

Turning Back the Tide

Welfare Lessons from America

Peter Saunders

Despite predictions of chaos and misery, welfare reform in America has worked. But social affairs intellectuals here still look to European failures for inspiration.

Over the last 50 years, many of us have grown accustomed to the idea that rates of welfare dependency keep on rising, and that levels of personal taxation constantly increase to keep pace. These trends are so longstanding that we have come to think of them as 'normal' and perhaps even irreversible. We may have fantasised about reducing the size of the government budget and turning back the tide of rising personal taxation, but few of us ever really believed that it might happen.

And then the Americans shook us out of our complacency. In 1996, Congress passed President Clinton's bill aimed at 'abolishing welfare as we know it'. The bill set each state a target for reducing its welfare numbers—not marginally, but dramatically, by 50%. It also limited people's eligibility for welfare—no more than two years in any one period, no more than five years over a whole lifetime.

Critics in and outside America were horrified. They forecast chaos and misery. There would not be enough jobs for all the people currently on welfare to do. Women and children would starve; millions would suffer. A group calling itself the Children's Defense Fund predicted that child poverty would go up by 12%; the Urban Institute warned that 2.6 million more people would be pushed into poverty; one of Clinton's own advisers resigned, arguing that malnutrition, infant mortality, crime and drug abuse would all escalate; and Senator Daniel Patrick Moynihan denounced the reform as a 'brutal act of social policy', adding that those responsible 'will take this disgrace to their graves'.¹

But as things turned out, the critics were wrong. Most former welfare claimants found jobs, and although they were often low-paid, they ended up better-off than before (single mothers who moved off welfare improved their incomes by an average of 60%).² Follow-up surveys found that most former claimants were positive about what had happened; they were pleased to be off welfare, and they reported that their lives were better for it.³ Their children, too, seemed to benefit; the poverty rate among black children and single parents is at its lowest in recorded US history.⁴ As for the 50 states, they saved so much money on welfare payments that they were able to increase spending on things like childcare and one-to-one job counselling to support people as they moved from welfare to work.⁵

The critics have had to swallow hard and admit they were wrong.⁶ Welfare reform in America worked, and nobody there is any longer even debating whether to reinstate the old system. Indeed, the states' targets are being tightened to get 70% of welfare caseloads into work in the future.

Ignoring the lessons of America

We social scientists are not used to dramatic changes like this. When we see a statistical trend going upwards, we expect it to continue going upward. A fall in the

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welfare rolls of 60% would have been inconceivable had the Americans not actually achieved it.

Seeing our assumptions and expectations turned upside down in such a dramatic fashion, you might think that we social scientists would sit up and take notice. You might think that a little humility was in order, and that we might even start asking ourselves whether there is anything we could learn from what the US has done over the last five or ten years.

But it has not happened that way. In Britain, Australia and New Zealand, academics, welfare activists and social affairs journalists and commentators remain for the most part unimpressed by the social policy revolution in the US. Indeed, most of them seem quite horrified by it, and they are intent on warning us against going down the American path. Their advice is that we should go off in precisely the opposite direction.

In Australia, for example, the latest book by the head of the country's leading government-funded social policy research centre suggests that, rather than liberalising the labour market, cutting taxes and reducing rates of welfare dependency as the Americans have done, we should embark on a strategy of higher taxes, an increased minimum wage, a reversal of recent labour market deregulation, an expansion of public sector employment and (most astounding of all) the introduction of an unconditional minimum welfare benefit payable to anybody who decides they do not want to work for a living.⁷

Similar thinking can be found in New Zealand. One of the papers delivered at the influential *Knowledge Wave* conference in 2001, for example, denounced the US as 'an extreme case of income inequality',⁸ and recommended that New Zealanders should follow the French example instead (the French tried to tackle unemployment, inequality, poverty and social polarisation by making it illegal for people to work more than 35 hours per week).⁹

But this advice seems a bit odd. The French unemployment rate is currently 9%—about half as big again as the American rate (currently 6%). American unemployment levels have not been as high as France's current 9% for 20 years; French unemployment has not been as low as America's current 6% since the 1970s. Given that there is no greater cause of poverty and social

polarisation than joblessness, why choose to follow the French rather than the Americans?

In another paper from the same New Zealand conference, Charles Waldegrave and Nicholas Pole (who works for the Ministry of Social Policy in Wellington) recognised that the American economy has been 'extraordinarily robust in recent years', but warned that America has no 'comprehensive policy to address social cohesion'.¹⁰ They commended Finland as a 'constructive model from which Aotearoa, New Zealand can learn'. As of December 2002, Finland's unemployment rate was 8.1%.

Why are intellectuals so keen to disparage the American successes and to embrace the continental European failures? A key factor seems to be the common assumption that American individualism is incompatible with social cohesion. They think America is a fragmented society that lacks social solidarity, and they think this has come about because the Americans tolerate wide gaps between higher and lower income earners and insist on keeping government welfare to a minimum.

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The two capitalisms

It is certainly true that American culture is individualistic. When Geert Hofstede compiled a survey of social-psychological characteristics across 50 different nations, the US emerged as the most individualistic country in the world (with Australia second).¹¹ But this does not necessarily mean America is fragmented.

Some years ago, a French academic by the name of Michel Albert published a book called *Capitalism Against Capitalism* which analysed the divergence between what he called the 'neo-American model' and the 'Rhine model' of western capitalism.

The 'neo-American model' (in which he included Australia, New Zealand, Britain and Canada as well as the US) is characterised by its emphasis on individual success, competition and short-term financial rewards. The 'Rhine model' (in which he included most of the continental countries of the European Union together with Japan) is, by contrast, characterised by a concern with collective success, cooperation, and longer-term rewards.

Albert once worked in the insurance industry, and he saw the difference between the two systems

crystallised in the different ways they handle insurable risks. In the neo-American model, individual premiums differ according to actuarial risk assessments—if you are more likely to claim, you pay more upfront. In the Rhine model, risks are generally pooled and all policyholders pay the same amount. The first approach is individualistic; the second is collectivistic.

Albert shows there is a much stronger emphasis on training in the Rhine model; that the neo-American model relies heavily on stockmarkets for raising capital while Rhine model companies depend more on close ties with banks; that neo-American countries are ‘credit’ cultures while Rhine model countries are ‘savings’ cultures; and—most importantly of all for our purposes—that income distribution tends to be more unequal in the neo-American countries where the welfare state is much less fully developed than in Europe.

Different people will form different opinions about the relative strengths and weaknesses of these two divergent capitalist cultures, but Albert leaves us in no doubt which system he thinks is better. The Rhine model is preferable in his view because it is more socially cohesive. He tells us that American cities are full of homeless people, American public schooling is appalling, and drug abuse in America is rife. Like most Frenchmen, he believes that Europe (and especially France) is civilised, and that America is barbaric. America, he says, is ‘an increasingly fragmented and uncaring society of dysfunctional families and spreading poverty’.¹²

The strengths of the neo-American model

The reason why Albert dislikes the neo-American model, and the reason why so many other intellectuals agree with him, therefore has to do with the belief that America is socially fragmented and polarised. Albert contrasts America’s individualism with the much stronger social and moral fabric that he thinks exists in the Rhine model countries. In the Rhine model, economic inequalities get flattened out by high taxation on higher earners, and a strong welfare state boosts the living standards of the less fortunate. Albert thinks this gives rise to a greater sense of social cohesion in these countries.

Albert admits, however, that the relative ‘disorganisation’ and ‘fragmentation’ of the neo-

American model countries does have its positive aspects. He accepts, for example, that because they are more tolerant of individualism, the neo-American nations are generally much more open and pluralistic, and are more accommodating to cultural change, than the Rhine model countries. These nations have all been more receptive to immigration than most of the continental European nations, and Scandinavia and Japan remain to this day remarkably homogenous in comparison with Australia, the US or Britain. Mixed-race marriages too are much more common in the Anglosphere countries than they are in Germany or Japan. Almost certainly, the unity of the Rhine model nations—the ‘social cohesion’ which makes them so attractive to many social analysts—is based on their greater cultural homogeneity.

Furthermore, because they distrust individualism, the Rhine model nations tend to elevate the interests of the collectivity over those of the individual. This is seen, for example, in the existence until very recently of peacetime national service in almost every one of Albert’s Rhine model countries when it had long been abolished in all the neo-American ones. Similarly, compulsory national ID cards are accepted without a shrug throughout continental Europe, but none of the neo-American model countries have them, and attempts to introduce them have often led to strong and effective opposition from civil libertarians. In the neo-American model, individuals are free to do anything not specifically proscribed by law; in the Rhine model, the State prescribes the rights and liberties that citizens enjoy.

Albert recognises much of this, and he even accepts that their greater concern with social cohesion and egalitarianism might make the Rhine model societies somewhat less dynamic and exciting places to live. He admits that: ‘Rhine capitalism suffers from an image problem: it looks out of date, it breeds neither dreams nor excitement, it is not fun’.¹³ He contrasts this with what he calls America’s ‘star quality’—it may be all style and no substance, but it has attracted poor immigrants in their millions over the years. It is telling that young people around the world today wear baseball caps sporting the names of American sports teams that they have only ever seen on cable TV, but nobody in the backstreets of Bangkok or the shanty towns of Rio is

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The Rhine model and the question of social cohesion

Seen in the light of Albert's typology, what many social affairs intellectuals in Australia and New Zealand are arguing for is a switch from the neo-American to the Rhine camp. Their focus on questions of social equality and what they call 'social exclusion',¹⁴ coupled with their longstanding preoccupation with the high-tax, high-spending government programmes of countries like Sweden or France, all points to their conviction that we should start adopting Rhine model policies. If we want to ensure a socially cohesive society, they tell us, then our future should be French or Finnish, not American.

One reason why we should be cautious about this sort of advice is that it takes social policy out of its cultural context. It assumes that what works in Helsinki or Stockholm can and will work just as well in Adelaide or Dunedin. But it forgets that welfare systems express the cultures of the countries in which they arise.

If Scandinavia has one kind of welfare system while Australia or New Zealand have another, this probably has something to do with the social and cultural differences that exist between these nations that predate their welfare systems by hundreds of years. In a relatively homogenous, conformist and collectivist culture, a comprehensive welfare state is likely to develop as one expression of a sense of social unity which *already exists* among the citizens (in Scandinavia, for example, the development of the welfare state gave institutional expression to the idea of the *Folksheim*, the 'people's home'). In more individualistic cultures, by contrast, there is a less-developed spirit of collective identity, and the welfare systems that evolve are therefore likely to express the more pronounced sense of distrust of state power and the stronger ethic of individual responsibility and voluntary self-help.

To the extent that this is true, the welfare state in a country like Sweden should be understood as an effect, not a cause, of collectivist and nationalist sentiment. Strong collectivism gives you a strong welfare state—but it does not necessarily follow that the reverse is also true.

The welfare state and the fallacy of social cohesion

I have argued elsewhere that a set of welfare state arrangements that might express and reinforce social cohesion in Scandinavia and continental Europe could have quite a different outcome if they were transplanted into a more individualistic culture such as Australia or New Zealand.¹⁵

Comprehensive, generous welfare systems which are compatible with more collectivistic cultures have the potential to wreak havoc in more individualistic ones where taxpayers are more reluctant to part with their money and where welfare claimants may be less concerned to earn and retain the respect of their fellow citizens. In countries which fiercely resist the notion that citizens should carry ID cards, and where compulsory national service strikes most young people as an outrageous suggestion, a free, generous and universal welfare state is more likely to generate free-riding and social irresponsibility among citizens than it is to foster a spirit of unity and fellow-feeling.

Indeed, a moment's reflection suggests that in the individualistic Anglophone countries, the welfare state has probably contributed more to social fragmentation than it has to social cohesion. The reality of welfare state relations in the neo-American model countries is that the exchange between donors and recipients is not one that builds trust and mutual recognition. Rather, it results in mutual mistrust and the pursuit of narrow self-interest.

The experience of *receiving* aid from government welfare agencies tends to provoke one of two reactions. The first is shame. Putting oneself in the hands of state welfare agencies is widely recognised as being an alienating, stigmatising and disempowering experience. State agencies periodically try to disguise this by taking their cue from Orwell's 'Newspeak' and relabelling recipients. Over the last few years in Australia, for example, people who were once 'claimants' first turned into 'clients' and then later emerged as 'customers'. But nobody is fooled by such bureaucratic contrivances—customers exert power by purchasing services with their own money, but welfare recipients are given money by service professionals and are therefore at the wrong end of an inherently asymmetrical and demeaning exchange. Calling recipients 'customers' does nothing to alter the reality

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of an unequal relationship mediated through an impersonal and bureaucratic mode of organisation.

The other response of welfare recipients to the receipt of aid is an assertive demand for what they see as their real or imagined ‘rights’. This response has become increasingly common over the last 20 or 30 years, and welfare pressure groups try to give it legitimacy, but this is no more real ‘empowerment’ than the first kind of response. It is a demand that others do something for you, not a decision to do something for yourself, and as such it is still based in weakness and dependency, even as it tries to pretend the opposite.

Neither of these responses—neither the shamefaced acceptance of hand-outs nor the assertive demand for them—generates the sort of sentiments that might be thought to produce and strengthen social cohesion. Neither involves a sense of trust or mutual respect, so it is difficult to see how giving out welfare benefits could ever have been considered a good way to build strong social bonds between people.

Similarly, the experience of *contributing* to the welfare system does not generally foster values of altruism or mutuality either. Rather, it creates suspicion of one’s fellow citizens. The rhetoric of ‘bludgers’ and ‘scroungers’, which social policy intellectuals like to explain away as the product of media scare campaigns, is better understood as an expression of frustration and anger by people of modest means who look around their own immediate neighbourhoods and believe (rightly or wrongly) that they see others taking advantage of them. This then provokes one of two reactions—either people get angry and resentful at being forced to pay taxes to support others who could and should be supporting themselves; or they decide to join in, intent on getting as much of their own money back as they can by taking the system for all they can get.

Again, therefore, the sentiments that are likely to be generated by the welfare state are quite the reverse of those which its defenders claim it produces. They say it is an altruistic system, yet it encourages self-interest. They say it is a compassionate system, yet it generates hostility and suspicion.

Social cohesion and the ‘little platoons’

The argument that the modern welfare state fosters social cohesion rests on a fundamental

misunderstanding of where social cohesion comes from. As sociologists like Peter Berger have long argued, and as ‘third way’ political revisionists like Mark Latham and Peter Botsman have also now come to argue, cohesion develops from the bottom-up, not the top-down.¹⁶

A sense of common identity and mutual empathy cannot be expected to develop on the basis of state bureaucracies reallocating compulsorily-levied tax revenues from one group of citizens to another. Such a top-down strategy of state patronage *may* work in more collectivistic cultures (although even there one suspects that cohesion persists despite rather than because of the welfare system), but it is most unlikely to work in more individualistic ones where the values of self-reliance and personal responsibility constantly undermine it.

The real source of social cohesion or ‘social capital’ in individualistic cultures comes not from the government but from the ‘little platoons’ of civil society. Social cohesion cannot be created by bureaucrats or planned by social policy experts. It emerges when families, workmates, neighbours or even ten-pin bowlers come together in formal or informal organisations and networks to share common

interests and to solve problems in common.

Far from the welfare state strengthening these social bonds, it has weakened them by taking over responsibilities from these smaller agencies of civil society and leaving them with nothing to do for themselves. The best advice for any government seeking to build social cohesion is to stop doing so much and as far as possible to get out of the way so that people can do things for themselves. This means learning, not from the French or the Finns, but from the Americans.

Social cohesion and economic inequality

But what of the inequality in America? Even if the welfare state does not build close links that bind us all together, surely a free market system that tolerates wide inequalities must divide us from each other and create deep fissions and fractures?

Again, this is an assumption more often asserted than demonstrated. Empirically and theoretically, it is simply not true that conflict necessarily flows from economic inequality.

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Consider what has been happening to some of the obvious indicators of social fragmentation that sociologists and social commentators continually warn us about—things like rising crime rates, rates of substance abuse, suicide rates or rates of depression and mental illness.¹⁷ Many of these indicators have been increasing quite alarmingly over the last 30 or 40 years—but there is no evidence that this has been associated with increased inequality of incomes.

In Australia, most of these indicators started worsening markedly from around the 1960s, but income inequalities were actually *reducing* at this time as a result of higher taxes and a massive expansion in targeted government welfare spending which continued right up until the 1980s.¹⁸ New Zealand and the UK do not appear to be very different. In all three countries, greater equality went hand-in-hand with *more* conflict and fragmentation, not less.¹⁹

But what about America? There is no doubt that income and wealth is more unequally distributed in the US and that inequalities have widened since the 1980s. Despite this, however, American crime rates (other than homicides) are today *lower* than in Australia or Britain. Furthermore, during the 1990s, when the Americans dramatically cut back on welfare spending and income inequality increased significantly, crime rates in the United States plummeted while Australia's continued to rise. Egalitarian sociological orthodoxy would have predicted quite the reverse effect.²⁰

Nor does sociological theory support the idea that greater equality should result in enhanced social cohesion. Marx and Engels believed that widening inequalities would generate unrest and ultimately ferment revolution, but later and more sophisticated theorists argued convincingly against this proposition. Emile Durkheim, for example, showed that an unequal but open society with high rates of social mobility can achieve high levels of political legitimacy and social cohesiveness provided people recognise and take advantage of the opportunities that exist for them and their children to better themselves (that is, the self-help strategy).²¹ It may be true that social cohesion requires a 'fair' society, but this is not the same thing as an equal one.

The traditional left has always assumed that inequality of outcomes necessarily generates class envy and social divisiveness, but in an individualistic culture, the opposite is more likely. As with the welfare state, so too with a tax system bent on equalising people's incomes, nothing is more likely to ferment conflict and resentment in society than one group using the power of the government forcibly to expropriate the legitimately-held earnings and assets of another.

Conclusion

Most of our social affairs intellectuals favour the continental European 'Rhine' model of capitalism with its high levels of welfare spending and high taxes (as well as high unemployment and relatively low economic growth). They do so because they think this system

can deliver social cohesion, yet there are good grounds for believing this is wrong. It is not true that the market system necessarily drives people apart,²² and it is certainly not the case that the welfare state stitches them back together again. We have seen that the reality of welfare state relations between beneficiaries and recipients is more one of mutual mistrust and the pursuit of narrow self-interest than one characterised by the trust and reciprocity needed for social capital to emerge and flourish.

Our social affairs intellectuals seem loathe to learn the lessons from the recent American experience, in which welfare dependency rates have been rolled back while poverty has been reduced and rates of social pathology, such as crime, have been falling. Instead of reflecting on recent development in the US, they still look for their inspiration to Europe, even though the Rhine model countries have much higher levels of unemployment than America and are mired in long-term sluggish rates of economic growth which reflect the heavy tax burden of their ever-burgeoning welfare systems.

A truly cohesive society cannot be created from the top down. People come together when they have a reason to do so. If the welfare state takes care of every need, there is nothing left for us to do for ourselves. The prerequisite for social cohesion is not a population of welfare dependents; it is a population of self-reliant, socially-responsible individuals. Given the economic

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growth of the last 50 years, such a society is certainly now possible. It would be truly ironic if we were to look to the foundering European welfare systems for inspiration when their time has now so clearly passed.

Endnotes

- ¹ R. Rector and P. Fagan, 'The Continuing Good News About Welfare Reform', *Backgrounder* No.1620, (Washington DC: The Heritage Foundation, February 2003).
- ² S. Danziger et al., 'Does It Pay To Move From Welfare To Work?', *Journal of Policy Analysis and Management* 21:4 (2002), pp. 671-692.
- ³ P. Loprest and S. Brauner, 'Where Are They Now?', *New Federalism*, No.6 (Washington: Urban Institute, 1999); L. Mead, 'Welfare Reform and the Family: Lessons From America', in P. Saunders (ed), *Reforming the Australian Welfare State* (Melbourne: Australian Institute of Family Studies, 2000).
- ⁴ *The Wall Street Journal* (13 May 2002); B. Riedl and R. Rector, 'Myths and Facts', *Backgrounder* (Washington DC: Heritage Foundation, July 12 2001).
- ⁵ Federally-funded childcare spending by states increased from \$2.1 billion in 1997 to \$7.4 billion in 2000. M. Gray and D. Stanton, 'Lessons of US Welfare Reforms for Australian Social Policy', *Research Paper* No.29 (Melbourne: Australian Institute of Family Studies, November 2002).
- ⁶ 'Many progressives, ourselves included, fought hard against the program that passed in 1996 . . . So far, the evidence reveals that many of our fears have not been borne out.' J. Bernstein and M. Greenberg, 'Reforming Welfare Reform', *The American Prospect* (1-15 January 2001), pp.10-11.
- ⁷ P. Saunders, *The Ends and Means of Welfare* (Cambridge University Press, 2002), chapter 9. I have written an extended critique of this book in *Policy* 18:3 (Spring 2002), pp.46-50.
- ⁸ S. Witten-Hannah, 'Social Cohesion and the Knowledge Divide', paper delivered to *Catching the Knowledge Wave* conference (University of Auckland: August 2001), p.16
- ⁹ A law limiting the working week to 35 hours was introduced in France in 1999. It caused havoc for employers and was repealed in December 2002.
- ¹⁰ C. Waldegrave and N. Pole, 'Taking our Opportunities', Paper delivered to *Catching the Knowledge Wave* conference, see n.8, (quotes from p.14).
- ¹¹ The study is discussed in P. Smith and M. Bond, *Social Psychology Across Cultures* (London: Prentice Hall, 1993).
- ¹² Smith and Bond, p.53.
- ¹³ Smith and Bond, p.204.
- ¹⁴ For a critical analysis of the concept of 'social exclusion', see P. Saunders and K. Tsumori, 'Poor Concepts: Social Exclusion, Poverty and the Politics of Guilt', *Policy* 18:2 (Winter 2002), pp.32-37.
- ¹⁵ See P. Saunders, 'Australia Is Not Sweden', *Policy* 17:3 (2001), pp.29-32
- ¹⁶ P. Berger and R. Neuhaus, *To Empower People* (Washington: American Enterprise Institute, 1987); P. Botsman and M. Latham, *The Enabling State* (Sydney: Pluto Press, 2001).
- ¹⁷ See, for example, Richard Eckersley, 'Redefining Progress', *Family Matters* 51 (1998), pp.6-12.
- ¹⁸ Peter Travers and Sue Richardson, in *Material Wellbeing in Australia* (Melbourne: Oxford University Press, 1993), p.73, report that the distribution of incomes became increasingly equal right up to 1981, after which inequality increased slightly. Most indicators of social pathology started moving upwards long before the 1980s, however—property crimes, for example, lurched upwards from the 1950s and male youth suicides started rising significantly in the 1960s (J. Buckingham, L. Sullivan and H. Hughes, *State of the Nation*, Sydney: The Centre for Independent Studies, 2001, pp.96 and 57). The start of the pathologies thus predates any increase in inequality by about 20 years.
- ¹⁹ The Gini coefficient, a summary measure of income inequality in which a lower figure indicates greater equality, fell in New Zealand from 0.36 in 1958 to 31.4 in 1966 and reached 30.0 in 1975. Since then it has increased to 35.8 in 1985 and 40.2 in 1990. Thus, income inequality reduced from the mid-1950s to the mid-1970s at a time when crime rates, for example, were rising steeply (from around 300 crimes per 1,000 population in the mid-1950s to about 700 twenty years later. See P. Saunders and N. Billante, 'Does Prison Work?', *Policy* 18:4 (Summer 2002-2003), pp.3-8.
- ²⁰ Evidence from the International Crime Victim Survey shows that Australia has one of the highest rates of crime of all the industrialised countries. In 1991, 29% of Australians reported having been a crime victim as compared with 26% of Americans, and trends in the two countries have been going in opposite directions ever since. See http://rulj287.leidenuniv.nl/group/jfcr/www/icvs/data/i_VIC.HTM. These trends are discussed in more detail in P. Saunders and N. Billante, 'Does Prison Work?'
- ²¹ E. Durkheim, *The Division of Labour in Society* (Macmillan: Toronto, 1933).
- ²² Market transactions do not produce social disaggregation—quite the reverse, market relationships and private property rights create the conditions in which an active civil society can flourish. As Michael Novak suggests, 'Markets draw individuals out of isolation and into reasoned, civil, voluntary interchange with their fellows.' (See M. Novak, *Morality, Capitalism and Democracy*, London: IEA Health and Welfare Unit, 1990, p.13.) Classic sociological indicators of social malaise (divorce, crime, drug abuse, mental illness, etc) were all much lower during the market mode of consumption in the late 19th century and increased as the welfare state expanded. Clearly, then, there is no inherent link between market-based social life and social atomism. Indeed, the capitalist market system has historically co-existed with both individualistic and communalistic cultures.