GIVE AND IT WILL BE GIVEN TO YOU
RECIPROCITY AND WELFARE

Restoring the principle of reciprocity could change negative attitudes towards welfare, argues **Steven Schwartz**

After a long voyage from Portsmouth, Edward J. Moore and his wife Beatrice disembarked in Sydney Town in June 1846.[1] With neither money nor friends, the couple stood fretfully on the wharf until a stranger appeared. He offered Edward his hand and gave him a secret handshake. The young couple relaxed; they were confident that this stranger would help them find shelter and employment in their new country—and their optimism was not misguided.

Moore and his benefactor were 'brothers' of the Grand United Order of Oddfellows, one of many 'friendly societies' that provided their members with companionship and a variety of services including healthcare, medicines, housing loans, unemployment benefits and funerals.[2] The societies operated through democratically governed chapters called lodges. Members—mostly, but not only, men—banded together because they shared a common occupation (the Brickmakers and Labourers Accident and Provident Society), a religion (the Australasian Holy Catholic Guild), or just because they were neighbours (Friendly Society That Meets at Mr Smith's Half-Moon Tavern on Winchester Hill).[3] The lodges were living examples of Edmund Burke's 'little platoons', people with a natural affinity voluntarily joining together for the benefit of their families and communities.[4]

Over the years, the platoons demobilised as the state took over the provision of welfare.[5] Why this happened, what we lost in the process, and how we might get it back are the subjects of this article. Economics is part of the story, but so too are politics, ethics and traditional virtues such as reciprocity.[6]

From reciprocity to public welfare

Friendly societies operated according to a 'contributory principle'.[7] During good times, members contributed to a mutual insurance fund, which they drew on when circumstances required. 'Today's recipient could be tomorrow's donor and vice versa'.[8] Such reciprocity is a 'pervasive feature of human social life'.[9] It is the basis for the Golden Rule—the ethical dictum to treat others as you would like to be treated—and is widely viewed as equitable and just.[10]

Although friendly societies served admirable purposes, they were criticised for their secret handshakes, strange rituals and exclusionary membership rules.[11] Moreover, the societies were never capable of providing for all of Australia's welfare needs. Although attempts were made to include non-contributors (relatives of members, mainly), people who were unable to make contributions (because of chronic illness, for example) were largely excluded. So too were those not considered 'suitable' for lodge membership. Even at their peak, the lodges covered only 30% of the population.[12] If they required assistance, the remaining 70% had to rely on charities or the government for help.

At first, government support was minimal, but over time public welfare expanded and crowded out many charities. Those that remain in operation have been largely

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co-opted by the government, which supplies 38% of their funds.[13] Other developed nations followed a similar path, but the transition from mutual assistance to public welfare was especially quick in Australia, where people have historically viewed the government as a 'vast public utility'.[14]

Believing that voters despise effortless entitlements, many governments tried to retain some semblance of reciprocity in their welfare arrangements. As the creator of the British welfare state, Lord Beveridge, famously put it, 'Benefit in return for contributions, rather than free allowances from the State, is what the people of Britain desire.'[15] Like friendly societies, Beveridge's system required workers to share their risks by contributing to a mutual insurance pool, which could be accessed for assistance when needed. The United States and most European countries created similar 'social insurance' systems.

Although they were popular with voters, purely contributory welfare systems could never cover the entire population. The problem was the same one faced by the friendly societies—how to provide for the needs of those who, for one reason or another, were unable to make contributions. To ensure that no one was left to starve, governments invoked the social 'solidarity principle', which requires all citizens to share the responsibility of looking after society's most needy people. The solidarity principle was used to justify supplementing contribution-based benefits with various 'free allowances' for those who had not made sufficient contributions.[16]

No country has a purely contributions-based welfare system; for obvious humanitarian reasons, all nations redistribute resources to those who have not made sufficient (or any) contributions. Such redistribution is unavoidable, but it leads to tensions that are not easily reconciled because the contributory and solidarity principles reflect different conceptions of fairness.[17]

Two ideas of fairness

Everyone is in favour of fairness, but people differ on what is fair. Consider a hypothetical case.[18] After 20 years of work, Stan is made redundant from his relatively well-paid job. He lives alone, has some savings and owns a home. Samantha, on the other hand, lives in rental accommodation. She has worked very little in her life, and she has neither savings nor investments. In addition, she is raising a four-year-old child. Both Stan and Samantha are seeking assistance. Who should have precedence?

According to one idea of fairness, the contributory principle, Stan has a better case. He has worked and paid taxes for years while Samantha has hardly worked at all. Giving greater support to people such as Stan provides an incentive to work (to obtain larger benefits). According to the second idea of fairness, the solidarity principle, Samantha has the stronger case. She has no financial resources and a child to look after. Stan can get by on his savings, at least for a while, while Samantha has nothing to fall back on.

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As already noted, no developed country would ignore Samantha's plight. However, countries that wish to highlight reciprocity might provide her with a lower level of support than Stan. The Netherlands is an example. An unemployed worker who has made contributions for decades (such as Stan) is entitled to a higher unemployment benefit than someone who contributed for fewer years or never contributed at all. Most European countries have similar arrangements,[19] but in English-speaking nations reciprocity has been largely eroded.[20]

Australia is an extreme case. Apart from compulsory superannuation (which receives tax subsidies, but is a privately-funded savings scheme), there is essentially no relationship between what citizens put in and what they take out of the welfare system. Unlike the Netherlands, Australia's primary unemployment benefit, the New Start Allowance, does not assign a greater amount to those with a longer work history. Counting rental assistance and parenting payments, Samantha would receive more help than Stan. It is even possible, depending on the size of his savings and investments, that Stan would receive nothing at all.

Australia's welfare system strongly values solidarity. Eighty percent of our welfare programs (rental assistance, carer allowance, pensions and much more) are means-tested.[21] This has given Australia the most redistributive social welfare system in the OECD.[22] Given Australia's relatively high level of income inequality,[23] transferring money from wealthier households to poorer ones is an understandable aim, but means-tested programs can also produce perverse incentives against working and saving. For example, the recipients of means-tested assistance may find that the benefits they lose when accepting a low paid job, combined with the income tax they will have to pay, leave them no better off than staying on welfare.[24] By eschewing reciprocity, means-tested programs also produce a social cost—the loss of public support for welfare.[25]

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Loss of public support for welfare

In Australia, reciprocity has been replaced with a rivalry between those eligible to receive benefits—a large part of the population—and those who pay for them.[26] The result is a spiteful climate in which critics fiercely denounce the legitimacy of welfare recipients while those receiving benefits, and their political representatives, zealously protect their entitlements.[27] This 'us' versus 'them' dichotomy has corrosive effects that extend well beyond just deciding who should receive welfare. For example, the resistance to resettling refugees (and to immigration in general) can be traced, at least in part, to the perception that immigrants receive assistance without making a corresponding contribution to society.[28]

The critics of welfare and immigration are often ill-informed. They routinely exaggerate the extent of 'dole bludging'.[29] Similarly, rather than a cost, immigration probably creates a net gain for the Australian economy.[30] Still, the ubiquity of negative opinions suggests that public support for welfare is tenuous and grudging. Government 'crackdowns' on welfare cheats do nothing to improve public attitudes toward welfare; they simply reinforce the public's disgruntlement.[31] Such negativity is worrying because as technological and other changes to the global economy make jobs harder to find, and as the population ages, more people will require assistance. Unless attitudes change, we can expect public resentment and discontent to grow, exacerbating the 'us' versus 'them' dichotomy and fuelling social division.

Contrary to what some have argued,[32] the call for more reciprocity is not a right-wing plot to cut welfare. In the UK, where the issue has been widely debated, all sides of politics and the trade unions have supported increasing reciprocity.[33] The former UK Labour leader, Ed Miliband even promised that Labour would be a party that rewards 'contribution, not worklessness.'[34] As Beveridge understood, the best way to change negative attitudes toward welfare is to introduce reciprocity into the system.[35]

Introducing reciprocity

Research has repeatedly confirmed that people are more likely to contribute to general welfare when they know that others are also contributing.[36] This section discusses four ways to introduce reciprocity into our welfare system: mutual obligation requirements, universal basic income, personal welfare accounts, and income contingent loans.

Mutual obligation requirements. Although welfare reform in Australia has focused on making programs more efficient and reducing perverse disincentives for re-employment,[37] reciprocity has not been entirely neglected. 'Mutual obligation' requirements such as 'work for the dole' introduce some reciprocity into the means-tested system. Eighty percent of participants view working for the dole as a way 'to give back to the community' and more than half the population agrees.[38]

Although mutual obligation requirements are a step in the right direction, there is more that could be done. For example, the level of unemployment benefits could vary with work history (that is, lower benefits could go to those with long histories of unemployment). Designing welfare programs that do not punish those who save and reward those who spend is another way to highlight reciprocity.[39]

Universal Basic Income. The Universal Basic Income (UBI) has been much in the news lately, but it is not a new idea.[40] Advocates view the UBI as an economically efficient replacement for the current multitude of separate means-tested programs. Because everyone would be entitled to a UBI, there would be no need to assess whether claimants are eligible and no policing would be required to investigate cheats. The result would be lower administration costs. UBIs would also remove the stigma attached to welfare and eliminate the perverse incentives that trap people in welfare dependency. Instead, they would add a much-needed subsidy to low-paid jobs. A UBI would also boost consumption among low-income people, which would lift economic growth.

Despite these virtues, the UBI has drawbacks. If the UBI is too large, it could provide a disincentive to work. Also, despite the savings that arise from eliminating bureaucracy, a UBI would be very expensive to implement. It would certainly require higher marginal tax rates, which means that most workers would see little additional benefit. The combination of high costs and minimal benefit (for most people) caused Swiss voters to reject a UBI when it was put forward in a recent referendum.[41] For our present purposes, the most troubling aspect of the UBI is the absence of reciprocity. Under a UBI, there is no link between contributions and benefits.[42] Moreover, unless the UBI was very generous, targeted means-tested welfare programs would still be required.

Personal Welfare Accounts. As an alternative to the UBI, some writers have recommended Personal Welfare Accounts (PWAs).[43] Workers would pay a share of their income into a PWA, which would receive favourable tax treatment. When individuals claimed a benefit (unemployment, for example), it would be paid out of their PWAs. On retirement, any money remaining in the PWA could be used to supplement superannuation or the pension. Like the friendly societies, a PWA-based system collects and distributes welfare funds horizontally—to individuals at different times in their lives.[44] This gives contributors the flexibility to adapt to life's vicissitudes. PWAs can also be tweaked to incorporate vertical redistribution (from wealthier to poorer people),[45] but this would require some form of means testing.

Think tanks from all sides of politics support PWAs.[46] They have a downside, however. PWAs will lead to the accumulation of large sums and governments have shown themselves unable to allow caches of money to remain unmolested (witness the constant tinkering with superannuation). An alternative that also highlights reciprocity, but is resistant to government plundering, is the Income Contingent Loan (ICL).

Income Contingent Loans. In Australia, ICLs are used to fund university fees.[47] Students borrow money to pay their fees and repay their loans through the tax system once they reach a certain income threshold. ICLs could also be applied to parental leave payments, unemployment assistance, and most other welfare benefits.[48] Instead of grants, recipients would receive ICLs. In effect, the government acts as a 'piggy bank' helping people to smooth the ups and downs of life.[49] Most people will repay their loans when their circumstances permit, but some may never be able to repay their loans in full. With ICLs, the risk of non-repayment is shared across the population.

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Many details would have to be worked out in designing ICLs for social welfare: who is eligible; how much can be borrowed; what interest rate will be charged; the threshold for repayments; and many more. Whatever the final design, the reciprocal nature of ICLs (today's borrowers are tomorrow's payers and vice versa) would be clearly evident. What is less clear is how to introduce a contributory element. One possibility is to assign a risk rating to borrowers (better risks could be permitted to borrow more). Given their reliance on reciprocity, the introduction of ICLs (especially those that also rewarded contribution) would be likely to produce a profound positive change in the public's attitude toward social welfare.

Whatever method is chosen (and combinations are possible), revising our welfare arrangements to incorporate reciprocity and reward contribution would provide protection to all citizens, increase social cohesion, and improve public attitudes toward welfare at a time when increasing numbers of people will require assistance.

Endnotes

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