain institutions (including group rationality) and assume their ontological significance. In determining the goodness of policy options the state (or its decision making agents) must remain at a more concrete level in considering the good of individual people. If evidence exists that some people prefer to function as a group then that preference should be reflected in policy. It is irrelevant whether the people of that group share a group rationality, it is sufficient to acknowledge their shared interest and ensure that policy is designed to accommodate that interest.

Social Institutions for a World with Few Saints

Whatever our believes about the accuracy of the assertion that analysis based on the individual is a reasonable portrayal of social interaction, this argument is not necessary to an acceptance of analysis at the level of the individual. The reason for this approach is that we are trying to decide what is the preferred method of social organisation. As mentioned before, if we assume that particular groups are the best method of social organisation, then we have assumed the answer to the question. More difficultly, if we assume a world in which everyone is altruistic, then we ignore the fact that a significant number of people in society and a significant number of acts are not altruistic. Similarly if we assume that all people identify as part of a group that overlooks the fact that everyone exists in a variety of social contexts and even if group rationality applies in some parts of the lives of many people, it is not a full picture of anyone. Nobody can plausibly assert that all people are saints and clearly for a significiant proportion of the time, most people look out for their own interest. A social structure which is devised on the assumption that people are altruistic will obviously be at risk of manipulation and opportunistic behaviour by non-altruistic individuals. It is more pessimistic, but

also more realistic to assume that society is composed of individuals who hold their own interests as dear to themselves. Social organisation processes which acknowledge that and which mobilise self-interested actions to the good of society will obviously be more robust that ones which depend on the altruism of individuals.

This adoption of a generally self-interested individual as the basis for the analysis of social policy and the determinant of what is good, does not automatically lead to any individualist or anarchistic solution. It does not mean that any policies derived from this premise will tend to attack the family and the tribe. In order to arrive at a libertarian position, we would need to adopt specific attitudes to the personal rights of individuals. This is another issue which is explored in the discussion on ethics. At this stage, we are simply examining the fundamental unit of analysis in our exploration of what is good in social organisation.

Far from being a basis for individualistic policy, a study building from the interests of individual humans will tend to support the development of collective action processes. The reason for this is that we know humans are social animals and we know that social solutions are valued by people. We know that people value their connections to their kin and community. We also know that community structures can withstand non-altruistic behaviour. The purpose of advice in social policy is to try to explore which community structures will be most successful in mobilising the (often non-altruistic) behaviour of individuals for the collective good of all people.

It is quite clear that families, voluntary social groups, ethnic and tribal affiliations, and other communities as well as local and central Government are all seen as being of value. They, and the individual, all have a role in different contexts. The task of social policy analysis is to look at fundamental or significant changes that are necessary or desirable to promote improvements in our social processes and outcomes. The yardstick of what form of social organisation is desirable is that or those which people value.

PAPER FOUR

A CHECKLIST OF ISSUES FOR SOCIAL POLICY MAKING

The previous papers have provided an overview of the context within which social policy analysis may be carried out and its theoretical background. This paper goes into greater detail on a range of issues that need to be considered when policy is being developed. The issues are generally relevant across most or all aspects of social policy, so are here brought together partly so that the theory being applied in Chapter 3 can be seen more clearly, and partly to emphasise the point that it is essentially one set of theory that can be equally applicable to all areas of policy making.

The paper begins by picking up the loose concept of social standards that was introduced in the previous papers. It goes on to discuss responsibility for social well-being, and traverses redistribution, social benefits and agency issues. Following this there is a discussion of the provision of assistance in cash or kind, efficiency in social policy and some institutional issues.

STANDARDS

The Nature of Social Standards

In the previous paper it was suggested that one simplified way of viewing the Government's role in social policy is the defence of standards. In order to construct an effective policy this broad concept needs to be operationalised, so rhat (subject to the inherent constraints in this loose concept) the Government may express its will in a way which can be met. In order to define the concept more usefully we need to review the nature of social policy and social policy concerns to see what character of thing is or should be included and protected by means of social standards. This involves questions of what ought to be guaranteed and what can be guaranteed.

Before going into issues as to the level of standards we first need to consider the kinds of standards that might be set. There are several dimensions that need to be explored. Though in the paragraphs following they are discussed separately, the resolution of the issues has to be made simultaneously because they interact with one another.

Acceptable Minimum or Universal Level

Because this discussion of standards has arisen from a context of 'social rights' there can be some confusion with the normal concept of rights as seen, for

example, in the area of human rights. There it is usual to think of everyone as having equal rights and nobody may claim a superior right to anyone else. However, in this context one of rhe reasons for moving to the slightly less loaded term 'standard' is to make it clear that in each area where the entirlemenr is specified it refers to an acceptable minimum which people can expect rather than any form of maximum.

Compulsory or Voluntary

Given that part of the reason for establishing social rights is the altruistic concern we have for one another, is it acceptable for some people to choose not to accept or exercise certain rights? Since in some respect the rights are determined in order to protect the fundamental dignity and decency of humans we might regard any supposed choice to waive rights as a symptom of irrationality and we could therefore override the individual choice. In this discussion it is suggested that the most appropriate test is to establish whether or not the person apparently waiving their basic entitlements had a true choice in the matter. If we think there was a genuine effective choice then in most contexts we should probably not be concerned to ensure that the individual enjoys the right they have waived. If, however, the person had little effective choice but to waive the right, then it seems that the right was not properly delivered or established in the first place.

Absolute or Relative

Standards or rights could be expressed in absolute terms or in relative terms compared to those enjoyed by others. Though 'in the area of human rights absolute standards are intended, in issues of the comand over resources that is less clear. It can be claimed that for an income support policy to be reasonable then it must guarantee to provide sufficient income to purchase a basic bundle of goods and services; this is clearly an absolute concept. An alternative approach is to say that income redistribution is designed to avoid poverty and poverty can only be understood as a relative concept; the level of income needed to avoid stigma or alienation within society depends on the average level of income enjoyed by others in that society.

What Matters are Included?

In various contexts a bewildering array of possible rights and standards have been suggested. To take one example; does a right to reasonable housing confer also an obligation on the state to protect minimum standards as to location, different physical structures for different cultural needs, protection of house values in rhe

context of economic change, and the delivery of various housing tenures (owner-ship, co-operatives) that may be desired by various people? Similar lists could be put together in many other areas.

General or Particular Standards

How much regard can be taken for the individual wishes of people, families, or other groups? The state may set an average standard to be achieved in specific areas but this may not reflect the particular values that some individuals place on different aspects of the goods in question. Is it enough to know that the house that a person is living in is physically sound and meets the average square foot requirements that the family is deemed to need? How much regard should be placed on the specific requirements of that household for access to work, school and shops or issues of individual lifestyle in joint or private living arrangements? This may mean that a critical aspect of setting a standard could include the strength of choice available to the group using the good or service in question.

A review of these issues suggests to us that standards should be seen holisti-cally. The test is whether all people and all groups are able to maintain an acceptable lifestyle which they enjoy and which others regard as reasonable.

However in order to operationalise this holistic concept and to give some specific guidance to the Government it needs to be disaggregated to many different aspects of life. Standards need to be discussed in the context of income, work, health, housing, education, leisure and other areas that may arise from time to rime. However the more areas that standards are asserted in, the more likely it seems that we should accept that individual or group values may vary so we should accept that people should be permitted to trade-off among some of those standards in order to reflect their own priorities. The combination of specific standards for particular areas and an ability for people to choose and trade-off among issues is likely to promote a holistic concept of a reasonable lifestyle.

This discussion may be reinforced by a careful examination of the concept of the standard of living. Commonly this is measured and understood as a materi-alistic concept, so that an increase in the holdings of certain tangible items are seen to imply an improvement for the individual and for society. However, this implicitly suggests that all people do or ought to value each item with the same weight as the majority in society (or the same as the person who assembled the index). Clearly this is incorrect as the level of material holdings does not necessa-rily equate to levels of happiness. This suggests that an alternative approach would be to adopt a utility basis for the concept of the standard of living. If a change in social circumstances leads to an increase in the happiness of a person or the population there could be claimed to be an increase in the standard of living. Any such approach would rapidly collapse in the face of the generally recognised impossibility of measuring or summing utility. An alternative approach that

overcomes the drawbacks of the other two is to view the standard of living in terms of the capability that individuals or society in general has to do or be something. The critical point is that a true freedom to live a good life must involve access to sufficient resources to meet a reasonable overall standard. It does not require the possession of any specific goods, just the genuine ability to procure or use them if required.

Setting Standards

To the extent that it is possible (or useful) to define the composition and level of 'standards', the setting of standards for social policy is essentially a value judgement which needs to be made by politicians. However, in determining such standards there are many issues which need to be considered and there advice from public servants is appropriate. Obviously the process of advice and decision on standards and methods of protecting them is critically bound up with the incentives on everyone involved. The inherent limitations and weakness of government deliberation and executive activities are discussed in the previous paper, and the earlier chapter on the limits to the Government. The purpose of this section is to outline a framework of the issues that ought to be considered when pondering any potential standard that the Government may contemplate adopting. Chapter 3 addresses these issues more specifically in the context of particular issues and specific goods and services.

Social purpose— What is the Social Purpose that the Standard is Intended to Achieve?

We would suggest that the purpose of social policy is to improve the lot of people. However, policy proposals are generally couched in an institutional framework that involves several steps or assumptions before the benefit to people can be ascertained. Therefore in considering a proposed standard which may be of a particular institutional or policy form, the first step is to consider whether the proposal will in fact be likely to promote good outcomes for people. This means that ideas which are intended simply to reflect the interests of a particular institution rather than a wider interest among people should be discouraged. The next step is to examine the practical likelihood of an idea actually working to promote the interest of people.

   An example of this might be found in the education area. One reason put forward for various forms of educational organisation and curriculum is social cohesion. At first glance social cohesion seems to be an objective far removed from the interests of individual people. However, it is possible to construct a case that

social cohesion is necessary if people are to have any reasonable chance of achieving important individual and social aims. Clearly democracy requires an adequate degree of mutual understanding and social interaction. If democracy is essential for individual well-being, and democracy requires social cohesion then the beginnings of a case are made.

However this still leaves open the question of whether educational systems will be successful in achieving social cohesion and at what cost. If social cohesion becomes cultural hegemony then minority groups suffer.

Social cohesion therefore can be seen to be something which is of value but so too are cultural diversity and individual autonomy. The three interact and in considering social standards we must consider all of them before setting some target for education policy in the area of social cohesion.

Adequacy—Is the Standard Set an Adequate Standard?

The issue of the adequacy of standard is obviously basic to the whole concept. An inadequate standard is no standard at all. An example of an attempt to give some guidance on this issue is the terms of reference for the Royal Commission which specifically adopt the term used by the 1972 Royal Commission that standards of living should be sufficient to ensure an ability to 'participate and belong'. The terms of reference lay out a series of standards for a fair society which refer to dignity, standards of living, opportunity, distribution of wealth and income and cultural diversity. This makes it clear that adequacy is a multi-dimensional concept. However, this list is still very broad and unspecific. When considering specific policies we need to try to translate these points into particular policies in various aspects of social well-being.

Feasibility—Is it Reasonably Possible to Achieve the Standards Laid Down?

There is no point in setting standards of a level or form that cannot be achieved. However, having said that, there are various issues which affect the achievability of a particular objective and it is simplistic to regard an objective as being impossible without examining various alternative modes of delivery.

Institutional Form The method of delivery and the adoption of different forms of property right or institutional structure can have very profound implications on the ability to achieve certain specific outcomes. An example of this is the case of public or private goods. Many goods are regarded as public goods because in their present form of production and delivery they must be provided for everyone at the same price. However there is often a technological choice and institutional structure which could provide an alternative means of delivery and therefore might make certain outcomes more or less achievable.

Economic Growth   With economic growth we can reasonable expect a steady increase in the quality of life that could be achieved within society and therefore an increase in the absolute level of standards may seem appropriate. On the other hand, this steady improvement in absolute levels is accompanied by an improvement in potential choice and complexity of choice for individuals or groups. It may be then that development does not lead to an increased standard required in a particular area but instead might mean that the standard becomes irrelevant as it becomes possible for individuals or groups to choose quite different options.

Interaction with Other Standards   The ability to achieve a particular standard may depend critically on the levels and forms of standards that have been adopted elsewhere. An example might be found in a possible assertion of a standard of full employment. Depending on the policies followed to achieve full employment this may involve costs in the form of reduced choice (in a managed labour market) increased inflation (as a result of 'pump priming') or attacks on collective bargaining rights (to reduce the cost of labour). If standards have been established in the areas of choice in employment, the cost of living, and collective bargaining, then the standard set for full employment may conflict directly with those other standards. It is not enough to set a worthy range of standards that we would like to achieve; it is necessary that the standards take account of each other.

Incentives—What Effect will the Standard have on the Behaviour of People?

The higher the level that is adopted for a minimum standard, and more particularly the nearer the minimum standard is drawn to the level that might have been expected to be achieved through gainful employment, then the less incentive there is for individuals to undertake paid work in order to attend to their own well-being. This issue will be discussed more fully in the section on targeting.

Cost—What are the Costs of Meeting the Standards?

Though costs are customarily measured in terms of the cash cost, in fact there are wider efficiency effects. The first is an incentive effect similar to that in the previous sub-paragraph. However in this case we consider the incentives and welfare costs of those facing the payment of high taxes. As well as a direct discouragement to work, high taxes reduce the autonomy of those paying so that they have reduced ability to achieve their own ends and promote their own well-being and instead must accept 'social payments' in the form of high social standards. Alternatively if taxes are not levied to support these standards then we have a high deficit. This leads to the severe economic problems of high interest rates or high inflation. The long-term consequence of this is to erode our ability to produce and so our ability to support social standards. In effect borrowing shifts

the costs of present social standards onto future generations. These costs then, though expressed as efficiency or cash costs, are in fact social costs. The more we weaken our economy by over taxing ourselves to support unrealistic standards, then the lesser chance we have of improving our ability to achieve these standards in the future.

RESPONSIBILITY

The process of defining standards which may be seen as a right or entitlement for everyone in various areas of social well-being is not the same as deciding that the Government must provide that amount for all people. The decision to set a standard involves the acceptance of an obligation by the Government to ensure that the standard can be met. However that is not the same as deciding that the Government should provide the means to meet that standard for all people.

The decision on what role the Government should adopt in the provision of goods and services to achieve given standards depends on what approach will work best. The decision depends partly on the value placed on certainty of provision, choice for consumers and the nature of the goods involved, and the problem that is being addressed. In addition pragmatic considerations of effectiveness and efficiency enter into our thinking. The approach to the consideration of responsibility, and which institution is likely to be most successful in addressing any specific issue is outlined in Chapter 1 of the brief.

For social policy purposes it is possible to establish a taxonomy of grounds for forms of government intervention.

There are three main types of case where it is commonly accepted that the state has a role in social policy. These relate to the resources of individuals, the characteristics of individuals, and the nature of certain goods.

A Lack of Resources

Sometimes people have insufficient resources to maintain an acceptable standard of living. Specifically they may be unable to acquire particular services that are seen to be of central significance such as health care or education. A logical response to such need is to provide sufficient resources to that person or to a close agent (parent). Generally problems of this type call for redistribution policies.

The Nature of Certain Goods

Some goods are seen to be of such significance or of such technical characteristics to demand a government role in their provision and allocation. The main area is those goods which have a high degree of interdependence so that one person's use

affects others and there can be joint gains through collective provision and use. Goods and services of this type may be claimed to provide social benefits over and above the private benefits derived by purchasers or direct users.

The Characteristics of the User of the Service

There are many people who have specific characteristics that others do not have which place those possessing the characteristics at a particular disadvantage. Examples of groups of people with various relevant characteristics include children, the chronically ill, the temporarily incapacitated, the mentally or physically disabled, the frail eldrly, and racial minorities. This list may be usefully subdivided into three different categories which can be analysed separately, and which raise agency and redistributional issues.

Those with a Reduced Capacity to Decide their Own Interests Many people such as minors, the intellectually handicapped and the psychiatrically disturbed clearly have a diminished ability to make rational decisions in their own interests. This suggests that some other person needs to make decisions on behalf of the individual concerned. Normally our social processes provide responsible people to take over this agency role. Sometimes however the state may become concerned that the agent is not acting in the best interests of the individual or that there is no appropriate agent who could attend to the interests. In those cases the state may need to appoint itself or another responsible person or organisation to assume responsibility. One important point to bear in mind here is that the state, like anybody else, needs to ensure that there is no conflict of interest between an agent and the principal user of services; for example it is likely that a producer of health care will have particular interests which would colour a judgement as to whether or not an individual in the charge of that producer should use health care.

The Special Needs of the Disabled People suffering from a disability tend to face increased costs in order to achieve an acceptable standard of living. This does not necessarily mean that the expenditure of increased funds can bring the disabled to 'a usual standard' but it may be that even to approach an acceptable level the disabled person will need more than the normal level of resources. The appropriate response in this case seems to be for the state to offer more resources to the disabled person. These may be specific resources in the form of devices or assistance to cope with the disability or they may often be cash resources which would permit the disabled person to choose among various different means of improving their life. Though sometimes some agent decision maker is necessary here, generally this is a special case of redistribution issues.

Groups Suffering Discrimination Many people are prevented from exercising a reasonable choice in such day-to-day aspects of living as employment and

housing by the discriminatory actions of others. The most obvious area of discrimination is on the basis of race but there are clearly substantial problems of gender discrimination and other issues such as age, sexuality and nationality arise from time to time. Discrimination takes various forms including personal discrimination where individual action is taken against specific members of groups, cultural discrimination where there is an entrenched assumption of the superiority of a particular culture, and institutional discrimination by which 'the system' is biased against particular groups. It is very difficult to adequately address issues of discrimination because they tend to be deeply ingrained. However the reduction of discrimination must be a high priority because it tends to systematically diminish the equality of opportunity for people who are already in a disadvantaged position. Policy solutions include attempts to address the problem at its base by education, and regulations to try to stop flagrant discriminatory acts (Human Rights Commission Act). As a further step a government could decide to deliberately participate in the market as a non-discriminating provider of services so as to equalise opportunities for all people. A further possibility can be to use positive discrimination to compensate for the disadvantages faced by minority groups. That is, in this area both agency and redistributive approaches may be appropriate.

Having established and explored the general concept of standards, and having reviewed the question of responsibility, the next part of the paper discusses general issues about how the state might go about discharging any responsibility that it is seen to have in meeting any standard that has been set. The discussion is broken into three major areas being: questions of redistribution; social benefits; and agency issues. These issues overlap and interact and it is not always useful to attempt to disentangle them. However, for ease of understanding they are examined one by one so that particular issues can be explored in isolation.

QUESTIONS OF REDISTRIBUTION

A prime rationale for government involvement in the provision of cash or goods and services is a concern that some people would otherwise not be able to maintain a reasonable standard of living. That is, though a government activity may take the form of providing a universally available free service the reason behind that activity is not necessarily anything to do with arguments that certain goods could only be provided by the state. Rather they are provided because of a belief that the goods are central to each person's well-being and that some people could not otherwise afford the goods. There is not necessarily any question of incompetent decision making among potential users of the goods, simply a concern that the provision of the goods is essential to a fair society. In effect in

these cases, just as much as in the example of the provision of social welfare benefits, the service is a form of income redistribution and it is best analysed in those terms. For the purposes of this section the discussion is largely expressed in terms of cash transfers, but the general principles may apply to any redistribution. The question of whether assistance should be offered in cash or in kind is considered after the general discussion on redistribution, social benefits and agency.

Targeting or Universal Assistance

If we conclude that the stare ought to provide some active form of assistance in order to ensure that standards are met, then one early matter to be considered in each area, is whether the assistance should be provided on a universal basis or whether it should be targeted to particular groups or individuals. This issue has been a matter of emotional debate since the beginning of the welfare state. The main matters to be weighed up in considering this issue are outlined as follows.

i   Simplicity for Recipients

The easier it is for entitlements to be understood then the more acceptable a scheme is and the more likely it is to reach everybody who it is intended to reach. In rhis respect a universal entitlement can be easier to understand and involve less administrative complexity than one which requires proof that the recipient is part of the target group.

ii   Dignity of the Recipients

It is often asserted that if an applicant for state assistance needs to produce proof of eligibility then this process is demeaning of the recipient. The classic example is the requirement under some forms of nineteenth century assistance schemes for recipients to appear before a welfare committee to prove their need. In effect it seems that this argument renders down to: the easier the proof then the less the indignity. Where the only proof required is that of having passed the aged of 60 then there is little problem. It seems then that the degree of indignity required as targeting becomes more precise depends on the administrative possibilities of acquiring information about recipients in reasonable ways. It also depends on the ability to deliver assistance in a way which does not stigmatise its recipients.

iii   Administrative Ease

The fewer tests required to be administered then the easier it is to run an assistance scheme. The family benefit has one of the largest numbers of total beneficiaries rhat are supported under any social welfare scheme, but its administrative staff backup is very small because all payments are automatic and no consideration of family circumstance needs to be looked into.

iv Cost

By definition universal schemes musr offer support to more people .than targeted schemes. As a result if sufficient assistance is provided to address rhe problems of those in need then because the same assistance is provided to all other qualifying people the total cost of the scheme can be very much higher. The alternative is char in order to avoid costs rising too high, the universal entitlement can be very much less for each individual including those in the greatest need.

v *Incentives*

Any provision of assistance by the state acts as a disincentive on individuals and groups to attend to their own needs. An example of this is in the area of income support for the elderly. Though participation rates were already declining in the early 1970s it is noticeable that rhe proportion of people over 60 who are in work is now considerably lower than it was and the provision of a generous national superannuation scheme at the age of 60 was presumably one of the matters considered by people in deciding when they should leave the work place.

However there is another particular disincentive problem relating to targeted schemes. If the receipt of assistance depends on the level of income, rhen as income rises assistance will drop; this is a form of effective marginal tax race. It is clear that as effective marginal tax rates rise rhen the incentive co work drops. Therefore as well as the general disincentive co look after one's self that any benefit can pose, a targeted benefit may cause specific problems for those on the margin of eligibility.

However there is an opposite incentive problem posed by the high cost of universal schemes. Because universal schemes cost more than targeted schemes then the rax burden must be greater and therefore the disincentive of high average tax rates needs to be contrasted with the specific disincentives of high effective marginal tax rates on recipients.

In considering these five points as a general rule we would suggest that the cost argument is very important in this area. This is not simply because of the efficiency costs on the economy of paying large sums of money for those who are not in great need. There is also an equity problem. It seems unfair for the taxpayer to support the rich while at the same time paying the poor less than could otherwise be afforded if the assistance were more closely targeted. The arguments about dignity and simplicity in effect suggest that because some recipients in need may feel embarrassed or troubled about receiving assistance then we should take on a large and costly responsibility to pay a substantial number of other recipients whose need is not apparent. So long as administration arrangements can be made as unstigmatising as possible and be reasonably straight forward then we would suggest that the cost advantages to be found through targeting are sufficiently large that there can be fiscal savings that would be great enough for significant macroeconomic benefit. It is sometimes suggested that universal benefits are necessary in order to maintain public support for the welfare state from taxpayers; they are said to be only prepared to support welfare

costs if they know that they will benefit. The validity of this argument depends on the potential cost savings to be made through targeting. If significant tax reductions could be achieved through the removal of state payments for those not in need then the supposed taxpayer grievance would presumably be reduced.

However we are very concerned about the effective marginal tax rate problem for low income recipients of assistance. The incentive effect here can be substantial and we are particularly worried that the cumulative effect of a variety of targeted schemes could act as a trap for low income assistance recipients.

We already provide targeted assistance in the area of income support and housing assistance. If we were to also introduce targeting for some areas of education and health assistance then the cumulative effective marginal tax rates could be very high (possibly well over 100 percent). The only solution to this problem is to carefully integrate the scales of assistance and abatement of assistance for the various areas. However, to do this probably requires that payments of assistance to any given area should depend not only on income, but also on the level of costs incurred by that individual not just in the particular area under consideration (say health care) but also in other areas for which support may be forthcoming (say income support or accommodation assistance).

This seems to imply some very complicated administrative arrangements. Beneficiaries might be obliged to make multiple income returns and provide proof of payments for several different agencies. However, new technology may be able to assist us in this area. Most other countries with substantial welfare assistance schemes operate an identification card system. The issue of such cards would immediately provide an opportunity for administrative systems to more quickly establish who their client base is. As technology is developing it is now possible to offer 'smart cards'. These can possibly allow for a record of the degree of assistance already provided under other schemes to be included so that when the provision of assistance for, say, health care is being made the degree of assistance could take account of the full circumstances of the recipient including the abatement rate already being faced in respect of other assistance.

We are aware that there are civil rights concerns that have been raised about the possible issue of identification cards. These concerns seem to revolve around the fear that people might be asked to identify themselves in inappropriate circumstances. We do not claim to have a straightforward answer to this problem. However we do point out that most of the countries that have issued identification cards (including the US and most of Western Europe) are generally regarded as having civil rights records that are of the highest respectability. Commercial organisations are already issuing forms of identification card (credit cards etc.) which many individuals carry willingly. These are necessary to carry out transactions with those commercial organisations. It seems not unreasonable to operate on a similar basis for people carrying out financial transactions with the state,

Legislative protection could presumably be made to prevent other agencies unreasonably requiring the production of such identification.

We are not yet in a position to recommend the adoption of identification cards. The issues involved are sufficiently broad that a careful consideration and public debate should be undertaken. We suggest that it is an area which the Royal Commission could usefully address and make recommendations on.

The Degree of Assistance

A question which interlinks with targeting issues is that of what degree of assistance should be offered in each area of social well-being or for various goods and services? One way of putting this is should the state meet the full costs for goods and services which it has decided to offer assistance for or should it only meet part of the cost? Two of the main issues to be thought of in this context are the adequacy of assistance and the incentives facing suppliers and consumers of services.

i   Adequacy

Clearly if a certain entitlement for a particular good or service has been established and it is accepted that the state has some responsibility in achieving that entitlement then the assistance must be sufficient to ensure that the entitlement is in fact received by potential users. Clearly if users are expected to meet part or all of the costs of the service, then those with low incomes may have difficult-y paying for the service. However this problem need not necessarily direct us to paying the full cost of the service for every consumer. Alternatively, if a targeted approach is used more wealthy consumers could meet part or all of the costs and those with less resources could be assisted so that they would pay a lesser amount and possibly pay nothing at all.

ii   Incentives

Whenever the state or any other third parry picks up some of the costs of a service which is consumed by individuals or groups then it can be expected that the individuals or groups would take less of the responsibility themselves. For example, in the area of health care there are many options and methods that might be adopted to maintain health. If raking drugs is fully subsidised then it is likely that rhis solution may be more popular than a treatment involving physiotherapy which is unsubsidised. In other areas it is possible that state provision will lead to less provision by the individual. An example of this is the area of retirement income. Many people could make effective provision for their retirement but the knowledge that the state will provide significant assistance must have some effect in reducing investments by those people. These problems of over use of subsidised services and

under provision of alternative services by the consumer are inherent in any insurance type scheme and are more severe the less the contribution is that the consumer is expected to make, and the less choice available to the consumer.

A decision on the level of provision of assistance and the degree of coverage of cost that the state might make should depend on several factors. The first is, which product is involved and specifically what degree of predictability there is about need. It could be argued that needs that are clearly predictable (for example retirement income) could be regarded as being a reasonable responsibility to be imposed on the individual. The second consideration is the situation of the client. Some health care users or elderly retired people have very little practical opportunity to provide for themselves. The spouses of low income earners, sole parents with substantial domestic responsibilities, disabled people with limited earning potential and congenital heart patients who are an unacceptable insurance risk would all have considerable difficulty providing for themselves.

We would tend to suggest that full assistance should only be provided on a limited targeted basis and then only for specific items. In effect the decision as to which items should be fully subsidised links back to the decision as to the standards to be set for particular goods or services. It may be appropriate in many cases to express the standard in terms of a reasonable degree of access subject to the acceptance by individuals of a reasonable degree of responsibility for themselves.

In summary, issues of income redistribution revolve around a critical trade-off. Considerations of equity demand that those in poverty receive adequate assistance in a form which maintains their dignity. Income redistribution can therefore be seen to be a good thing. However redistribution also imposes a cost. The disincentive effects, both on those required to pay tax and on those in receipt of assistance, can impose severe costs in the form of lost productive effort which in the long run is a social cost.

SOCIAL BENEFITS

One commonly argued reason for the provision of social services is the existence of a 'social benefit'. This is a concept which can be difficult to pin down. It is sometimes suggested that there is some wider society which is greater than the sum of the people in it and social benefits are felt by this society even though none of the people may comprehend the gain. It will be apparent from the previous two papers that we would have some difficulty in deriving policy from an imaginary construct of that type, and it is possible to conceptualise a social benefit without taking that approach.

A more pedestrian concept of social benefit relates to ideas of 'spillover' or 'externality'. These ideas convey the notion that the use by one person of a particular good (say soap) conveys benefits both to the user (who srops itching) and to others in the vicinity (who need not suffer a smell). These externalities derive from the essential interdependence of people and their actions. Though we all have a degree of self-determination, that is, within the context of our physical and social environment, the actions of others continually alter our environment and therefore our options and our well-being.

Where the gains to the person contemplating taking any action are similar to the gains that others will derive from that individual's choice, then ir is likely that the individual's incentives will promote a decision which is in line with wider social gains. In many cases social gains can be seen to be captured by individuals, and therefore those actions which promote a general good will also promote their own good, and so socially appropriate decisions may be likely to follow. An example may be seen in education. There are likely to be social gains from the increased productivity and social cohesion that education may offer; however, because many of these general gains are 'captured' by the individual in the form of increased income expectations then the individual is likely to pursue education that is socially desirable. It is very difficult to identify (and quantify) the non-private social gain in this area, but probably there is some. The issue becomes relevant for policy only if the private gains are sufficiently narrow that they take inadequate account of interdependency.

One type of good for which there is a high degree of interdependence is those goods formally known as 'public goods'. A public good is technically described as one which if it is provided for one person must be provided for everyone, and a good the availability of which is maintained even after some consumers have used it. The classic example is radio broadcasts. Once a message has been broadcast it is available to anybody with a receiver. Similarly when one person receives it that does not reduce another persons ability to receive. However, as commercial broadcasting has demonstrated, the technical fact that something is a public good does not of itself require the state to provide it.

The key question in determining the role of the state is to explore the extent of interdependence across society and to examine how much the benefits can be internalised to particular users. Where there is clear interdependence and the costs of collective action are not too high compared to the possible provision by other means, the Government can appropriately provide or allocate the service on behalf of society.

There are some other categories where claims are sometimes made that the Government ought to become a provider of services. One is the case where there seems to be particular information requirements about certain services. An example is the health area where doctors possess a great deal more information than

their patients. However, it is important not to be overawed by information issues. Information is a resource like any other resource; it has a value and can be bought and sold. There are many markets in which there is a great disparity of information between buyers and sellers but that does not make trading impossible. If there are particular concerns about the likelihood of fraud or risk of severe harm to users then specific regulatory intervention may be necessary. However even this case is generally rather thin.

Another example of goods which are seen to be in some way special is the 'merit good'. These are goods which are seen to have a social value but which it is thought that consumers, given the choice, would generally consume too little of. Various goods are sometimes claimed to be merit goods; for example it is often suggested that people might consume 'inadequate' amounts of primary education or housing if they had sole control in those areas. Accordingly it becomes necessary for the state to purchase and provide the goods directly to consumers. However this concept is very suspect as it assumes that the state knows more clearly than consumers the items that are necessary to achieve a reasonable quality of life. The discussion on standards earlier in this paper identified the trade-off between the choice and the ability to achieve a particular standard. Generally the resort to the concept of merit goods represents an attempt to impose paternalistic decision making on the users of social services who may have differing views from state decision makers and may come from different cultural backgrounds.

This discussion suggests then that the particular attribute to be examined in relation to goods is the degree of interdependence in the provision and consumption of goods. Where there is a high degree of interdependence and the costs of collective decision making (which include the imposition of taxes on some unwilling payers) are not too high then the state may logically take some control, in order to achieve a social benefit. However this is relatively unusual.

AGENCY ISSUES

As well as the income distribution cases there is a quite separate rationale behind government involvement in social policy which is linked to the inherent abilities of the state compared to the abilities of individuals. This arises either because some individuals are in an unusually constrained position and need special support to achieve social standards or (in the case of social benefits) because the coercive power of the state permits efficiency in the production of various goods and services on behalf of all people. In both cases the state (and its employees) may be seen as agents for people in society.

When considering how best to organise the control of social services the first question to examine is the purpose of the service. We need to know-what social goal is being pursued and who is the beneficiary. We need to know who is in the besr position to determine the appropriate production and use of the service.

The User as Principal

Many of the areas that are considered to be part of social services consist of activities for which the user is clearly the main beneficiary. For example most of the gains from health care accrue to the patient. In addition our analysis suggests that in most cases the person best equipped to decide whether or not to utilise a particular social service is the individual concerned. To use the health example again, the individual can judge the degree of discomfort suffered and can decide wherher that justifies seeking medical advice.

Wherever it is accepted that users of services are making reasonably informed rational decisions as to the use of those services in their own interests, then there must be an assumption that voluntary transactions will provide the best institutional environment for the production and delivery of that service. Ever since the early economist, Adam Smith's time the 'invisible hand' of the market place has been seen as a highly efficient way of ensuring that different needs of producers and consumers can be met simultaneously. To the extent that social services rcpresenr benefits for individual people who are in a position to make informed judgemenrs about their use then the accountability of the marker place would be the appropriate instrument. For example, if a consumer of medical advice is dissatisfied with the work of a doctor then the consumer might shift to another doctor for future consultations. All doctors are aware of this possibility and it serves as one of the incentives to encourage doctors to provide a service in line with the reasonable expectations of consumers.

However, clearly we are nor talking about normal consumer goods when we discuss social policy and we are not discussing straightforward purchaser/provider relationships. Instead social policy tends to be commonly characterised by a separation between the user (the person deriving the benefit),the payer and the chooser. Instead an agent (often the state and its employees) takes over effective control and makes critical choices. Obviously this is often necessary to the development of useful policy, but whenever this interpolation of an agent occurs, then incentive problems emerge and accountability is important.

Principal/Agent Problems

The provision of social services is not an end in irself. Where the social services do not contribute to a better living for those in society or a greater degree of equity within society, then its provision must be questioned. However, in order that there be a continuing questioning of social service provision there needs to be some accountability for the actions of those responsible for providing social services.

The discussion in the last few paragraphs has suggested that in many areas the individual consumer is the logical person to be in control of the use of social services, and it seems that in such cases voluntary market exchange may be an appropriate institutional structure. In such a context the accountability of rhe providers of social services to their users depends on the degree of contestability in the market. If a buyer can shift his or her demand away from a particular provider to another provider then (as a general rule) providers will endeavour co meet the needs of their buyers or take the consequences in the form of reduce sales. With the sanction of reduced sales and potential loss of business then it may be that little other accountability is necessary in those areas where the individual can be reasonably seen to be the logical principal in the exchange.

Where someone else is acting on behalf of the user to purchase services then we may need a more explicit accountability. Where an agent is determining the consumption of services then it is no longer a simple task to permit a straightfor-ward voluntary exchange unless we are assured that the agent will act in the interesrs of the principal. In most areas of agency that arise during normal social interactions then it seems likely that the agent will have a strong incentive to act honestly in the interests of the principle. Family members and whanau members will be aware of their long-term interests to maintain close bonds and therefore will generally not want to exploit one another. However we need to remember that the interests of a father are not necessarily the same as the interests of rhe child and the purchase of services for the child may not be adequate as the result. The wider monitoring within the whanau or more formal discussion on the marae may provide some monitoring in many Maori contexts and in other cases volun-tary organisations such as the church may offer an acceptable protection. Where these informal approaches are inadequate, local bodies or the state may need to intervene in the family agency. In such a case the group that intervenes becomes the agent for the child.

Where the state is a provider or a decision maker in the area of social services it is possible to view its role as an agent in one or more of various different contexts. The first is where the state acts as an agent on behalf of an incapacitated individual. Another is where the state acts as an agent for society in general in order to ensure an improved equity or equality of outcome through measures such

as redistribution of income, the provision of particular goods or anti-discrimination. The third area is where the state acts as an agent for society in rhe provision of collective goods where the level of interdependence is such that the state is the logical agent.

As soon as the state's role is expressed as an agency role then a wide range of principal agent issues arise. Essentially these revolve around the question of whether the state as agent will act in the interests of its principal, that is, either the individual requiring support and assistance or society in general. This issue is explained in the earlier chapter on the limits of the Government. On top of these general questions about the state's role which can be examined in the context of political science or constitutional law there are further issues to do with the role of the stare employees working as agents for the state. Again the essential question is the reconciliation of the interests of employees with the interests of their employer. There are general issues to do with incentives on managers to ensure that they carry out the will of the owner of assets (the stare or the taxpayer) and incentives on employees to ensure that they best meet the interests of those using the services of their employer (consumers, patients, pupils). However these general issues are the same across many institutional environments and are addressed in the later section on efficiency. There are however some particular issues that arise in social policy co do with the kind of products and services that are involved and the kind of motivations involved in the provision of social services.

Role Conflicts in Social Service Delivery

There are a series of different roles that may be idenrified in the provision and use of social services.

i *The Provider* Someone is needed to actually carry out the task of providing the particular social service in question. For example a pharmacist is needed to make up prescription drugs and supply them to the patient.

ii *The Regulator* Someone needs to regulate the market environment within which transactions take place such as the provision of particular social services. In the case of the provision of pharmaceuticals the current regulations include decisions as to which drugs are included on the drug tariff (public servants and Ministers), what requirements there are to be recognised as a pharmacist (Pharmaceutical Society) and who may write prescriptions (Medical Council).

iii *The Allocator* Someone needs to decide which individual or group is deemed to be eligible for assistance and how much assistance they shall

receive. In the case of pharmaceuticals it is the doctor's decision to write out a prescription for a particular individual and by doing that the individual becomes eligible for stare assistance in the purchase of drugs.

iv *The Adviser* Someone needs to provide dispassionate neutral advice on government policy for Ministers to use in their decision making. In the context of pharmaceuticals this advice is principally provided by public servants employed by the Department of Health.

Clearly these four roles of provider, regulator, allocator, and adviser are quite distinct functions and in many cases there may be conflict between them. However, though in the example given there is some separation between the various decision making steps, in many cases the same person occupies more than one role. To stay with a medical example, the doctor can be both an allocator and a provider for many areas of medical advice. Similarly doctors dominate the Medical Council which is a significant regulator in the medical area. Further, in hospitals doctors are both providers and advisers in hospital decision making. Medicine is not unique in this regard because similar conflicts of interest and confusion of role occur in a great many areas of social service delivery.

The identification of possible conflict of interest does not mean that it is assumed that doctors or any other social service practitioners are dishonest or unusually self-seeking; rather the point is that nobody can successfully divorce various simultaneous interests in a variety of contexts without some degree of interaction between the many roles an individual can be expected to maintain. Clearly there is likely to be a serious confusion of accountability where someone is responsible to different people to achieve varying outcomes in a given context. A provider is interested in ensuring that the services- are provided in a way which is as inexpensive as possible in order to ensure that available resources go as far as possible or to ensure that a reasonable profit is made. The employees of the provider however, may be concerned to achieve adequate professional satisfaction in a job well done and thus may be less interested in uneconomical operaring methods.

The regulator is concerned to ensure that the marker for a given service is efficient and that the needs of consumers are adequately protected. However, where those involved in the regulation are significantly influenced by those being regulated (including the providers of the service) then the interests of providers may become excessively significant.

The allocator of assistance is concerned to ensure that the state's intentions are adequately carried out and that equity is seen to be discharged through the achievement of the state's targeting goals. However, a provider of social services may be concerned to ensure that a substantial number of people are allocated

assistance so that sufficient state funds are made available co ensure the viability of the provider.

The adviser is concerned to ensure that the Minister or relevant boards receive unbiased advice which assists decision makers co target their decisions on chose most in need and to promote general efficiency. However, where the adviser is a provider then it is likely that the advice will tend co be tinged by the interests of providers to ensure that there is an adequate income for their employees and adequate provision of assistance to ensure a steady demand for the provider's services.

So long as one institution has the responsibility to be a provider of assistance, a regulator, an allocator, and an adviser then it is likely that these different functions will become merged and either one will tend to dominate or all will be done badly. This suggests that a certain degree of institutional separation may be necessary to ensure that the various functions of social policy are successfully carried out and that appropriate accountability is provided.

ASSISTANCE IN CASH OR KIND

Having explored the grounds for different interventions, the next approach is co consider different forms of intervention and issues in the design of policy. These are divided into three main areas; assistance in cash or kind; efficiency of production; and institutional issues.

One classic debate in the area of social welfare assistance is whether support should be offered in kind (rental houses, public hospitals, or state schools) or whether it should be offered in some form of purchasing power which could provide access to the services in question. Purchasing power could be offered in a form of cash through income assistance or in some kind of entitlement co assistance in the purchase of nominated services. Related to debates around provision in cash or purchasing power versus provision in kind are questions about whether information may really be the service which should be supplied.

Several arguments are commonly put forward to support the provision of services in kind. One argument is that there is greater certainty that a particular service will be provided and consumed if the state takes on the obligation of its provision. If the item is deemed to be sufficiently important that it is the subject of a social standard then such certainty could be valuable. Associated with this point is the claim that standards of delivery and service can be maintained if direct provision is continued. Part of this point is the fact that professional suppliers often have greater knowledge than consumers of the item in question and therefore provision by the state may be a means of ensuring that consumers

do not unknowingly or deliberately accept a service at a lower standard. A related point is that the preferences of the taxpayer are relevant in determining nhat social services should be enjoyed. If the taxpayer considers that housing the poor is important and is prepared to provide funding for chat purpose then a greater total amount of assistance may be offered if the taxpayer can be sure chat it will be spent on the purpose intended rather than on less 'mericous' goods char the consumer might otherwise purchase. A state house cannot be converted to alcohol but income support can.

The arguments around the provision of assistance in the form of purchasing power revolve around the gains chat are claimed co be made from greater consumer autonomy. The first point is that the value char is derived by the individual in meeting various social standards is essentially personal. As discussed previously in the section on the nature of standards the central aim must be to achieve a holistic living standard which is generally acceptable. Though this may be composed of different factors the trade-offs between issues of housing, education and food vary from person to person, household to household and group to group. So long as an adequate general level of support has been offered to these people, then any choice that they make to consume more of one good and less of another presumably reflects the particular values that they place on those goods. If it is argued that consumption will be diverted to low valued items, we seem co be asserting that the poor are systematically less responsible. As with any other group in society the recipients of assistance will include some alcoholics and others with diminished capacity to make choices. However chat cannot be regarded as a general description of those with low incomes in New Zealand. For most choices it is not clear why low income people would be any less capable of making decisions so long as they were provided with the same level of information as is normally offered to them by producers of services who are competing for their custom. It is true that many people have limited information about many of the services offered by the state but chat may be because there is little incentive to acquire information when there is no choice but to accept the service offered. The real question is whether it is likely that Pakeha middle class social workers and other professionals will be better able to determine the services that should be consumed by their clients, many of whom are Maori low income people.

The second argument in favour of provision in the form of purchasing power is that choice by consumers will tend to promote efficiency among producers. AC the moment the suppliers of social services such as education face no competitive incentives to ensure that the services they offer are in line with their clients' needs. Though the staff in these services are very professional and highly motivated to ensure that they offer a good service, there is no systematic means by which they can be sure they are offering any satisfaction to their customers. In addition

because the provision of many government services is provided through a monop-olistic agency, there is no clear measure of efficiency that could be found- by comparing the operation of different enterprises. The provision of services by government owned bureaucracies tends to mean that government decision making and advice is often dominated by a bureaucratic identification with producer interests. The interests of the producer are not the same as the interests of the client and therefore this can lead to some bias in the choice among options by the Government.

One reason commonly put forward for provision in kind, and an argument on the supposed foolishness of cash assistance, is that most consumers (especially low income consumers) lack the information to make sensible choices. This argument needs co be examined closely.

Implicit in the suggestion that low income people have inadequate information is a suggestion that all people choosing between options ought co possess an appropriate (and fairly high) level of information. However, casual observation makes it quite clear that all decisions about actions with consequences chat will be felt in the future are made in some degree of ignorance. Even where it might be theoretically possible for the consumer to acquire precise knowledge it is usual to make decisions in a certain degree of ignorance, relying on the knowledge of others. The reason for this is simple; though ignorance raises a risk of incurring the cost of a bad decision, acquiring further information would also involve cost. Information is nor free, we choose whether or not co acquire it depending on whether it is worth the cost. The experts with whom we trade in a regular way have an incentive co offer honest advice, including advertising, in order co attract and retain our custom. This is true in normal commercial exchange and it is also true in social services.

If rhere is a limited amount of information available in social services then the reason for char should be explored. It might be that the regulatory environment is permitting providers co suppress information and prevent competition. Occupa-tional licensing combined with restraints on advertising found in many medical professions would seem to be an example of that. Alternatively it might be that the provision of state subsidies to a single supplier of social services means that there is little incentive on the part of the supplier co offer a choice, and still less to provide the means of making an informed selection.

It is possible, however, that in some areas the cost of information is very high, and that low income people might find it difficult to conduct the marker search necessary to assemble appropriate information. It might then be possible for the state to collect and supply information more cheaply than individuals could for themselves. Where that is the case then it could be that the state could provide purchasing power to acquire the desired social services as well as information to promote knowledgeable decision making.

Because we advocate a holistic approach to srandards and consider chat the empowering of disadvantaged people through control over .choice of services is central co a successful society and successful idencificarion within society, we would tend co favour an increased emphasis on the provision of assistance through some form of purchasing power rather than the direct provision of goods as is currently the case in many areas. Where a case is made chat consumers lack the knowledge to decide then the question becomes one of the best form of providing information. It may be equitable and efficient for the state to provide information on social services or the information might be efficiently offered by competing providers of social services. Obviously this issue needs co be considered on a case-by-case basis as the arguments vary in strengrh from one area co another. Arguments about the provision of services in cash or in kind may be summed up in terms of the discussion of redistribution, social benefit and agency. Where there are high interdependencies in the use of a particular service then social benefit arguments might suggest provision in kind; however we would counsel caution because this is a rigorous test which most services do not pass. Where the beneficiary of a service is of diminished ability the agent may appropriately offer services in kind; again this should not be read as a licence to interfere in the choices of the disadvantaged. Where the issue is simply a lack of resources and redistribution is needed then the presumption must be to offer cash or other purchasing power. It is only by providing the choice that cash offers that the disadvantaged can be broadly empowered. To justify redistribution in kind it is necessary co establish that the efficiency of collective production achieves economies sufficient to overcome the utility lost with the removal of choice. That is a very hard test.

EFFICIENCY OF PRODUCTION

Earlier parts of the paper have discussed issues of redistribution, social benefit and concepts of agency in social policy. The application of the ideas in those sections would tend to promote efficiency and so increase the overall well-being of society in two ways. They would lead to a more careful targeting of expenditure so chat the amount of funds needed to achieve a given standard for the disadvantaged would be reduced and therefore the utility that taxpayers lose through giving up spending power would be minimised. On the other hand the greater focus on the needs and wishes of the users of social policy would tend to mean chat their utility is promoted. The combination of these two factors would be expected to increase the overall well-being of society. However, as well as the improvements that could be made in these areas, there is also potential for improvement in the more narrow concept of the efficiency in the use of resources to produce social services,

sure chat profits are maintained at an acceptable level. In many social policy contexts profits may not be directly relevant but the conceptual problem is the same. In these areas it might be that the aim is co ensure chat management organises resources in a way that ensures chat the needs of the users of social services (as identified by the Government where appropriate) are met as efficiently as possible with the least overall use of resources.

This question of the lack of identity between the inrerescs of the manager and the interests of the organisation is an example of the agency problems that were discussed previously. The policy issue is to get management processes that provide incentives which will encourage managers and employees co pursue the policy goals that are before them.

There are many aspects of the existing systems of social service production and delivery which suggest that at present there are very poor incentive systems. Some esamples of these are listed below:

   i   most social services that are funded by the Government are delivered on a monopolistic basis. As a result the providers of social services have little need to identify the needs of their clients and no discipline co ensure that they meet those needs;

   ii   most outputs of social service producing organisations are not sold co their consumers. This means that there is no price mechanism to check on how much consumers value various social service oucpucs. It also means that there is no clear method of measuring the output of social service organisations and therefore their producciviry can not be measured;

   iii   because most social service delivery organisations are not owned on a private profit making basis there is nobody in the organisation who has a direct personal interest in the use of resources and there is also no one outside the organisation with strong incentives co monitor activity co ensure that efficiency is maintained;

   iv   salaries for those employed in social service organisacions are largely determined by centralised negotiations and there is often little relationship between salary paid and performance. In teaching, for example, there is pressure from teacher organisations to reduce the present limited degree of monitoring for teacher performance and to ensure that such monitoring has no effect on pay;

   v   appointment to some social service organisacions (notably schools) is often done on a centralised basis which prevents local managers from selecting staff who are likely to identify with the needs of the organisation;

vi   most payment co agents is on the basis of actions or hours rather than output produced and this can have perverse incentive effects. An example is the fee for service basis of subsidy for general practitioners which means that they have an incentive co promote the number of visits co the doctor rather than co promote a healthy lifestyle for their patients;

vii   there is substantial security of employment in many social service organisations. Extensive appeal mechanisms mean that it is very difficult to transfer, demote, or dismiss any staff who are nor interested in the goals of the organisation.

The above list is not exhaustive. The main message from these examples is chat as a general rule the systems for the production and delivery of social services depend on the goodwill of the staff involved. It is a remarkable commendation for most of them that the social service systems in New Zealand work as well as they do. Most of the staff are motivated to care about the interests of their clients, pupils, patients and tenants. However, the systematic lack of reward and recognition for such identification with client needs means that there is an inbuilt weakness in the organisations.

Managerial Environment

If we assume that the staff of social service organisations are neither perfectly altruistic nor perfectly identify with their clients then we must expect that, for some of the time at least, the staff will pursue their own interests rather than the interests of the consumers of social services. In order to counter this tendency the organisacions need to have a degree of inbuilt tension that will apply a continuing pressure on the management and staff so that they will wish to continually promote efficiency and improve productivity. The changes necessary to achieve this environment would involve some or all of the problems listed just before. The shift towards an environment for the delivery of some social services which relied more directly on competitive price mechanisms, the use of competitive privately owned profit making producers, and a shift to more performance orientation in the terms of employment would be examples of the kinds of change that could be expected to provide management and staff with the incentives to adopt efficient production processes. However these suggestions should not be viewed in isolation. Some changes are more or less appropriate depending on the social goals that are being pursued. It seems improbable that income redistribution could be supplied sensibly by competitive private sector organisacions. However we already sell many social services including primary medical care. There

can be no clear view that any one structure is either always right or morally wrong. The critical question for policy is will the structure work to deliver the social goals we want as cheaply, fairly and efficiently as possible? We believe that there is room for substantial reform in many areas co promote increased efficiency. This might involve the review of internal management structures and also the overall way in which the standards and entitlements are defined so chat alternative organisational processes can evolve.

INSTITUTIONAL STRUCTURES, DEVOLUTION AND ACCOUNTABILITY

The previous three sections on income redistribution, agency issues and efficiency of production have clear implications for the institutional structures that would be most successful in achieving social policy objectives. Decisions on targeting, integrated abatement systems for various forms of targeted social service, and provision in kind or in cash all have implications for the institutional structures chat might be used. The issues of the principal agent relationship between clients, taxpayers, parliament and social agencies have further institutional implications. Questions of the incentives that face the staff within social organisations raise another set of institutional issues. Though the ends, in terms of equity and efficiency, and the means are clearly different it is also apparent that the institucional structures that are used are intimately bound into the issues of what social policy goals can be achieved and how they should be pursued.

In this paper we do not attempt to define any specific institutional structure that is appropriate for the provision of social services. This is because a great deal of detailed development needs to be undertaken and also it is necessary that different institutional structures evolve for different social services. However from the earlier discussion three major issues can be identified which have direct institutional implications and the questions that are raised by these will be explored in this paper. The three issues are:

— institutions need clear goals without any conflict of role;
— the institutional structures adopted need to be responsive to the needs of the affected group;
— there need to be accountability systems to ensure that agents (both staff and organisations) are made responsible for their actions.

These issues clearly interact with one another and the final resolution of institutional structures must take all of these issues into account. However for the purposes of this paper they are discussed one by one.

difference between the policy making function which determines the purpose and direction of activity, and the executive function which ensures the successful carrying out of policy. The two functions depend on each other, as policy which can not be achieved is pointless policy. However, though there is a relationship between the two, they are different. The need for a separation arises from the fact chat executive considerations tend to be dominated by the needs of staff in much the same way that producer considerations can be dominant over consumer needs.

In each of the executive areas of allocative, productive, and regulatory activities there are clearly some potential efficiency gains in separating different sectoral activities. For example there are significantly different skills required in providing education services than those needed for the provision of health services. However in terms of policy advice (and possibly in terms of the allocation and regulatory functions) the need to separate into different sectors is less clear. The driving force behind setting standards and establishing the Government's role as a consumer on behalf of members of society is the same whatever area of social well-being is involved. The concern is always for the overall standard of living and well-being of people. Health care is not purchased for its own sake but because of its potential contribution to overall well-being. This suggests that though there is clearly a case for specialist producers of social services there is much less case for specialist advisers operating from separate institutional environments.

It is difficult to be definitive in suggesting a correct institutional structure for social policy because decisions in all areas interact. The institutional structures, and the management systems, need to be designed bearing in mind the principles established in Chapter 2 of the brief.

Responsiveness: Devolution

The requirement that institutions be able to respond to client needs implies chat there is some means of identifying the needs of the client. That generally involves an organisational structure that is very close to its clients and controlled by members of that group or one chat is faced with very strong incentives co identify the needs of clients. It may be that monolithic public service organisacions running nationwide policies may be less successful in achieving a sensitive identification of client needs.

One approach to achieve a flexible and sensitive institutional structure is to adopt a system of competitive suppliers and direct assistance straight to the consumers and users of social services through the provision of some form of purchasing power to target groups. That concept has been canvassed already within the section on redistribution and we would suggest that in many areas it is

a useful approach co follow. The knowledge chat the organisation might lose its clients to competing organisacions will tend to focus the minds of the management. A school with a captive population within a zone has less day-co-day need to ensure chat its pupils and their parents are satisfied with the education being supplied than a school which might lose funds because of a drop in the number of enrolments.

An alternative approach is to devolve the control of the provision of social services co local groups. If that is done in the context of a competitive system so chat clients have some real choice as to which supplier co use then this becomes simply a subset of the previous case. If however we adopt a more determinist basis with restrictions on the ability of clients to choose among social service suppliers then we must be more clear on what we are doing and why we are interested in devolution.

The question of the appropriateness of the devolucion of the supply of any particular service for any particular group revolves around the same issues of responsibility that were explored earlier in this paper. The central questions are co do with the nature of the service that is being devolved and the intended beneficiary of the service.

The Nature of the Service

The question of what goods and services are best supplied direct to the individual by the state and which are best supplied by other organisacions under an authority which has been devolved from the state, goes back to the issue of the nature and value of institutions and individuals. Though various institutions like the tribe and the family are central to our cultural values, it is also true that the human rights of individuals are a basic responsibility of the state. The state cannot devolve any issue which can be seen as central to the Crown's responsibility of delivering justice.

Clearly it is inappropriate to devolve the structures of law and security, the judiciary or other basic means of protecting individual rights. We cannot contemplace the development of a state within a state with different human rights for some individuals. That is why we cannot permit private police forces or 'people's tribunals'. This approach, based on the importance to the individual of a given service, suggests that we should be reluctant to devolve some of the more basic forms of social support. This would include income support which is central to the necessity of staying alive. Without income life cannot be sustained and therefore income is central to human justice. This suggests that the state must retain to itself the right to establish an entitlement to income support on an individual basis.

However, even though income support is currently calculated .on an individual basis it is in fact delivered on a household basis. We are prepared to assume that

transactions within the household will be protective of the needs of individuals. This presumably reflects the high value that we place on the family and also the assumption that agency relationships within the family are usually sufficient11 robust that the state need not enquire further.

In some other services such as assistance for the purchase of a house or the provision of education the needs of the individual seem less critical. It might be in these cases that the devolution of control of policy to local groups will give less concern. The degree of concern depends on the extent of interdependence across society; if we consider that education must promote a mono-cultural society then devolution is inappropriate. If instead multicultural aims are more significant then devolucion may be a necessity.

At a further remove from central human rights are policies like economic development. Clearly these policies cannot be attached as a central right of any given individual so at that end of the spectrum the question revolves solely around the effectiveness of different organisacional structures to achieve specified goals.

The Beneficiary and *the Institution*

The central rationale for devolution is that local groups know their client group best. That is a question of fact which can be determined on a case-by-case basis.

When policies are intended to address the needs of the most disadvantaged groups there can be evidence that local groups are not always the most sensitive or successful in achieving that aim. In particular, work among 'socially unacceptable' groups can often be done best by the state. Local organisations are sometimes politically or socially compromised by contact with alienated groups in their midst and are therefore unable to offer effective support. Many voluntary organisations, such as service groups can only function effectively wirh mainstream groups. Even local bodies tend to be very closely identified with ratepayer needs and majority views. This makes it very difficult for them to offer support to gangs or even unemployed worker groups and solo parents. However, the state's detachment from local pressures may make it easier for government Ministers and public servants to adopt the view that the state is for everyone and so must cake steps to attend to the needs of the most disadvantaged.

Many of these problems of the ability of local organisations to identify need are removed in the context of cross-cultural issues. If disadvantaged groups are from a culturally distinct minority then it may be that state organisacions will be inherently poor at understanding the needs of the minority. In addition the lack of direct influence over the delivery of policy may reduce the confidence of the target population. Thus, even if the policy itself does not change, its effectiveness can be reduced if it is seen to be a responsibility of remote and unidentifiable people. Where Maori or Pacific Island groups are concerned there is clearly a

substantial cultural distinction compared to the European background of most other New Zealanders. In order to achieve a policy approach that Maori and Pacific Islander users can feel is their own and which is likely to be effective there may well be a good case for some devolution. There are a series of tests thar could be considered to decide whether devolution is appropriate in any particular case.

— The group needs to be culturally distinct and (if extra assistance is to be provided) relatively deprived.

— The organisation that is supplying the service needs to be clearly identified with the group and rooted within it so that there is a local accountability to the target population.

— The organisation needs to be demonstrably competent to carry out the particular task or it must be able and willing to retain expert assistance.

— There needs to be a clear understanding between the organisarion and the Government on the purpose of the funds supplied to the organisation and on methods of monitoring so that there can be accountability to the state for the use of taxpayer funds.

The degree of devolution and the appropriateness of any particular organisation will depend on the service to be supplied and the group to be assisted. The degree of care that is required in specifying a particular contract will also depend on the degree of competitiveness in the supply of service. Where there is a significant degree of pressure on the disadvantaged group to use a particular form of delivery then the Government must be very careful to ensure that its devolution is carried out appropriately and the services are monitored carefully to ensure that the needs of the disadvantaged group are being adequately addressed. An important caveat to any possible devolution is that each individual should have the option of using alternative systems, and other delivery systems should not be absolved of their duty to deliver assistance to all clients.

Accountability

A theme that has emerged throughout the discussions in this paper is that social policy may be understood as a collective approach to meet personal and joint needs. That automatically leads to the concept of agency whereby one party is acting in the interests of another; generally this takes the form of a social service organisation (often the state) working in the interests of and on behalf of disadvantaged groups in society. Beyond that there is an agency relationship between the staff of the state or other social service organisations and their principal who is their employer.

This series of agency relationships raises the question of how we can tell that agents are carrying out the will of their principal and what means should be adopted to ensure that this will is pursued. In this section these matters are discussed only briefly; they should be read alongside the fuller analysis on the limits of the Government in the earlier chapter.

At the level of Government policy making the processes of democracy involving regular election and parliamentary scrutiny ensure that ministers are jointly and individually liable for their decisions. Obviously the process is very uncertain and the emergence of a mandate for a government does not necessarily imply social confidence in a particular policy nor can it be assumed that a majority support for a policy is adequate indication of its acceptance by the group for whom it is intended. However these are generally acknowledged problems of majority voting systems. The fact remains that we have never managed to create a system of government that provides more confidence that the Government will respect the will of the people and it is our experience that governments have consistently paid close attention to the views that they understand are held in the electorate.

However at the next level down and through into organisations responsible for carrying out social policy, accountability can be much more difficult to establish and maintain. The concept of accountability requires that the agent and the principal know the agency's purpose and have a shared understanding of its objectives. Both parties need to know how the performance of the agent will be monitored so that there can be a basis for analysis of whether the agency is successful in addressing the objectives it is set up to achieve. There also needs to be a clear understanding of the consequences that will follow if an evaluation shows that the agency is performing poorly (or well). In particular in order to ensure that the agent has an adequate incentive to address the objectives that have been set for the organisation, there need to be clear consequences that will be felt by the agent as a result of the agent's performance.

This implies that it is not good enough to simply have a pious utterance that an organisation is acting 'for the people' or 'within guidelines'. There needs to be a clear and publicly understood process by which state employees or organisations working under devolved authority from the state can be monitored and corrected.

Within voluntary organisations these accountability mechanisms can arise automatically. Where an organisation is locally based, and its leadership derives its authority from the people it serves, there can be adequate information held by the users of services so that they will provide immediate and forceful feedback to their agents. The more remote processes of state organisations may require more formal systems of accountability.

Where the consumer of social services is able to acquire the services in a contestable marker relationship then there is no specific problem of accountability.

However when the state is acting as the agent of society contracting with its own agents to deliver various social services then clearly there is a need to define the expected work and identify performance targets. Though this probably cannot be done in a mechanistic way with precise numerical measurement of all areas of activity there is potential to specify various forms of performance so that success can be monitored and the agency responsible for carrying out the activity held accountable for its performance.

Where the state has potential competing suppliers to choose from then it is not necessary to be quite so precise about performance or about expected sanctions. Any contractor knows that if performance is unsatisfactory then the contract may not be renewed. However where there is little effective contestability for the service the state becomes more dependent on one organisation, commonly a state owned organisation. In that case accountability needs to be more explicit and the sanctions may need to be more clear. In particular it may be that the chief executive of the organisation needs to be appointed by the Government and liable for dismissal in the event of poor performance.

Whatever institutional structure is considered for the state involvement in social policy there is a need to ensure that the goals and targets of collective activity in the social area are clearly defined. In order to make sure that the agents working in the area of social policy are able to be monitored it is necessary to esrablish clear understandings, which might be termed accountability contracts.

The essential elements of an accountability contract seem to be a clear statement of expectations, measurable targets, a specified resource commitment from the Government, and specific expected performance and rewards for good performance. Where these provisions are established then there seems to be a good chance rhat social services will be delivered in a way that meets the Government's expectations and the Government's interpretation of consumer needs.

Conclusion

This paper provides a theoretical background to the discussion of social policy options. This theoretical approach has enabled us to construct a checklist of issues by which policy may be developed and evaluated. This list is generally applicable to any area of social well-being.

The list begins with an understanding of the principles of social justice from which any social policy must be derived and leads to the view that the Government has a role in establishing social standards in various areas of social well-being. These standards should be viewed holistically so that people can be given an acceptable standard of living in the sense that they have a capability to do or

be whatever they reasonably require. The next step in the process is to define the reasonableness of various requirements by setting levels for -standards. Having arrived at the general concept of what is acceptable and how it should be assessed the next issue is to determine who in society is responsible for a particular issue.

Following those general issues the paper has examined separate issues involved in redistribution, social benefits and agency. This leads into a review of the nature of policy response including a review of assistance in cash or in kind, the efficiency of different social service processes, and a discussion of institutional issues thar must be considered in the construction of social policy. Brief examples of the kind of policy prescriptions that follow from this approach are found in -Chapter 3.

Glossary of Abbreviations

AGA	Annual General Adjustment
ANZCERTA	Australia and New Zealand Closer Economic Relations Trade Agreement (CER)
CBU	Completely Built Up (Pre-assembled)
CKD	Completely Knocked Down (Unassembled)
CPI	Consumers Price Index
EC	Electricity Corporation
EMDTI	Export Market Development Taxation Incentive
EMTRs	Effective Marginal Tax Rates
EPTI	Export Performance Taxation Incentives
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GMFI	Guaranteed Minimum Family Income
GST	Goods and Services Tax
HEIS	Household Expenditure and Income Survey
HMO	Health Maintenance Organisation
IMF	International Monetary Fund
IRD	Inland Revenue Department
JOS	Job Opportunity Scheme
LATA	Local Authority Trading Activities
M3	Broad Measure of Money Supply
MTN	Multilateral Trade Negotiations
MTRs	Marginal Tax Rates
NZIER	New Zealand Institute of Economic Research
PSBR	Public Sector Borrowing Requirement
QES	Quarterly Employment Survey
RST	Retail Sales Tax
SCl	Statement of Corporate Intent
SES	Socio-Economic Status
SMPs	Supplementary Minimum Prices
SOE	State Owned Enterprise
TCD	Transferable Certificates of Deposit
VAT	Value Added Tax