Civic Capitalism:

An Australian Agenda

for Institutional Renewal

Nick Greiner

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Foreword

Niclc Greiner was the first of the recent Premiers to initiate major reforms. At the start of his Premiership he set out clear principles to be followed in improving the performance of the NSW government. These were similar to principles which have been set out by successful reformist governments elsewhere, including New Zealand. The ensuing programs for privatisation, corporatisation, private infrastructure provision, contracting out and improved financial management techniques have since been copied by other states, both Labor and Liberal.

This forward thinking is again on display in *Civic Capitalism: An Australian Agenda for Institutional Renewal.* Successful societies require more than just a strong economy. They also depend on what is called 'social capital', the accumulated habits and norms which facilitate interaction between people. Societies rich in social capital will be characterised by high degrees of trust and mutual obligation. As boolcs such as Robert D. Putnam's *Making Democracy Work* show, social capital is an important factor in economic prosperity and political success. It bears out what thinkers lilce Michael Novalc have long argued: that society is made up of interrelated economic, political and moral-cultural systems, with each playing a role in sustaining the other two.

Nick Greiner's paper draws attention to what we can do to ensure that our stock of social capital is maintained and enhanced. He argues that voluntary, non-government associations – sometimes called mediating institutions or civil society – are major sources of social capital. He describes, based on the worlc of Elinor Ostrom and others, the characteristics of successful institutions. This lcind of knowledge needs to be more prominent in Australian debate; not only so that those involved in these institutions are more aware of what is lilcely to succeed, but also so that governments can avoid doing things that, often unwittingly, have undermined our social capital.

The concern with social capital crosses ideological boundaries. It is difficult, however, not to be struck by the similarities between the

arguments made by free marketeers and those advanced by students of successful social institutions. In each case, the importance of flexibility, innovation, self-direction and self-ownership is stressed. Relationships within the broad civil society are often not market relationships, since they are based on generalised reciprocity rather than exchange. In each case, though, voluntary action is an essential feature.

The CIS is committed to long-term thinking about the kind of institutions which will best serve Australia. We were among the leaders in re-thinking the institutional requirements of a successful economy, and are now pleased to contribute, through *Civic Capitalism: An Australian Agenda for Institutional Renewal* and other publications, to a re-thinking of the preconditions of successful social institutions.

Greg Lindsay
Executiue Director

About the Author

The Hon. Nick Greiner AC was Premier and Treasurer of NSW from 1988 to 1992. He had been Leader of the NSW Opposition for five years prior to becoming Premier. Since leaving politics he has served on many Boards, including Coles Myer, QBE Insurance and Natwest Markets. He is a member of the Sydney Organising Committee for the Olympic Games in the year 2000. In the Queen's Birthday Honours List of 1994, he was awarded a Companion of the Order of Australia for public sector reform and management and service to the community.

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What do I mean by 'democratic capitalism'? I mean three systems in one: a predominantly market economy; a polity respectful of the rights of the individual to life, liberty and the pursuit of happiness; a system of cultural institutions moved by ideals of liberty and justice for all. In short, three dynamic and converging systems functioning as one: a democratic polity, an economy based on markets and incentives, and a moral-cultural system which is pluralistic and, in the largest sense, liberal.'

The Spirit of Democratic Capitalism
Michael Novak

Community is the product of people working together on problems, of autonomous and collective fulfilment of internal objectives, and of the experience of living under codes of authority which have been set in large degree by the persons involved.

The Quest for Community
Robert Nisbet

Nick Greiner

The hypothesis I want to outline in this paper can be illustrated by five apparently unconnected observations:

(1) On 29 May 1435, 84 irrigators in Valencia on Spain's east coast met at the monastery of St Francis to draw up and approve formal regulations. Those regulations specified who had rights to water from the canals, how the water would be shared in good years and in bad, how responsibilities for maintenance would be shared, what officials they would elect and how, and what fines would be levied against anyone who broke one of their rules. The canals themselves had been constructed in even earlier times and there were many rules already in place drawing on customary practices.

For hundreds of years, the farmers of this region have continued to meet with their neighbours to specify and revise the rules that they use for sharing the canals, selecting officials and determining fines and assessments (Ostrom 1990: 71-76).

(2) In his study of 20 years of regional government in Italy, Harvard political scientist Robert Putnam concluded that democracy tends to work best where there is a tradition of 'civic engagement' – when there are lots of choral societies, football clubs and neighbourhood associations (Putnam 1993).

(3) Closer to home, Alexander Downer said the Liberal Party is about 'the role of the individual in society', but clearly positioned himself against what he saw as the 'overwhelming view that selfish individualism is more important than anything else' (The Australian *Financial Review* 22 July 1994). In New South Wales the then Liberal Premier, John Fahey, gave a speech in February 1994 challenging his colleagues to reflect a richer vision of the relationship between individuals and the social context in which they live and work (Fahey 1994).

(4) Across the world and on the other side of politics, its new leader, Tony Blair, is busy reinventing the British Labour Party by rejecting what he describes as 'the old collectivism of the 1930s and 1940s' to embrace something which at the recent Labour Party conference he labelled 'ethical socialism'. This, he said, was not the socialism of Marx or state control, but rather was:

… rooted in a straightforward view of society, in the understanding that the individual does best in a strong and decent community of people with principles and standards and common aims and values.

In an earlier interview, Blair claimed he was searching for:

> ... a new synthesis between the traditional notion of a strong and cohesive society, recognising mutual obligations and a sense of civic duty, with ideas of individual opportunity and potential, of people leading their lives in the way they want to (*The Australian* 15 June 1994).

(5) In the United States, the sociologist Amitai Etzioni and his colleagues are gaining support for what he has termed 'communitarianism', a movement which is as much about the practical moral regeneration of America as it is about the rediscovery of the importance of successful social networks and communities. The communitarian movement, we are told, is gaining a foothold in the Clinton White House and with the Blair Labour team in the United Kingdom *(The Australian* 15 June 1994).

These anecdotes and observations suggest two important conclusions:

Firstly, that in the walce of the end of the Cold War, the collapse of communism and the emergence of a strong consensus in favour of a liberal agenda of individual freedom, marlcets and cultural pluralism, there is an urgent search for new responses to increasingly complex and intractable problems of collective or common action.

Secondly, that the debate about these new responses is defining the territory which is emerging as the new political middle ground which all sides, inevitably, are scrambling to define as their own.

Against that baclcground, I am outlining an emerging agenda for institutional reform and renewal in Australia. It is an agenda which is, in part, being forced on us by irresistible social, economic and political changes we would do well to recognise and understand better. But it is also an agenda which reflects, and perhaps reinforces, an underlying set of ideas about the most effective way to regulate our society and its communities.

It is an agenda which reflects and reinforces a framework which we might term 'civic capitalism'. This is a term which refers to a 'nest' of institutions and attributes. The institutions are those found in the interdependent systems of free marlcets, a free and open culture and a free polity. The attributes include a belief in the subjectivity of individuals, practical intelligence, and an acceptance of our instinct for social solidarity and voluntary association.

Michael Novalc (1991: 57-58) claims that democratic or civic capitalism:

is not a free enterprise system merely. Its political system has many legitimate roles to play in economic life, from protecting the soundness of the currency to regulating international trade and internal competition. Its moral-cultural system also has many legitimate and indispensable roles to play in economic life, from encouraging self-restraint, hard work, discipline, and sacrifice for the future to insisting upon generosity, compassion, integrity and concern for the common good.

Its overwhelming virtue is that it has tried hardest (and most successfully, it needs to be said, when compared to its rivals) to 'preserve the sphere of the person inviolable.'It is a system, he argues, which 'glories in divergence, dissent and singularity' (Novak 1991: 65).

These are precisely the values which I believe fit the world in which we live – rapidly changing, highly contingent, unpredictable, volatile and complex,

The specific agenda for institutional reform which emerges, and the underlying ideas on which it draws, are at once highly practical, realistic and deeply moral in their assumptions about human nature and their requirements of individual behaviour.

The tests for our institutions in the new millennium must be equally practical and demanding. For example, we should expect our institutions:

- To be able to solve problems and deliver workable responses to the kind of complex problems which emerge in the highly contingent world we actually live in, and to do so with imperfect information and often considerable uncertainty,

- To be able constantly to transform themselves from their own experience and manifest the resilience which comes from confronting change.

- To reinforce our instincts for association, collaboration and mutual responsibility without denying an equal and complementary instinct for liberty and individual autonomy.

- To maintain in good order 'the institutions, morals and habits fundamental to freedom' (Green 1993: 3).

We should be designing practical, responsive institutions which do not rely exclusively on the coercive collectivism of the state, but rather on our instinct and capacity for voluntary association, mutual responsibility and a lively regard for the common good. Such institutions are the basis of our capacity to create a free, prosperous,

democratic and generous society into the 21st century.

And if all that sounds somewhat removed from the reality which faces us in the Australian communities we live and work in, it isn't. We have plenty of examples of institutions which, more or less successfully, draw on exactly those values and ideas to deliver everything from cleaner rivers to better schools, from safer streets and beaches to better relations between governments to bushfire fighting.

Effective Institutions: Four Key Ideas

Australians are heirs to a rich tradition of political, social and economic institutions, some of which we have inherited and some of which we have adapted and, in some cases, even invented ourselves.

In many ways, those institutions have served us well, and continue to serve us well. Certainly in terms of European settlement, we have transformed ourselves from the most inauspicious beginnings, on what once was known as the other side of the world, into a nation which Rupert Murdoch (in the John Bonython Lecture) recently predicted would be 'an economic powerhouse in one of the brightest eras of human history' (Murdoch *1994:* 6).

To have made that journey as successfully as we have made it is testimony to an institutional infrastructure which has proved to be robust, relevant and practical. I do not underestimate either the significance or the magnitude of our national failings along the way, nor of the social, economic and political dilemmas that remain to be resolved.

But the fact remains that our social, political and economic institutions have proved to be fairly resilient. Despite that, Australia faces an urgent challenge of institutional renewal and reform for the new millennium. In this country and around the world, people are dismayed by, and increasingly fearful of, the mounting evidence of social dislocation and deprivation. There is a growing debate about values, about community and about moral regeneration.

In that context, people are confused and anxious. To some extent, they have lost faith (or at least confidence) in the ability or willingness of existing institutions, both public and private, to resolve the problems we face as a nation, as communities, as families and individuals.

That challenge has to be accepted within the framework of a political discourse in Australia which is usually defined by two relatively clear and'distinct ends of a spectrum of governance. At one end is the centralised, political state, the rise of which has been one of the defining realities of the era in which we live. At the other is the

concept of a competitive or free market, which is in fact a conglomera-
tion of institutions and ideas whose application has literally trans-
formed our world.

What that highly polarised model overloolis is the possibility of
other institutional forms which derive neither from the state nor from
the market, but which instead draw on an instinct for voluntary
collaboration and social action. Some of the best examples of these
institutions, such as the lifesaving clubs, are uniquely Australian.
Others have been adapted and successfully used in this country.

But for some reason we have not spent enough time understand-
ing how they worli and how we can create the conditions in which they
could work even more successfully to resolve increasingly urgent,
complex and contemporary problems of social or common action.
Fortunately, the debate in Australia can also draw on an increasingly
vigorous international debate about how to design and maintain
institutions for common action which meet the criteria defined earlier.

Four central ideas stand out in that debate.

Social capital

There is increasing evidence emerging for the proposition that institu-
tions, especially in democratic countries like Australia, tend to work
best when they can draw on and reinforce habits of trust, mutual
obligation and an instinct for voluntary common or social action. What
that adds up to is what some writers have called 'social capital'. Social
capital, in turn, is accumulated by the behaviour and habits of people
who are used to social institutions which are fashioned primarily from
voluntary collaboration and a mutual or shared commitment to resolv-
ing shared problems.

These institutions are creatures not so much of careful theorising
and lofty intellectual discussion, but rather of the application of a lively
and practical intelligence to urgent, highly contingent and complex
problems which face communities day-to-day. They thrive on experi-
mentation, innovation and the incremental discovery of what works
and what will not.

Robert Putnam's 20-year study of the impact in Italy of the
introduction of regional government concludes that:

> In all societies ….dilemmas of collective action hamper attempts to
> cooperate for mutual benefit, whether in politics or in economics.
> Third-party enforcement is an inadequate solution to this problem.
> Voluntary cooperation..depends on social capital. Norms of gener-

alised reciprocity and networks of civic engagement encourage social trust and cooperation because they reduce incentives to defect, reduce uncertainty, and provide models for future cooperation. Trust itself is an emergent property of the social system, as much as a personal attribute. Individuals are able to be trusting (and not merely gullible) because of the social norms and networks within which their actions are embedded (Putnam 1993: 177).

The research suggests that the governments in the centre and north of Italy, with a cultural heritage in which lateral, associative and collaborative relationships were the norm, and in which there has been a long and lively tradition of associations dealing with everything from art to commerce to religion, tended to display more evidence of being effective and responsive than those in the south.

There, the traditions of government and politics have been more hierarchical and dependent. People were less likely to belong to, or work in, independent and collaborative associations. They were less likely to resort to those associations to sort out problems, but instead had an entrenched tradition of supplication to, and dependency on, strong and powerful leaders or governments.

Putnam isolates social capital and civic engagement as the key variables which determine whether a community will be more or less successful in responding to the dilemma of collective action. That dilemma seeks to balance freedom and order and the need for social cohesion and stability against the need to encourage risk, innovation and change.

And the search has to transcend the apparently irresistible logic of collective action which suggests significant limits to the capacity for voluntary cooperation; a logic that has perhaps been spelled out most completely in the work of Mancur Olson (Olson 1992).

The reality is that, given the right conditions, we are in fact capable of cooperating to fulfil the obligations of a common good. Indeed, it is surely one of the defining characteristics of the human condition that, as much as we have the capacity to be profoundly selfish and self-centred, we also harbour the instinct for voluntary association and social solidarity. A recent and particularly thorough exposition of contemporary research and debate about this instinct was provided in James Q. Wilson's *The Moral Sense* (Wilson 1993). In the book, Wilson argues from the research evidence that we have an instinctive sense of sympathy and association from which we derive the standards and behaviour which form a moral framework.

For now, it is important to realise that humans cannot dispense with a sense of belonging to a small group. Familial and kin networlrs are the essential arenas in which sociability becomes sympathy and self-interest is transferred, by a pattern of reciprocal obligations, into duty and fair play (p.50).

Institutions which have successfully transcended these dilemmas are, like civic capitalism itself, tailored to respond to the way the world is – imperfect, unpredictable, contingent and full of human frailty. The task is not to create a social utopia, which is somebody's definition of unachievable perfection. The challenge is both more modest and far more demanding. The challenge is to create and sustain institutions which help us to regulate our life in common so that we can solve the problems we face, build cohesion, association and solidarity and still preserve the integrity of individuals and their capacity for moral choice and action.

Putnam explains that:

Success in overcoming dilemmas of collective action and the self-defeating opportunism that they spawn depends on the broader social context...Voluntary cooperation is easier in a community that has inherited a substantial stoclr of social capital, in the form of norms of reciprocity and networks of civic engagement. Social capital here refers to features of social organisation, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions (Putnam 1993: 167).

Once he starts to talk of things like trust, social norms and reciprocity, we are in fairly familiar territory. It is the kind of insight which common sense, and daily reality, proves to us all the time - that things are easier to get done, whether in our street, our neighbour-hood, at work or across the nation, if people share certain basic expectations about how they will behave and if they have enough contact each with the other to make the concept of mutual obligation a meaningful reality.

At least at one level, this is an insight which should resonate strongly in the Australian community.

For example, in January 1994, and again more recently in New South Wales and in other states, we witnessed the extraordinary success of an especially effective civic institution, the largely voluntary bush fire brigades. This is an institution rich in the habits of voluntary association and collaboration and, by definition, highly focused on

doing a specific job.

It is important to emphasise, though, that the bush fire brigades also offer an important insight into another aspect of the debate, and that is the role and function of government. In this case, while the bush fire bridges manifest so many of the best features of the institutions described in this paper, they do so with the active support and encouragement of the state. Training, equipment and communications expertise are just some of the areas in which government provides a contribution to the overall enterprise.

On the Tuggerah Lakes, again in New South Wales, generations of commercial fishing people have been regulating their use of a limited resource based not on externally-imposed regulations but on rules which they have developed for themselves to avoid over-exploitation of the lakes.

The arrangement now involves people who are third and fourth generation fishermen. These are people whose social network is strong and well-developed. They are, like the irrigators whose institutional experiments Elinor Ostrom examines, neighbours who share a common resource. Like those irrigators, they are ordinary people dealing with an immediate need – to manage a complex resource, with imperfect information and considerable uncertainty. They have experimented and learned what will work and what will not. They have relied on sanctions derived from rules they developed and on social networks of trust and collaboration.

Another quintessentially Australian institution which illustrates many of these themes is the surf life saving movement, Surf life saving clubs are good examples of local institutions formed to deal with local problems. They exist because, at one level, there is no other way of cost-effectively providing the sort of protection and patrol services they provide. At another level, they exist as a function of local collaboration which is highly contingent – that is, driven by the circumstances and needs of each area and, indeed, each individual beach.

Another example would be the NSW approach to natural resource management and environmental protection which draws on the skills, expertise and local knowledge of people directly affected. Under the rubric of 'total catchment management', institutions of local collaboration and input have evolved to ensure that local people, by and large, design local responses to local environmental and resource management challenges.

In the field of juvenile justice, we are witnessing in various parts of Australia experiments that bring a strong community voice to bear

when young people commit offences. As alternatives to jail or other forms of traditional penalty, various forms of community panels or tribunals are emerging which confront the young person not with the abstract idea of justice or punishment, but with the very real and intimate face of their own community.

Other reforms in the legal field include experiments with alternative dispute resolution procedures and Neighbourhood Justice Centres. These are innovations whose significance lies at least partly in the extent to which they provide increased institutional diversity and choice. They provide an alternative legal institution to the traditional, relatively hierarchical model which, whatever else it may offer, does little to reinvest in the kind of social capital on which successful resolution of complex social problems relies.

Much of the reform of education over the past decade or so has focused, in this state as elsewhere in Australia, on positioning individual schools at the centre of a local community. The shift to school councils or boards and the increasing autonomy which schools are being given to run their own affairs are part of a distinct view of the school not as a number in the head office computer, but as a real presence within the community of which it is part.

It is even possible, perhaps, to detect in some other reforms in Australia an incremental shift away from a traditional, status quo reliance on institutions which have been monolithic or perhaps unresponsive to social context. The growing reliance, for example, on community policing has been a deliberate attempt to gradually break down some of the barriers which often maintain unnecessary and unhelpful divisions between police and the community. The 'neighbourhood watch' movement is, of course, a further move in that direction.

Even in areas such as the emerging (if sometimes somewhat slow) reform agenda within the Council of Australian Governments or within local government reforms in New South Wales, Victoria and in other parts of Australia, there are at least some signs that institutional renewal, reform and innovation, however cautious, is being supported and developed.

The point of this brief rehearsal of some Australian experience with different forms of institutions is not to claim that they manifest all of the values and design principles which, I am suggesting, ought to be part of the framework for institutional renewal in Australia. Nor are they necessarily consistently successful or effective perhaps.

The point is that we have an Australian experience with institu-

tions which do draw on and enrich our social capital and which give some idea of the value, impact and significance of responses which demand a relatively high level of civic engagement.

'Citizens in the civic community,' Putnam argues:

> ... deal fairly with one another and expect fair dealing in return. They expect their government to follow high standards and they willingly obey the rules they have imposed on themselves...In a less civic community, by contrast, life is riskier, citizens are warier, and the laws, made by higher-ups, are made to be broken (Putnam 1993: 111).

With the consequence that:

> ... lacking the confident self-discipline of the civic regions, people in less civic regions are forced to rely on what Italians call 'the forces of order', that is, the police..., for they lack the horizontal bonds of collective reciprocity that work more efficiently in the civic regions. In the absence of solidarity and self-discipline, hierarchy and force provide the only alternative to anarchy (Putnam 1993: 112).

Practical institutions designed for the real world

Elinor Ostrom's research provides a detailed look at institutions which have developed around the world to respond to a particular govern- ance challenge – in this case, the management of often fragile and always scarce natural resources which are owned in common. Her empirical analysis of these 'common pool resource' institutions is instructive not only for its insights into different forms of governance in an especially sensitive and complex policy area – natural resource management. It is also full of insights which, more broadly, speak to my central concern with the principles and parameters of successful institutions for social action.

Her core thesis is that individuals are not always and necessarily trapped in the dilemmas of collective action. They can transcend those limits and design effective institutions which allow for successful common action. What she finds is that the most successful institutions appear to manifest some consistent design principles which she then synthesises and explores.

Those principles are both simple to articulate and, if the experi- ence she carefully documents is any guide, extremely demanding to design, implement and sustain. These are just some of the insights she offers (Ostrom 1990: 90):

- There must be clearly defined boundaries.

- The institutional arrangements have to fit local needs and circumstances.

- Most of the people affected by the operational rules have to be able to participate in making and modifying them.

- There has to be a worliable system of monitoring and, where necessary, applying sanctions to those who break the rules. That system too must emerge from within the 'stakeholders'.

- The basic right of the local participants to design their own institutions has to be recognised and respected by others, especially by government.

The successful institutions emerge as effective responses to highly complex, contingent and volatile real-world problems. They have evolved over time – often over hundreds of years – and addressed the challenge of imperfect information, often considerable technical and scientific uncertainty and usually huge pressures for potential opportunism and subversion by individuals.

But the successful institutions also draw on, and reinforce, some important values. For example (Ostrom 1990):

> They solved their problems the way that most individuals solve difficult and complex problems: as well as they were able, given the problems involved, the information they had, the tools they had to work with, the costs of the known options and the resources at hand (p.56).

> Trying to understand the incremental, sequential and self-transforming process of institutional change…leads me to suggest that institutional analysts should reconsider the ways in which they conceptualise the problem of supplying institutions (p.139).

> Individuals who do not have similar images of the problems they face, who do not work out mechanisms to disaggregate complex problems into subparts, and who do not recognise the legitimacy of diverse interests are unlikely to solve their problems even when the institutional means to do so are available to them (p.149).

The lesson is that we must commit ourselves to careful research and analysis that will reveal what can and what cannot work in the volatile and complex world in which the collective problems we want

to resolve actually appear. In many cases, we have to work harder to understand institutions which already exist and which, in some cases, have been delivering high levels of institutional success for a long time. We have to be prepared not just to innovate and test new ideas and approaches, but to accept that part of the process of institutional design and renewal is a process of learning and adaptation, of pragmatic and incremental change to respond to needs and circumstances as they change (which we know they will).

Effective institutions also encourage the right behaviour from ordinary people and allow those people a significant degree of local autonomy to act, to decide, and to respond. Rather more formally, we need to understand better how institutions overcome:

> the problems associated with collective provision of carefully calibrated institutions that create situations in which individuals find it advantageous, credible, and safe to pursue contingent commitments to rule compliance and mutual monitoring (Ostrom 1990:187)

In the jargon of economics, the successful institutions reduce the transaction costs associated with cooperating for the common good, and significantly reduce the discount rate the various actors might apply to the cost of their contribution. They do that primarily because 'they have a shared past and expect to share a future.'

Designing institutions which nurture liberty

David Green's study of civil society and what he terms 'the rediscovery of welfare without politics' defines an institutional challenge which I believe reflects precisely the mood of contemporary Australian debate about governance and community:

> Today's challenge is no longer to show the superiority of markets over central planning, but to deepen our understanding of that complex of institutions which makes possible not only prosperity, but rather progress in all spheres of human existence... (Green 1993: 2).

A little later, he defines the challenge more bluntly still:

> ... to identify a sense of community or solidarity that is compatible with freedom (p.3).

Given that his work is published by the Institute for Economic Affairs, one of the think-tanlcs widely regarded as having fuelled the intellectual debate about economic liberalism on which Margaret Thatcher rose to power in the United Kingdom, it is significant that

Green directly contradicts the famous Thatcher edict that there is no such thing as society.

Green argues that there is, indeed, such a thing, but 'it is not synonymous with the state'. He defines it further:

> It is the realm of 'activity in common', which is at once voluntary and guided by a sense of duty to other people and to the social system on which liberty rests (p.3).

And, to complete his argument, he claims that:

> Liberty rests on people taking personal responsibility for the maintenance of the institutions, morals and habits fundamental to freedom (p.3).

As have other critics of the welfare state and what some see as the growing intrusion of government into more complex, more minute and more prescriptive forms of economic and social regulation, Green's main concern is to preserve the space within which individuals can exercise their instinct for voluntary social action.

The challenge is to understand as much about the moral foundations of effective institutions as it is about analysing how those institutions actually worked.

Green's definition of the notion of 'civic capitalism' is important for that reason:

> The term is intended to imply support for competitive markets in economic affairs combined with a recognition that a free society worthy of the name also rests on an ethos of civic duty, that is on an ethos of shared personal responsibility for the well-being of our fellows. The challenge is to foster and maintain this ethos of mutual respect with the minimum resort to political action...(p.4).

Too often, we assume that social responsibility means political action. We have grown up in an era in which the whole notion of community and social responsibility has come to equate more and more with state action and a larger and larger share of action, resources and moral authority now resting with public agencies and state intervention of one sort or another.

If resilient institutions work best where the 'morals and habits fundamental to freedom' are strong and effective, we have to accept the need to redress an imbalance which has relieved us, by and large, of the need to accept not just the sentiment of liberty but the imperative to become individually responsible for its preservation.

In a world in which the basic assumption was that the human condition was defined primarily by its imperfection, the task of the civic capitalist thinkers and institution designers over the past two or three hundred years was to find ways to challenge human action and behaviour to reach for ideals of learning and improvement.

'The moral ideal underlying civic capitalism,' Green writes, 'is that human relations should, as far as possible, be based on free mutual consent rather than force or command' (p.12).

The institutional challenge, within that context, is at once highly practical and profoundly moral, in the sense that institutional success within the context of civic capitalism is about the values which individuals and their communities share as the context for social action.

As Green explains it:

> The civic capitalists were first and foremost concerned to discover those common institutions, both public and private, which, on the one hand, encouraged individuals to become better citizens and which, on the other, reduced the harm that would result when human behaviour fell short of the ideal ... the civic capitalists were idealists whose vision was tempered by their awareness of human fallibility (p.22).

In these terms, civic capitalism requires institutions which perform a number of different, but complementary functions.

They have to fit with the real world, first of all. They have to engage not only our best potential but also to anticipate our failure always to live up to that potential. They have to preserve liberty and the scope for individual autonomy, but recognise that we do not live as isolated individuals, but rather in a complex web of social relations and connections, starting most importantly with the family.

And, on top of that, civic capitalist institutions must draw out and reinforce the core values on which they rely for their success. 'The ideal of liberty,' Green argues:

> ... is about discovering just those institutions which serve as proving grounds for intellectual qualities such as seeking the truth and openness to contradiction, moral qualities such as honesty, service and self-sacrifice, and active qualities such as courage and determination, on which freedom ultimately depends (p.23).

If all of that sounds like a hopelessly ambitious counsel of institutional perfection, it clearly is not. Human history and contemporary Australian society are full of examples of people and institutions

capable of accepting this demanding agenda and turning it into practical action – saving people's lives, relieving distress and poverty, running hospitals and schools, looking after old people and the sick and so on,

Green's detailed review of the mutual aid movement is an extended review of what he would term civic capitalist institutions at work. It is a review which he also undertook in the Australian context where what he terms the 'lived reality of liberty' was also successfully translated into practical institutions for mutual aid and social solidarity (Green & Cromwell 1984).

He reminds us that:

> The friendly societies were self-governing mutual benefit associations founded by manual worlters to provide against hard times (Green 1993: 30).

Each society was autonomous. Green argues that:

> … it was this self-governing character which was always one of the strongest attractions to members. They were organisations which could be speedily adapted in any way to meet members' needs as and when they arose (p.32).

These institutions over many years worked out ways in which to balance 'the need for competent performance of organisational duties and the desire for maximum participation by members.' They were organisations in which 'rules were not externally imposed' but which were fashioned 'over the years by the members themselves - adopted, adapted, annulled and revised regularly as circumstance changed.'

These associations encouraged and demanded the habits of shared idealism, participation in common work and the institutional reality of harnessing the energy and commitment of free individuals to undertake social action and to focus on the common good.

These are institutions which are voluntary, collaborative and lateral – that is, they draw their strength not from a dependent relationship with the 'higher ups' but from a mutual sense of free and shared obligation. They are institutions which are pragmatic and responsive to felt need. They exist for a purpose. They are open and inclusive. They operate on a complex balance of reciprocal rights and responsibilities– members have to agree to the rules they help to make, and then have to behave in accordance with them, and the association has to offer them the help and support they require.

They are, perhaps most importantly of all, innovative and inven-

tive and capable of responding quickly to changing needs and circumstances.

Institutions for voluntary collaboration

Robert Nisbet's analysis of the 'quest for community' is subtitled 'a study in the ethics of order and freedom' (Nisbet 1990). First published in 1953, Nisbet's exposition of what has happened through history to our instinctive yearning for community throws some more light on the task of designing effective institutions.

Nisbet identifies two important trends in human history. The first is the inexorable influence of the ethic of enlightenment which, through science and rational thought, has been the vehicle we have used to roll back the worst aspects of 'community' – superstition, a suffocating provincialism, resistance to change and renewal and the kind of bigotry and selfish isolation which we have repudiated in our concept of an open and tolerant society (and which, presumably, most people would wish to nurture and extend).

As Nisbet and other writers about communities (including Etzioni) point out, no-one is voting for a return to some vague, misty vision of the idealised village whose romantic appeal is probably in inverse proportion to the sometimes unsavoury reality it harbours.

The second trend in human history, and especially in modern history, has been the similarly compelling rise of the centralised political state – at its most extreme, the totalitarianism of the Soviet Union which was displaying its least compelling features at the time Nisbet was writing. As more and more of our lives are either governed or deeply influenced by the state and its increasingly intrusive reach, so have we started to withdraw the authority and allegiance we tradition-ally invested in such institutions as the family, church, professional groups and guilds. In simple terms, we are losing habits and tradition of association.

Nisbet's central argument is that, in our legitimate search for release from the old, feudal social order, with its emphasis on dependent, hierarchical relations and its surrounding atmosphere of superstition and ignorance, we have escaped not into the brave new world of individual freedom but rather into a troubling and persistent sense of isolation, alienation and lack of context.

What Nisbet felt he had discovered in 1953 was an explanation for the 'preoccupation with personal alienation and cultural disintegration' which he then felt was characteristic of contemporary thought on man and society. Whereas once our instinct for community was resolved,

more or less happily, in voluntary associations which held our allegiance and which had some authority over our lives, now the fading of those associations sees us investing those instincts in the agencies and instruments of the state. And what Nisbet (and others, of course) argue strongly is that the state, or the centralised, external authority of politics and government is no substitute, at least in this case, for the institutions of voluntary association and mutual collaboration.

We have discovered that we made something of an overcorrection in our flight from community and our search for enlightenment. The result is that people feel isolated, unconnected one to the other, and without a defining sense of meaning or context for their increasingly alienated lives.

Two comments might perhaps be made here.

Firstly, since the fall of the very form of totalitarianism against which Nisbet was so anxiously arguing 40 years ago, many of those nations are, more or less successfully, trying to rediscover or reinvent precisely those institutions of civic capitalism which provide the mediating associations in which people can realise their yearning for community and which provide a buffer between them and the power of the state.

And secondly, although perhaps we might baulk at Nisbet's bleak vision of the human condition, we can surely recognise more than just the outlines of his thesis in contemporary analyses of the specifically Australian condition in the work of people like Hugh Macltay (1993) and Paul Kelly (1992). People like Macltay and Kelly have documented precisely the sort of alienated, confused and searching community in Australia which Nisbet, in somewhat different conditions, discovered in the early post-war years.

In the preface to his book, Nisbet defines community in these terms:

> Community is the product of people working together on problems, of autonomous and collective fulfilment of internal objectives, and of the experience of living under codes of authority which have been set in large degree by the persons involved (Nisbet 1990: xxix).

It is a definition which could just as easily have emerged from David Green's analysis of the friendly societies, or from Elinor Ostroin's description of the effective institutions which manage the complexities of supplying water to the Raymond Basin in Los Angeles.

It is a definition, though, which has an additional significance in Nisbet's view. The very concept of 'community' is the absence of an external or centralised power to which the people involved then

become dependent in one form or another:

> Where power is external or centralised, where it relieves groups of persons of the trouble of malting important decisions, where it is penetrating and minute, then, no matter how wise and good it may be in principle, it is difficult for a true community to develop (Nisbet 1990: xxix).

And, just to drive home the point, he makes the practical observation that 'people do not come together in significant and lasting associations merely to be together. They come together to do something that cannot easily be done in individual isolation (xxix-=).'

Nisbet's analysis challenges us to understand better how institutions that are effective and responsive can be designed so that they provide that crucial mediating layer that stands between individuals and the state. The significance of mediating associations – what Burke called the 'little platoons' formed by individuals exercising an instinct for association and voluntary collaboration – is not an original insight. But from our point of view, it is important to respect the vital role that mediating associations play, or should play, in successful democracies. For without them, we are left, according to Nisbet, with very little:

> Between the challenge of atomistic individualism and the militant power of the central State, dedicated to human welfare, it would be possible to grind into dust all intermediate associations... (p. 140).

Nisbet claims it is crucial that we understand the real problem, which, he argues:

> … is not … the loss of old contexts but rather the failure of our present democratic and industrial scene to create new contexts of association and moral cohesion within which the smaller allegiances of men will assume both functional and psychological significance (p.65).

He does not advocate that we diminish our concern for, and commitment to, values of autonomy, liberty and choice:

> The liberal values of autonomy and freedom of personal choice are indispensable to a genuinely free society, but we shall achieve and maintain these only by vesting them in the conditions in which liberal democracy will thrive – diversity of culture, plurality of association and division of authority (p.247).

What he does advocate towards the end of his analysis is that we

start by understanding people as they really are, not as raw and disconnected units, but as individuals who exist in, contribute to and form part of a multitude of associations and social contexts. In that sense, he suggests, it seems true that:

> ... the most successful and allegiance-evoking business enterprises and cultural associations in modern life are those that regard themselves as associations of **groups,** not of raw individuals (p.247, emphasis in original).

An Australian Agenda for Institutional Renewal

Michael Novak argues that:

> Both the political institutions and the economic institutions of the free society implicitly contain hidden references to the specific new virtues required to make these institutions function according to their own inner rules (Novak 1993: 217).

Certainly there is a considerable interest both here and around the world in the moral and cultural dimension of the challenge of governance and institutional reform.

In that vein, my first observation is that an Australian agenda for institutional renewal must articulate the framework of ideas and values on which it draws. In this case, I have used the term 'civic capitalism' to define that framework.

From there, it is possible to identify an emerging set of institutional design principles that ought increasingly to be the measure against which we test both the value and contribution of our current institutions, and the ideas we might have for new institutions and responses to changing circumstances:

- Institutions should be adaptive, flexible and capable of rapidly adjusting to new conditions. In other words, they need to be highly contingent and not set in cultural or historical concrete.

- Institutions should use and foster the instinct for voluntary association and collaboration. We must learn to recognise that instinct when we see it in operation and how best to nurture its potential and its capacity for transformation and action.

  Institutions must balance individual freedom and autonomy with the often urgent imperative for order and common action, based on a lively sense of mutual responsibility and a genuine concern for the common good.

One of the most important ways in which institutions harness the potential in individuals is ensuring that the people directly involved get to make the rules they then have to live with. The real challenge may be with what Putnam describes as 'the local transformation of local structures, rather than reliance upon national initiatives.' In other words, we have to accept the possibility that the real task of institutional renewal in Australia is work that will take place on a smaller, rather than a larger, scale.

Effective institutions work because they draw on the accumulated social capital of social norms, trust and solidarity. We need to accept that effective institutions make demanding assumptions about how humans should behave and conduct themselves.

We need to explore what an agenda for institutional renewal might mean for the role and function of government. Perhaps the challenge is to use politics and government to carve out arenas in which low-cost, enforceable agreements can be reached so that self-organising, local and autonomous groups can solve local collective or common challenges.

In effect, we need a new theory of collective or common action which responds to a central concern expressed by Elinor Ostrom:

> Current theories of collective action do not stress the process of accretion of institutional capital. Thus, one problem in using them as foundations for policy analysis is that they do not focus on the **incremental self-transformations that frequently are involved in the process of supplying institutions.** Learning is an incremental, self-transforming process (Ostrom 1990: 190; my emphasis).

The Challenge of Renewal

There is little doubt that renewing people's confidence in our institutions for common or collective action represents an urgent challenge for Australia into the next century.

We face that challenge primarily for two reasons.

Firstly, we live in a world that is changing rapidly. Over a very short period, we have had to accommodate ourselves, as individuals, communities and as a nation, to some of the most profound social, political and technological changes we have witnessed for a very long time. In that sense, our world view, our sense of ourselves and our place in the world, has been profoundly challenged.

Under the rubric of 'globalisation', we have witnessed the emergence of a world in which the social and economic certainties of which

we were once so sure do indeed appear to have come to an end. We have to recognise that anxiety and confusion and a sense of loss pervades the community.

With globalisation has come (indeed, it has partly been driven by) extraordinary changes in technology, not least the convergence of information technology and communications. It is worth pondering the implications for governance and community of a phenomenon like the largely self-governing electronic community which has shrunk the world to a video screen and a modem and which offers the prospect of unlimited cheap connectivity (at least in some circumstances) and whole new forms of community and context.

The observation has been made that, despite some gloomy prognostications to the contrary, both globalisation and the Internet model offer more, not less scope for institutional innovation and renewal on a local scale. Far from the world looking, sounding and acting the same, the very fact that, at one level, distance and connection are now no longer the issue means that we are able to really do our own thing when it comes to managing the implications and consequences in our own backyard.

The second reason we face a challenge of institutional renewal is that we have witnessed, and are still witnessing, a loss of confidence amongst ordinary people in the institutions, processes and frameworlts for common action. I don't mean here only those institutions which operate in the political or public sphere. I mean also the institutions which operate in the economic or commercial sphere and, indeed, in the spiritual and cultural sphere.

It is a potent combination – a rapidly changing, volatile world malting new and complex demands on us on the one hand and, on the other, a community which appears to lack the confident self-discipline to create, sustain and use effective institutions to respond to those demands.

It is especially challenging for government and for political leadership, in Australia as it is around the world. The imperative for government, in the face of the pressures and trends outlined in this paper, are clear and compelling.

For example, governments and political leaders have some basic responsibilities to focus their attention on the need to nurture and extend our stocks of social capital:

Their first responsibility is to make sure that through the public policy process and in taking specific decisions and initiatives, they do not actually make things worse. Simply becoming aware of the

importance of social capital and of the overwhelming need to protect those institutions which rely on it, and which therefore make sure its supply increases, is perhaps the crucial first step.

Further, governments and the public policy process should take more time to understand the dynamics of social capital. They need to understand that it is a resource whose supply increases the more it is used. Conversely, they have to understand that it is subject to a form of depreciation– if it doesn't get used, the available stoclts start to deplete.

We ought to be better at understanding how successful collaborative, voluntary social institutions actually work – why they are successful and why they are not.

As a related challenge, we need perhaps to be somewhat more modest than once we might have been in our confidence that the state, both as funder and provider, could somehow displace this network of small, autonomous and locally-responsive institutions. Much more of what we legitimately want to achieve through public policy needs to be harnessed to institutions which shape and replenish local stoclts of social capital and civic engagement.

By the same token, the temptation has to be resisted to either inadvertently or deliberately suffocate the very independence and autonomy which make these institutions so successful. The worst outcome would be to simply extend the reach of the state through community organisations which rapidly become little more than outposts of a bureaucratic empire.

Finally, political leaders need to resist some of the more centralising instincts of a self-interested bureaucracy. In that sense, there is a need to understand and champion the virtues, at least in some circumstances, of fragmentation and of institutional diversity and innovation.

The agenda outlined in this paper is becoming more urgent and irresistible. It is an agenda which is being fuelled partly by growing concern with the day-to-day reality of complex and often dangerous social dislocation and dysfunction, at an individual, community and even national level.

The response has to be at once intensely practical and fundamentally moral. It is about technical issues of institutional design and management and core assumptions about the human condition and the choices we make which manifest themselves in our behaviour to each other.

It is about a capacity to change and respond to new demands and circumstances and a respect for the timeless virtues of individual liberty

and choice.

And I might say it is an agenda which is not calculated to give comfort or aggravation to any particular set of political views and preferences. It is an agenda as much to challenge the sometimes complacent confidence we place in the instruments of public action and the intervention of the state as it is to question the arrogant assumption that free markets and a reliance on financial incentive and reward will somehow sweep away the complexity and paradox of a world in which political and cultural diversity is as important as economic freedom.

This is not an agenda about left or right, about economic rationalism or more state control. The middle ground of the day-to-day political debate here and around the world is already shifting to reflect the reality that history and events have already transcended those increasingly irrelevant distinctions.

In some ways, it is an agenda which doesn't have a comfortable and convenient political 'home base', at least given the way we still discuss our politics in this country. But it is an agenda whose urgency and significance is a direct reflection of what is at stake if we fail to accept its prescriptions or to understand the very practical insights it seems to be offering.

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Civic Capitalism:

An Australian Agenda for Institutional Renewal

Nick Greiner

A new political middle ground is forming around the idea that successful societies depend on 'social capital' – the goodwill, trust and sense of mutual obligation that underpin co-operation and community. Nick Greiner argues that social capital producing institutions are voluntary, collaborative, and capable of responding quickly to changing needs and circumstances. He supports his case with the insights of social theorists and examples from Australia and overseas.

This finding adds to our growing awareness of the importance of a healthy civil society. The non-state institutions of civil society are important not just because they are usually more efficient than government agencies, but also because they often display those characteristics which add to our stock of social capital.

The term civic capitalism emphasises that markets can work only within a wider network of social institutions, and that successful businesses display many of the attributes of social capital producing institutions.

The Hon. Nick Greiner AC was Premier and Treasurer of NSW from 1988 to 1992. He had been Leader of the NSW Opposition for five years prior to becoming Premier. Since leaving politics he has served on many Boards, including Coles Myer, QBE Insurance and Natwest Markets. He is a member of the Sydney Organising Committee for the Olympic Games. In the Queen's Birthday Honours List of 1994, he was awarded a Companion of the Order of Australia for public sector reform and management and service to the community.

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