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The Paternalistic Consensus

1 Introduction

In the 1990s, the prescriptions and models that had been so assiduously promoted in the era of market capitalism came under increasing criticism. Although its principal spokesmen seemed impervious to the concerns, the evident failings became more widely accepted. This was demonstrated most conspicuously in a series of electoral defeats for politicians and political parties wedded to market capitalism. Besides the electoral rejection of the neo-liberal experiments pursued in various industrialised countries, there was the protracted and disastrous Failure of attempted reform in the Russian Federation (and the less noticed failures in other countries in the region), there was the Mexican crisis in 1994, and there was the Asian crisis in 1998. All chipped away at the public credibility and legitimacy of the economic orthodoxy.

2 A Crumbling Washington Consensus?

The human species does not like to be subject to a social Darwinism based on the ethics of greed and the survival of the fittest defined in terms of market success or failure. "Greed is the best development tool", Larry Summers, the US Treasury Secretary, told a group of South Africans in May 2000. Although this is the essence of the neo-liberalism that lies at the heart of the Washington Consensus, it leaves too much out for comfort. It is a licence to pursue individual gain opportunistically, and identifies development with individual self-possession. It legitimises a motive that is inherently selfish and inegalitarian. It gives no space for sharing or for values, of reproduction, of community. This sense fuelled the disquiet that built up in the 1990s.

The criticisms reached a high pitch in Seattle in late 1999, when many thousands of protesters from all around the world disrupted the proceedings of the World Trade Organisation. The momentum was sustained in further disruptions at the annual meeting of the IMF and World Bank in Washington in April 2000. Less momentously, but perhaps in its way most dramatically, Jo Stiglitz, who had resigned under pressure from the post of Chief Economist, and as one of the Vice-Presidents, of the World Bank at the end

of 1999, launched a tirade against the IMF and its policies, which winged its way round the world on the internet, much to the delight and amusement of the many critics of the Washington Consensus and the international financial institutions. The retorts and denigration were swift and vitriolic, showing how narrow and personalised the debates had become. But the tensions reflected the difficulty of persisting with a perspective that seems to offer the losers little respite.

Then in May 2000, the co-ordinating editor of the World Bank's *World Development Report* resigned in a huff, claiming that others were messing around with his draft Report, with the intention of altering the line that income redistribution was desirable for development to one that gave overwhelming weight to economic growth. Observers were entitled to be a little sceptical about all this, since the draft Report had been widely circulated, and was scarcely radical, while it is part of the normal process for a draft to be subject to comments and modifications to make it more consistent with the main line being taken by the institution. Nobody would be so naïve as to take on the job without knowing that.

Nevertheless, these were signs that all was not well with the packaging and thrust of the orthodox approach. This further emerged in the World Bank's Development Conference held in Paris in June 2000, one of those glamorous occasions when prominent politicians mixed with prominent economists at great expense. The trouble was that in that forum, predictably, the debate narrowed to whether or not economic growth was all important, whether or not the state should take responsibility for education and health services and whether or not free trade was good in all circumstances. The more basic criticisms are that the orthodox policies have tended to foster inequalities and economic insecurities, that the international financial agencies and the international capital markets are non-accountable, and that these have been growing in economic and political influence. And beneath all that is a more fundamental human reaction, a feeling that the type of society and the modes of social and individual behaviour being encouraged and rewarded by global capitalism are not particularly attractive.

The disquiet was taken into the streets of Prague in September 2000, when disparate groups sloganised against the IMF and World Bank during their annual meeting. It was a discordant noise, which gave establishments everywhere ample opportunity to mock. Some of the reaction was placatory. But it was hard to take seriously assurances that the major new objective was people's "empowerment". For over two decades, the policies supported and often imposed by these agencies to cut the "power" of collective agencies, from trade unions to protective statutory regulations. These empowering mechanisms were lambasted as rigidities, as numerous reports by those agencies stated. Now they say it is vital to "empower".

We live in a time in which politicians and analysts are in awe of financial capital. Economic news and economic policy are dominated by what happens on stock exchanges, Absurdly wealthy individuals lure Presidents, Prime Ministers and sundry aspirants to their fireplaces, and major commercial institutions have truly impressive power. Private pension companies have

assets that in some industrialized countries, such as the Netherlands and Switzerland, are larger than the GDP, and in others that situation will soon arrive. The size and reach of huge financial corporations give them an ability to use exit options to obtain acquiescence from weak or potentially weak governments. In effect – to play on the ideas of Hirschman – the ability to use exit gives them a stronger voice, because they have no loyalty to any nation state. And should a politician deviate from an acceptable path, re-election could prove difficult.

There is no need to express this reality in class terms or in Marxian analysis. The reality is hard to deny, and we need to start constructive thinking from that basis. The strength of financial capital is driving distributive policy, driving social protection policy and driving the development of regulatory regimes.

There is a dissonance in the international debates and manoeuvring, between the rhetoric of a “war on poverty” – with world bodies and conferences setting exemplary targets for achieving unprecedented reductions in poverty rates and improvements in most other things – and the practice, with those targets being pitched just far enough away so as to suggest meaningful objectives and not too far away as to be too distant to worry current policymakers and leaders or to induce scorn from critics. The dissonance reflects a perceived need to say that policies designed to establish market mechanisms and boost economic growth are the most or only effective means of reducing poverty. This reached a new crescendo at the Millennium Summit of the United Nations, where for three days Presidents and Prime Ministers of 150 countries committed themselves to splendid targets for the year 2015.

During the era of globalisation, the extent of poverty scarcely improved, and income and wealth inequality grew, between and within countries. The disquiet these trends have generated is global, regional, and national in character.

At the global level, there is a crisis of governance. Many feel uncomfortable at the imposition and hegemony of a paradigm, and the presumption that this should not be questioned, because it might somehow lead to support for protectionism. There is also unease about the extended use of increasingly tight conditionality in the provision of international financial assistance. And there has been criticism about use of IFAs to seek the transformation of supposedly-independent societies and economic systems. Both are highly paternalistic and are regulatory in intent, even if some of their leading advocates claim that they favour deregulation and free markets.

Even more frightening, there has been talk about making the World Bank the world’s “knowledge bank”, a most paternalistic idea. Yet a source of global crisis is precisely the lack of transparency, accountability and democratic governance in the powerful agencies of global regulation. To think of one setting itself up as the arbiter of knowledge is to bring Big Brother somewhat closer.

The really crucial issue is finding ways of securing accountable governance. For unless the voices of diverse social interests are part of the governance of

these agencies, all the defensive rhetoric about “listening” and “participation” that has emerged since the criticisms of the Washington Consensus became part of the streets will be a waste of time.

At the regional level, there is growing concern that regional blocs, such as the European Union, ASEAN, NAFTA, MERCOSUR and SADEC, will indulge in competitive moves to harmonise standards and regulations. The *harmonisation* around flexibility, fiscal policy and social protection policies raises questions about the subordination of rights and standards to the dictates of competitiveness.

At the national level, there has been an attempt to add onto the Washington consensus a new concept – “social capital”. This almost infinitely elastic concept is a reflection of a failure at the core of the model underlying the Consensus – a lack of any sense of representation or of agency to safeguard against the insecurities that come with individualisation. It is also a way of trying to re-legitimise the state. In the same vein, the orthodox school has also been trying to legitimise a role for “civil society” organisations.

A further paradox chipping away at the Washington Consensus’ credibility is that economic crises are just as likely to affect “well-managed” as “poorly managed” economies. Small economies that open their capital account and, for whatever reason, grow fast are likely to attract capital inflows that are large relative to their GDP. But success of this sort breeds problems, because a slight deterioration in economic growth or political stability may lead to mass capital flight. Capital volatility causes price and income fluctuations, which dampen growth, all of which make governments of such countries acutely oriented to the good will of the international capital market and the international financial agencies, thereby constraining their independence in social policy, particularly anything redistributive in character.

The globalising economy seems to thrive on crisis. The new millennium began with a pervasive fear of insecurity. At one level, there is the fear that the forces unleashed by global capitalism are out of control, and are so strong that a series of destabilising developments could tip the world into a great crash that would make the events of 1929 seem minor. Many think that the institutions of global governance could contain such crises. Others think that local crises are induced deliberately and used to induce restructuring, forcing recalcitrant governments to adopt policies of economic liberalisation, open capital accounts and strong individual and corporate property rights.

A bigger source of crisis is the distributional unease, the sense that globalisation is associated with a widening gulf between the winners and losers, and between the minority in secure positions in a few centres of global capitalism, who see great opportunities, and those in many parts of the world, who see only the constraints. This is the globalisation paradox. There is a claim that globalisation and new technologies give so much more choice, and there is a feeling that there is a narrowing of choice for many governments. This is the control mechanism of global governance. And many people do not like it – and nor should they.

Another dilemma is the *mobility paradox* of globalisation. The orthodox view has been that globalisation is about liberalisation, and that freedom of

capital mobility is essential for economic dynamism. Hypocrisy has stalked the rhetoric. Imagine internationally open labour markets. Where are most of the millions of impoverished surplus workers? No mainstream politician or economic liberaliser advocates free and unrestricted labour mobility, facilitated by tax holidays, guaranteed rates of return and so on. The politics of the Washington consensus and globalisation are inequalitarian between the right to free movement of capital and of labour.

All in all, it is somewhat remarkable that the essence of the Washington consensus model retained its appeal and hold through the 1990s, except that it takes more than criticism to replace a paradigm – it takes an alternative to do that, an alternative model capable of addressing the questions being posed when the prevailing paradigm cannot do so. It was precisely a lack of an alternative that made so much of the 1980s and 1990s so intellectually frustrating, and politically rather unattractive.

Yet a new consensus was emerging that was attempting to respond to the worst excesses of global market capitalism while retaining the labourist ideals of the twentieth century. It deserves to be called the Paternalistic Consensus.

3 Third Wayism: Labourism's Rigor Mortis?

What the noise in Seattle, Washington and Prague signified was a recognition that the era of market regulation was running up against the insecurities and inequalities that were beginning to threaten the sustainability of a global system of open economies. The fragmentation into winners – the Davos-meeting elites, hyper-active proficians, cosy salarieds – and losers – the flexi-workers, unemployed and lumpenised detached – demanded greater concern for the preservation and strengthening of the social and ecological fabric in which the economic forces were being unleashed. Into this vacuum came something close to a new paradigm, known to its advocates as the Third Way,

The notion of the Third Way has had a chequered history. All sorts of beginnings have been sighted. Perhaps the most distinguished variant was that offered by the Swedish social democrats after the Second World War in developing and applying the “Swedish model” or the Rehn-Meidner model. For several decades, this third way between capitalism and state socialism was admired by social democrats almost everywhere. Memories fade, and it has been replaced by a vague combination of ideas trumpeted by some leading politicians and their think-tanks and advisers. Several social commentators present themselves as the father of the approach, and several national leaders have associated their career reputations with it.

Roy Hattersley has commented, scarcely sympathetically, “If the third way really exists, it is technique, not ideology”. This is moot. It looks very much like ideology clothed in technique. In what follows, an attempt will be made to present the essence of the Third Way. Because of its amorphous character, any such representation will be criticised for not being faithful to something or other. That is the nature of any living organism. It never is what it was,

and it never was what it is – or will be. This is perhaps why even its leading personalities lost faith in their own slogan, and in early 2000 there was an attempt to replace the label with *progressive governance*. This new term seems no clearer, and we will use the more familiar term.

Although it is hard to characterise, Third Wayism seems to have a core set of policies, backed by some characteristic euphemisms, which drive its policy agenda. A full and fair statement of those should be found among its advocates. The following seem to be the primary ingredients.

Minimum Standards

The Third Way is committed to social integration, and favours policies and institutions that promote employment, seeing this as the way of maximising opportunity and for achieving a more just distribution of income. But it recognises that more open economies and flexible labour markets leave more people, even those with jobs, receiving too little income. Accordingly, a minimal statutory floor of protective regulations is required, including a statutory minimum wage. This is part of its strategy to “make work pay”. As noted earlier, the reality around the world has been that minimum wages have declined or been converted into a differentiated instrument giving less protection for groups that have most needed it. There are also reasons for doubting their effectiveness in flexible labour markets. Nevertheless, they do provide a yardstick for individual and collective bargaining.

A minimum wage has been coupled with support for a floor of protective regulations, including support for a core set of labour standards along the lines of the ILO’s Declaration of Fundamental Principles, consisting of seven core standards to which all member countries must subscribe. This runs into tensions around linkage with trade, which contributed to the failure of the Seattle round of the WTO negotiations. Usually, supporters of core standards in industrial countries have lobbied for a formal link, demanding that all countries should be obliged to meet them. To governments and commercial interests in developing countries, this seems to require them to move to standards attained in industrialised countries “prematurely” and they have attacked the demands as quasi-protectionist and unfair. Advocates in industrialised countries, and trade unions in most parts of the world, have claimed that refusal to abide by minimum standards amounts to unfair competitive advantage.

Ironically, while demanding minimal core standards, Third Way supporters seem to accept several forms of *social dumping*. This is a great dilemma for the early years of the twenty-first century. Implicitly or overtly, they seem to accept the need to roll back social protection coverage or “generosity” as a means of increasing competitiveness, and the need to weaken protective regulations in the name of flexibility. There has been much talk about whether or not there is a “race to the bottom” as a result. There is not much evidence that anything as drastic as that is taking place, or is desired by anybody. However, there does seem to be an acceptance of a trend towards some convergence in which the strong protective levels achieved in welfare

state capitalist economies are somewhat eroded. Third Wayists do not seem to have given much attention to finding ways of achieving a race upwards.

Competitiveness

Third Wayism starts from the premise that globalisation is a fact of life and that governments must ensure that their policies and the behaviour that they facilitate are compatible with the realities of globalisation. This means that everybody must become “competitive”. In this they echo readily the ironic advice of one member of the elite, an influential multinational businessman, Percy Barnevik: “Workers of the world, compete!” It is not just the Communist Manifesto that is the target of such a gibe. It is the old-style notion of capital-and-labour and the sense that labour does not have the capacity to struggle against global market forces – except against its counterparts in other countries.

Competitiveness became a new rallying cry. It means more than the simple matter of cost, quality and efficiency. It means *credibility*. If one’s credibility is in question, long-term commitments will not be made. If the country’s monetary policy lacks credibility, financial markets will react adversely so that borrowing will be more expensive, capital flows will tend to be shorter-term, foreign direct investment will be more hesitant and will “require” (or demand) more subsidies, tax holidays and the like. The economic “fundamentals” may be adequate, but the magic of credibility is required to create a stable macro-economic environment. Credibility ultimately requires *capital security* – the assurance that financial investors will be able to earn, retain and transfer their profits and assets unhindered.

Competitiveness has become a yardstick for so much at so many levels. At the level of regional blocs, we hear that our region – the European Union, MERCOSUR, ASEAN, NAFTA, or whatever – must be more competitive than theirs. At this level, there have been attempts to do what Franklin Roosevelt, Keynes and others had hoped to be a primary function of the United Nations and Bretton Woods system after 1945, but at the regional level rather than at the global level, which is to take labour rights and standards out of international trade. Regional harmonisation has been a means of regulation. If you harmonise and standardise something you are obviously limited in using it as an instrument of competitiveness. But if there are substantial differences between regions, labour standards will remain spheres of competitiveness.

The same cry has been used at the national level – our country must be more competitive than theirs. We must be more flexible, or at least be as flexible, and so on. The competitiveness agenda has predictable outcomes. Thus, fiscal policy was once used for distributive purposes and for curbing inflationary pressure. Now it has been turned far more into an instrument for boosting cost competitiveness (and, as argued later, behavioural regulation).

There is also the euphemism of “fiscal competitiveness”, a term that seems to mean that tax rates should be lowered to some international norm and that there is some idea of a norm in the structure or incidence of

taxation. Implicitly, it seems to mean moving towards what is done in the USA.

Taxes on capital are still being cut, by governments made up of political parties that historically grew as representatives of “labour”, and they have shifted taxes to labour. For instance, in July 2000 the German Social Democratic government managed to pass a tax reform, against conservative opposition, in which the top income tax rate was cut from 51 per cent to 42 per cent (by 2005), and the main corporation tax rate was cut to 25 per cent in 2001, from its previous level of 40 per cent; capital gains tax on the sale by companies of shares in other firms was cut for 2002. Fiscal policy was being used unashamedly to increase national competitiveness.

Subsidies for firms have also been used increasingly as a means of enticement of foreign direct investment and a means of tilting the attractiveness of a country to portfolio investment, being one indicator of a “business-friendly” economic environment. Subsidies to workers (labour) and working consumers are regarded as “distorting” and are therefore condemned as market unfriendly and a brake on competitiveness. Subsidies to capital are not treated to this type of criticism.

The notion of competitiveness has been used to drive down tax rates, and is also used to rationalise cuts in social protection policy and for rolling back protective and pro-collective regulations. And at the level of the individual, we are all urged to be more competitive, leading predictably to the latest euphemism of the era.

Employability

Credibility and competitiveness blur into the notion of employability. This has been a distinctive contribution of Third Wayism. Our country must become more competitive, which means that our workers must become more employable. This variant of supply-side economics puts the onus firmly on workers to upgrade certain skills to make them more attractive to potential employers, particularly multinational corporations. Being attractive means not just being able to demonstrate and apply technical qualifications. It means having the “right” attitude, being able to communicate and being flexible and adaptable. And it means committing oneself to “lifelong learning”.

All of these behavioural and attitudinal characteristics require institutions that can produce or induce them. So, unions have to be encouraged to become partners in the national drive to be competitive and have to cooperate with socially responsible employers. Thus one can see the nucleus of a renewal of the notion of a social contract – a partnership based on employability, credibility and social responsibility. The advocates talk of new euphemisms here, such as “benchmarking” and “soft convergence”, which seems to mean moving towards what is found or advocated-in the USA.

This perspective amounts to much more than technique, because it is rooted in an ideological position, which is that class antagonisms are finished and irrelevant in the context of globalisation (and more incidentally in the

context of the fall of the Berlin Wall and the effective collapse of state socialism). The message is an image that is a cross between war and sport. We are all stakeholders of our country, united in a drive to be competitive with "their" country. Policies and institutions must be made to correspond to that imperative.

As part of this, it is accepted that there should be labour market flexibility, partly because this is what employers want, partly because the perception that the country's labour market is flexible will add to the country's credibility in international financial markets, and will thus help to attract that scarce Foreign direct and indirect investment. Flexibility means many things, as noted earlier, but in this context it means mainly that the growth of real wages adjusts rapidly to demand and that employment protection or employment security is modest, and is perceived by commentators and financial markets to be modest. In other words, Third Wayism accepts and even rationalises employment insecurity and income insecurity.

Part of this push for flexibility involves a reduction in labour costs, and "non-wage labour costs" in particular. This can be achieved by raising productivity, by lowering the wages that employers have to pay, by changes in work organisation, by making it easier for employers to operate flexible work schedules that increase utilisation of their plant, machinery and service networks, and by redesign of fiscal policy to reduce overhead costs. Fiscal ingenuity is a key to Third Wayism, as will be explained shortly.

The emphasis on labour flexibility also amounts to a modern form of labour (re-)commodification. Workers who lose employment security lose a form of income that has some monetary value. They may receive a higher money wage, but this must be put alongside the loss of actual or prospective employment security. Similarly, the acceptance of flexibility, and such practices as unlimited hours contracts and other intensified working schedules, means the diminution of personal control over time, in the amount at one's own control and in the predictability of its availability. The surrender of time control may be a derived outcome of Third Wayism's fascination with competitiveness and employability.

This has regressive implications, because a cut in labour security implies a loss of social income, while owners of firms and those receiving profit-related income will receive more income, simply because of the increased flexibility. The Third Way response to the claim that greater labour flexibility results in greater insecurity and loss of social income might be that there are ways of compensating people that would not impinge on competitiveness.

Third Wayism has a complex perspective on monetary and fiscal policy. As far as monetary policy is concerned, the tendency has been to go one stage further than the reverse-Keynesianism of the 1970s and 1980s, not only accepting that "the state cannot use macro-economic policy to stimulate aggregate demand in the interests of promoting employment, but believing that the central bank should be independent of government. This is one area where the surrender of control is regarded as a virtue.

As far as fiscal policy is concerned, the Third Way position seems to be based in part on the premise that public provision of universalistic social

protection is neither feasible nor desirable. The welfare state needs to be trimmed because it is “bloated”, because non-wage labour costs are made excessive by an extensive mix of public transfers and services, because of “middle-class capture”, such that a disproportionate amount of the transfers and social services go to the affluent, and because it does not help achieve the “social integration” of those most in need in society, the disadvantaged, the long-term unemployed and so on. For these reasons, social protection must become more selective, through use of means tests and forms of social assistance targeted at the poor.

As is well known, the trouble is that means-tested benefits create poverty traps and unemployment traps, whereby many of the poor and unemployed who wish to take jobs or work longer consequently lose benefit income that is almost as much as they gain from earnings (effectively having marginal income tax rates of near 100 per cent). To circumvent these traps, the main Third Way response is to turn increasingly to in-work benefits – giving additional income to those who take or remain in low-wage jobs. The solution may seem simple – something like an earned-income tax credit, which in the USA has become easily the largest income transfer mechanism and which is becoming so in some other countries, notably the UK and Canada. It seems that the Third Way strategy would be to complement tax credits with employment subsidies. These two fiscal measures together make a neat combination.

These may not be enough. Suppose the fiscal carrots do not entice the unemployed and poor to the labouring table. Suppose the jobs on offer are wretched, onerous, stigmatising and lacking in those qualities that workers are expected to learn. There is no escape from these dilemmas for Third Wayists. Fortunately for them, there is a way out, which stems from their ideological premise. This is that there should be no social rights without social responsibilities. Their view is that you cannot expect the state – your fellow citizens – to pay their taxes to support you in times of need unless you meet your social responsibilities. This position has been given the name of the *reciprocity principle*.¹ This is the heart of Third Wayism, and the New Paternalism that guided it. It leads to some strong policy conclusions.

According to Tony Blair, it is equality of individual worth that is required – “not equality of income or outcome, or simply equality of opportunity. Rather it affirms our equal right to dignity, liberty, freedom from discrimination as well as economic opportunity.”² He has claimed that individuals have responsibilities in return for social rights, which he calls “the covenant at the heart of modern civil society”. Critics would say that this bypasses the awkward realities of conflicts of interest. Apparently one of Blair’s favourite theologians, Hans Kung, the dissident Catholic and founding head of the modestly named Global Ethics Foundation, has expressed one outcome of this way of looking at society in a pithy way:

“Human dignity consists of both, to have rights and responsibilities. If someone just does not want to work because he is lazy, then it is not a fundamental human right to be lazy and to be protected in his laziness.”³

A Catholic is by training and by inclination a paternalist. The appeal to authority comes easily. Yet words such as “lazy” and “responsibilities” are not easily defined. A humble person would not prejudge what constitutes another person’s laziness or responsibilities. Who gives me the right to say whether or not you are lazy, let alone take action to take away some right because I decide that you are lazy? Any presumption that I have such a right would be sheer impudence.

Active Labour Market Policy

It should be no surprise that one well-known adviser to the UK Government openly advocated “compulsion” to help the unemployed to be reintegrated into mainstream society. Compulsion could be seen as the end game of one of the most influential euphemisms of the era – “active labour market policy”. We consider this at length in the next chapter. But the essence of it concerns a belief that people need to be socially integrated, and it needs the state to intervene to achieve this.

The notion of active policy began life as part of the Swedish (third way) Model in the 1950s, meaning counter-cyclical policies to take workers out of the labour force in recessions, into training schemes mainly or public works, and then reducing the numbers in such schemes as the economy picked up. Later the term was converted into an approach for socially integrating the unemployed and detached, inculcating responsible commitment to labour. During the 1980s and 1990s, it became a powerful euphemism. As noted in chapter 1, the words “active” and “passive” are loaded. But advocates of the virtues of active policy seem impervious to all the criticisms – the displacement and deadweight effects and much else. It has been extended by each new generation of policymakers, with a tendency towards more reliance on wage and employment subsidies intended to induce employers to hire the less employable. What is most revealing is the silence of the new technocrats on the role of the participants in determining and controlling the policy. Unless their Voice is prominent, what does active policy mean?

Welfare Pluralism

The Third Way approach to social protection is hard to characterise, but seems to rest on a belief in selectivity in which the state guarantees minimum income security through greater reliance on means-tested targeted benefits than was the expectation at the height of the welfare state era. Its rationale is defensive, in that it sees the need to justify social protection on economic grounds, trying to make sure that “social protection is a productive factor”, as was the title of a major EU conference held in Portugal in early 2000. Behind the scenes, advocates will argue that unless concessions are made to the libertarians, the loss of legitimacy of state systems will grow. By accepting this premise, they can argue that either levels of benefits and services must be cut, or conditions for entitlement must be tightened. Although they have

also allowed some of the former (or accepted previous cuts, as in the spheres of unemployment benefits and pensions), Third Wayists tend to prefer the latter. And they can do so with a clear conscience because they regard tighter conditionality as essential to oblige the poor, unemployed and “work shy” to take jobs.

All the criticisms of means-testing and behaviour-testing of benefits remain to dog the Third Way agenda. Ultimately it encourages a culture of moral hazards and “learned deception”, in which applicants for benefits become “clients” and in which poverty traps and unemployment traps and savings traps persist. To try to circumvent these, various in-work benefits have been introduced to assist in the transition into jobs and the tighter conditionality has been used to cajole people through the traps.

Above all else is the use of fiscal policy as an integral part of social protection, through earned income tax credits. This has become the biggest social transfer system in the USA, and has spread to western Europe, led by the UK. Essentially, this is the other part of the strategy to “make work pay”, since as long as you have a family designated as the norm for coverage and as long as you have some earned income you can obtain a supplement to your income if it is low, which tapers off as your earned income rises. It is essentially a negative income tax. Clearly, it is labourist in intention, since it is tied to actual performance of an income-earning job. But as argued in the final chapter, it creates the basis for an integration of tax and benefits that is more radical than its main Third Way supporters would want.

The final part of the social protection strategy seems to be partial privatisation of social services and provision of benefits to what are called civil society organisations. These are being encouraged or required to perform functions that state agencies long performed. This was noted earlier as an outcome of reforms of social protection in the 1980s and 1990s, but it seems to have become part of the overall strategy. This leads to a new variant of the approach.

4 Compassionate Conservatism

At the turn of the new millennium, Third Wayism represented the main response to the failings of the era of market regulation. It was the social democratic response. Meanwhile, not to be outdone, on the political right, there has been a tendency to move away from the extreme libertarianism into the centre ground of compassionate conservatism, or compassionate capitalism. The difference between this and Third Wayism is a matter of degree or balance, not substance.

The notion of compassion seems to imply a sort of privatised paternalism. Third Wayism also tends to have them, but religious undertones are much more prominent in compassionate conservatism. There is recognition that in highly competitive market economies there are many losers. The proponents accept this as socially just, and adhere to a belief in equality of opportunity, and to the apparent need to improve *human capital* as the means of pro-

ducing more winners, thereby limiting income inequality. But in their model there will still be those who drift out of the mainstream into an anomic or violent existence of social exclusion.

These must be reintegrated, in a way that is consistent with the ideology of their model of society. The preferred answer, logically enough, is to privatise social services and give private agencies the tools to operate a paternalistic role. It is here that some very old religious tactics are to be given a new lease of legitimacy. We enter the realm of philanthropic charity, where civil society is brought into the mainstream of governance and social regulation.

Part of the process of privatising social protection is by the encouragement of philanthropy by the affluent towards deserving groups and interests. In July 1999, George Bush suggested that, if elected President, he would increase tax incentives by \$8 billion to encourage more charitable giving to “faith-based” organizations and other community groups. He added: “In every instance where my administration sees a responsibility to help people, we will look first to faith-based organizations, charities and community groups.”⁴ The amount proposed was substantial – about 10 per cent of the estimated future budget surplus not attributable to social security, with proposed tax cuts taking most of the remainder. The pledge is unlikely to be forgotten. The intention is to give tax credits for individuals giving contributions to “faith-based” charities service providers and to introduce lighter regulations for them.

Although there may be a constitutional barrier to these particular initiatives, they comprise part of the agenda to privatise social protection, through fostering a particular form of community benefit (CB). The bodies set up by churches, synagogues and mosques are behaviour-control institutions. It is a Third Way response, based on the premise that dysfunctional social behaviour is what traps people in poverty and “social exclusion”. But whereas a left-of-centre Third Wayism would wish the state to shape behaviour, a right-of-centre Third Wayism would delegate that to its favourite moralising institutions. One anticipates that with the change in administration in the USA, the privatisation trend will accelerate. It is doing so elsewhere as well.

5 Conclusions

“The certainties of one age are the problems of the next.”
(Richard Tawney, 1938)

Coincidentally, the first years of the new millennium is a period in which Tawney’s rueful aphorism should be engraved on our minds. He was witnessing a world plunging into a dark madness of inhumanity, when the old order and the institutions built to sustain and legitimise it were crumbling pathetically in the face of barbarism. Karl Polanyi soon after wrote his *The Great Transformation* which saw welfare policies as making a market economy function and embedding the economy in society. The welfare state,

which he and so many others saw as the means of doing this, lost its capacity to do so in the face of global economic forces in the last few years of the twentieth century.

Third Wayism is oddly appropriate for an era of disembeddedness. Its euphemisms and metaphors are rootless, or ahistorical. It is paternalistic and directive, scarcely promoting the values of a radical progressive tradition. Why should people purporting to belong to a radical, progressive tradition tell workers *en masse* that they should become more employable, be more flexible, become more competitive? When politicians call for lifelong learning, do they mean the creation of an ethos of creativity and development among the poor, or do they mean a lifelong treadmill of acquiring new sets of tricks in order to be competitive? Unless they are setting up institutions in which ordinary people have control, we should be suspicious of the motives.

Third Wayism has been said to be the political position of the new middle-class, or the "bobos". In our terms, it seems to be an attempt to appeal to the growing groups of proficians and flexiworkers, as well as being acceptable to the *elite* who are assured that policies and institutions will be put in place that promote and facilitate a competitive open economy, and globalisation, with emphasis on incentives for risk-taking and on deterrents to other types of social behaviour. As such, it has a chance of success politically, since it appeals to a growing coalition of interests that could make up a voting majority. Paternalism has always thrived on a limited range of solidarity and reciprocity. But it does not answer the human need for collective agency and structured reciprocities that respect the needs and aspirations of all interest groups.