

# TranState Working Papers

RESILIENT OR RESIDUAL?  
FROM THE WAGE EARNERS'  
WELFARE STATE TO  
MARKET CONFORMITY  
IN NEW ZEALAND

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No. 22

Universität Bremen	• University of Bremen
Hochschule Bremen	• University of Applied Sciences
Internationale Universität Bremen (IUB)	• International University Bremen (IUB)

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Staatlichkeit im Wandel	• Transformations of the State
Sonderforschungsbereich 597	• Collaborative Research Center 597



*Peter Starke*

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No. 22

*Sfb597 „Staatlichkeit im Wandel“ – „Transformations of the State“*

Bremen, 2005

[ISSN 1861-1176]

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(TranState Working Papers, 22)

Bremen: Sfb 597 „Staatlichkeit im Wandel“, 2005

ISSN 1861-1176

Universität Bremen

Sonderforschungsbereich 597 / Collaborative Research Center 597

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## ***Resilient or Residual? From the Wage Earners' Welfare State to Market Conformity in New Zealand***

### **ABSTRACT**

Contemporary research has frequently stressed the *resilience* of welfare states facing internal and external problem pressure or ideologically motivated attacks. Theoretical explanations of welfare state change have in part been eclipsed by explanations of its remarkable stability. But does the resilience thesis hold? Taking the case of New Zealand, this paper demonstrates that under certain conditions major transformation *is* possible. Since 1975, New Zealand has changed from being a 'wage earners' welfare state' to having only a residual system of social protection. Adopting a qualitative approach, the paper describes the process of welfare state retrenchment through different phases and discusses what economic and political-institutional conditions account for the unusually large extent of cutbacks. Quantitative data confirm the pattern of retrenchment with the most extensive cutbacks taking place in the early 1990s under conservative rule. This pattern does not, however, bear out the expectation of 'blame avoidance' behaviour, as assumed by previous research. Despite the unpopularity of retrenchment, governments in New Zealand frequently used the opportunities provided by the centralised political system to push through highly visible reforms.

## **CONTENTS**

1. INTRODUCTION .....	1
2. THE WAGE EARNERS' WELFARE STATE IN NEW ZEALAND.....	3
3. FOUR PERIODS OF CHANGE.....	6
3.1 1975-1984: Crisis? What Crisis?.....	6
3.2 1984-1990: More Market – Less Social Welfare? .....	10
3.3 1990-1999: Conservative Retrenchment and Restructuring.....	14
3.4 1999-2004: A Third Way? .....	22
4. HOW MUCH CHANGE? .....	25
5. CONCLUSION .....	29
REFERENCES.....	33
APPENDIX .....	40
BIOGRAPHICAL NOTE .....	41

## **Resilient or Residual? From the Wage Earners' Welfare State to Market Conformity in New Zealand**

### **1. INTRODUCTION\***

In the 1970s, the notion of a 'crisis of the welfare state' surfaced in the academic debate on social policy in Western countries (see Castles 2004). From about the time of the first oil shock, the welfare state was frequently considered endangered because the inflated expectations of the public clashed with limited fiscal resources. Moreover, the welfare state was increasingly regarded as a cause of social and economic problems rather than as a way to resolve them. When radically anti-welfare politicians like Margaret Thatcher and Ronald Reagan came to power, it seemed to many as if a generous welfare state would soon be a thing of the past. These expectations, however, turned out to be exaggerated. Against the backdrop of the 'crisis of the welfare state' debate and the anti-welfare state rhetoric of New Right politicians, the conclusion drawn as early as 1988 in a scholarly volume of comparative studies concerning recent welfare state changes sounded already somewhat less dramatic:

*"[I]ronically, the welfare state has survived the decay of Keynesian economics and the unraveling of party coalitions. The welfare state has not lost its legitimacy, but it has lost its luster, and the domestic politics of Western liberal democracies invariably turn on conflict over the future of the welfare state. At the same time, the collapse of Keynesian economics leaves the welfare state without an intellectual basis for future progress. We thus have a paradoxical state of affairs: a deeply institutionalized welfare state bereft of its intellectual and political moorings" (Brown 1988: 7).*

Today, the first part of this paradox – the resilience of the welfare state – seems to be a mainstream view in comparative research (Taylor-Gooby 2002). Paul Pierson's seminal 'Dismantling the Welfare State?' (1994) again emphasized the difficulties met by reformers wishing to cut back welfare programmes, as did the authors of titles such as 'The Irreversible Welfare State' (Therborn/Roebroek 1986) and 'Survival of the European Welfare State' (Kuhnle 2000). Moreover, there are numerous examples of reforms entailing further expansion or other forms of welfare state 'restructuring', often combining cuts with expansion (Pierson 2001). But the pendulum is now swinging back, with many authors pointing out quite extensive retrenchment in some countries during individual periods (Allan/Scruggs 2004; Green-Pedersen 2002; Hicks 1999: ch. 7; Korpi/Palme 2003; Ross 2000). In general, the conclusion of these studies is that re-

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\* I would like to thank Francis G. Castles, Claire Fayon, Julia Moser and two anonymous reviewers for helpful comments on this paper.

trenchment, albeit politically difficult, is by no means impossible and under certain conditions even probable.

On the one hand, a number of factors seem to cause a tendency towards retrenchment. Among the conditions often cited as favourable for retrenchment policies are, of course, a country's economic situation, i.e. low economic growth, unemployment, high inflation, but also 'globalisation' which is usually measured in terms of openness to trade and capital. The demographic situation, particularly the elderly dependency ratio, is commonly thought important, too. On the other hand, there are also reasons to expect less retrenchment. Existing welfare state structures are often regarded as path-dependent, that is, relatively immune to large change by virtue of their inherent institutional 'inertia'. There is considerable debate among scholars about the continuing relevance of variables such as pro-welfare state – typically left-wing – parties, working-class power and formal political institutions for the present-day politics of the welfare state. Paul Pierson persuasively argued that these factors, which helped explain the welfare state's *expansion*, are inadequate to explain today's changes (Pierson 1994). In short, what we see today, according to Pierson, is a 'new politics of the welfare state'. If or to what extent this is true is still open to debate.

In this paper, I will look at welfare state development in New Zealand since 1975. The study of the changes in New Zealand and their causes may contribute to the more general debate whether OECD welfare states ought to be regarded as *resilient* and immune against radical change. For that reason, I will try to answer the following questions: How much change can we observe in New Zealand in the long term? Does a particular pattern of change stand out? What have been the driving forces of welfare state change of the last 30 years? Here, I will attempt to highlight a number of relevant features of reforms in New Zealand in the context of the comparative debate on welfare state restructuring.

New Zealand is usually seen by comparative researchers as the exemplary case for radical welfare state retrenchment (Huber/Stephens 2001; Swank 2002). However, there is little in-depth research on the country's recent welfare state development from a political science perspective (but see Castles/Gerritsen/Vowles 1996). Most authors make do with a rather cursory look at the reforms of the 1990s. In this paper I will not limit myself to the early 1990s (when the deepest benefit cuts occurred) and look at the whole period from the mid-1970s until the present day, that is, since the country left what has come to be called the Golden Age of the welfare state. This long span of time allows me to see what happened to the welfare state in one country under different partisan arrangements, economic conditions and, due to the electoral system reform in 1993, even under different institutional configurations.



The paper is structured as follows: Section 2 is a brief description of the *status quo ante*, i.e. the welfare state arrangement of New Zealand of the post-war decades. In it, I will also briefly summarize why New Zealand's post-war welfare state can be described as a 'wage earners' welfare state'. Section 3, the main part of the paper, is an historical account of the reform period since 1975, which can be divided into four sub-periods, according to the partisan orientation of government (sections 3.1 to 3.4).<sup>1</sup> In this section, I focus on major policy changes in pensions, health care, labour market and social assistance policies, family policy, housing and accident compensation. This focus on the 'formal' welfare state will be complemented by an overview of the major changes in 'functional equivalents', e.g. state intervention in wages and trade protectionism. In section 4, the qualitative results will then be compared with some quantitative and comparative evidence on welfare state change in New Zealand. Here, I will also ask to what extent New Zealand can still be regarded a wage earners' welfare state. Section 5 concludes with a discussion of the causes of welfare state transformation.

## **2. THE WAGE EARNERS' WELFARE STATE IN NEW ZEALAND**

The origins of the modern welfare state in New Zealand date back to the late 19<sup>th</sup> century. In 1898, the reform-minded Liberal government introduced an Old Age Pension, a flat-rate means-tested pension for poor New Zealanders over 65, making New Zealand one of the first countries in the world to introduce a public pension scheme (Overbye 1997). In the following years, however, the government's reforming zeal weakened and only rarely did significant innovations – such as pensions for widows (1911), miners (1915) and the blind (1924) and the world's first family allowances (1927) – take place.

It was the Great Depression of the 1930s that led to new initiatives in social policy, both directly and indirectly. Directly, as a response to rising unemployment, the government set up public works schemes and for the first time established an Unemployment Fund in 1930 with a small sustenance allowance to be paid to the unemployed (Bassett 1998: 173). Indirectly, economic hardship politically worked against the ruling parties, as was the case in most other democratic countries of the era. In New Zealand, this trend favoured the Labour Party which defeated the incumbent conservative/liberal coalition in the 1935 general election and formed the first Labour government in the history of the country.

The system of social security created by Labour in the years between 1935 and 1949 covered a wide range of risks such as old age, unemployment, sickness and maternity. Most cash benefits, however, were still means-tested, namely those for the working-age population. Retirement incomes comprised two elements: A means-tested Age Benefit

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<sup>1</sup> The choice of partisan composition of government as the organising principle, however, does not mean that it is assumed to provide the overriding explanatory factor for welfare state change.

at age 60 was supplemented with universal Superannuation at age 65. At the outset, the universal pillar was very small and it was to be gradually increased to match the Age Benefit, a point eventually reached in 1960. Hospital treatment was made free of charge and organised along the lines of a universal and centralised National Health Service. Even so, the government did not succeed in extending universality to primary care. Negotiations with the doctors' association failed and the result was a largely private system of cash-for-service with public subsidies available to pay for some of the fees. In 1945, the government removed the means test from family transfers, creating a universal Family Benefit which was paid directly to the mother (McClure 1998: 98-111). In housing policy, Labour put more resources into both state rentals and cheap loans (Oliver 1977; Trlin 1977). At this stage, New Zealand could rightly be called a welfare state pioneer (Briggs 1961).

During the post-war era, the existing structure was left intact. The moderate ideological distance between New Zealand Labour and the conservative National Party in a two-party system and virtual full employment underpinned this standstill at least up until the 1970s. Apart from a few minor new benefits and (irregular) increases in the rates of existing benefits, there was virtually no change between 1945 and 1972, that is, during the exact period when most Western countries had their glory days of welfare state expansion. New Zealand was apparently turning into a 'welfare state laggard'.

In the early 1970s, the New Zealand government introduced two new schemes. First, the Domestic Purposes Benefit (1973), a statutory benefit mainly for lone mothers which replaced the discretionary emergency assistance previously available for those cases. The second innovation was a broad accident compensation scheme, known as ACC<sup>2</sup>, which came into force in 1974 and covered not only workplace accidents – as the previous Workers' Compensation and as it is common in Western countries – but also road accidents and other contingencies (Duncan 2002). The scheme was compulsory and based on the 'no fault' principle, that is, compensation was provided without proof of 'fault' whatsoever. In exchange to these comprehensive entitlements, the right to sue for damages was abolished. ACC benefits included earnings-related compensation, medical and rehabilitation benefits and various lump sum payments.

In sum, the structure of the formal welfare state of the early 1970s resembled very much what is known as the 'liberal welfare regime' (Esping-Andersen 1990). In Gøsta Esping-Andersen's regime-typology liberal welfare states are marked by selective, means-tested benefit design, relatively modest flat-rate payments, tax-financing and a strong emphasis on work incentives. Indeed, most of the major benefits in New Zealand

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<sup>2</sup> ACC refers to the Accident Compensation Commission, today the Accident Compensation Corporation. Generally, both the scheme and the provider are known as ACC.

were means-tested, with the exception of the Family Benefit, part of the public pension and hospital care. Only one scheme – accident compensation – was based on social insurance principles. ACC was also the only programme not entirely financed out of general revenue<sup>3</sup>, but primarily from employers' premiums and levies on motor vehicles.

New Zealand's social expenditure development showed below-average growth rates during much of the post-war period (OECD 1985). Between 1962 and 1966, social expenditure (including health) actually *decreased* relative to GDP – from 11.6 per cent in 1960 to 10.2 per cent by 1970 (NZPC 1979: 78) – which is highly unusual compared to escalating expenditure figures in other western countries at the time. The spending pattern also seems to reflect the lack of new initiatives during the 1950s and 1960s already noted. Despite being a pioneer of the welfare state and praised by left-wing politicians and social reformers around the world in the 1940s, by the 1970s, New Zealand had apparently become an ungenerous welfare state 'laggard'. This conclusion, however, is only correct with regards to the *formal* welfare state programmes. Once we look beyond direct cash transfers and social services and towards the overall level of welfare ensured through state intervention, the 'laggard' label fails to capture the real extent of social protection in New Zealand.

Francis G. Castles has argued that during much of the post-war era both Australia and New Zealand provided 'social security' in a wider sense not only through direct income transfers but also 'by other means' (Castles 1985, 1989). Two sets of conditions account for this pattern. On the one hand, favourable economic and demographic circumstances, such as a high degree of economic development, male full employment, high home ownership rates and a rather 'young' demographic profile kept demand for social expenditure relatively low. On the other hand, policy 'supply' tended to focus on trade protectionism and a highly regulated system of wage setting via industrial conciliation and arbitration (Mabbett 1995). This policy of 'domestic defense' (Castles 1989) allowed employers to pay relatively high and equal wages, set at a level sufficient for the male breadwinner to support a wife and family. According to Castles, the so-called family wage worked in combination with full employment as a functional equivalent to a more generous welfare state, thus earning the New Zealand its laggard label in terms of social expenditure growth during the post-war years. Therefore, Castles labelled Australia and New Zealand, somewhat more appropriately, as 'wage earners' welfare states' (1985).

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<sup>3</sup> An earmarked Social Security Tax existed until 1968 when it was amalgamated with the existing income tax.

### 3. FOUR PERIODS OF CHANGE

#### 3.1 1975-1984: Crisis? What Crisis?

In the 1970s, New Zealand's system of production and protection came under heavy strain, mainly due to shifts in the world economy and various social changes such as rising female labour participation and family change (Castles 1996). A sharp slump in wool prices in 1966/67 foreshadowed the kind of problems inherent in social protection provided through the wages system. The main problem was that New Zealand's earlier economic success had been to a large extent based on the agricultural sector's international competitiveness. Put simply, export incomes from this sector had been used to finance a manufacturing sector that developed under an umbrella provided by tariffs and import licensing (Jones 1999). The result resembled the 'import substitution industrialisation' strategy of Latin America and East Asia (Schwartz 2000). But for a small economy like New Zealand this policy of cross-subsidisation had led to a high dependence on overseas markets and movements in commodity terms of trade, despite some export diversification. After a last boom between 1970 and 1973, terms of trade collapsed, an event which can be seen as the 'beginning of the end'. Two further blows make the story complete: In 1973, Britain, New Zealand's most important market for pastoral products, entered the European Economic Community (now the EU) and New Zealand suddenly had to cope with competition from heavily subsidised European countries on the British market. At the same time, the first oil shock led to rising import prices. This put even more pressure on the economy, at a time when pastoral exports could already no longer provide enough foreign exchange to finance the protected sectors.

**Table 1:** *Economic and Fiscal Performance, 1976-2000, Five-year Averages*

	1976	1981	1986	1991	1996
	-	-	-	-	-
	1980	1985	1990	1995	2000
<i>Real Economic Growth Rate</i>	-0.5	1.3	-0.2	2.2	0.9
<i>Unemployment Rate</i>	1.1	4.3	5.1	9.2	6.7
<i>Consumer Price Inflation Rate</i>	14.9	12.1	10.2	2.3	1.3
<i>Fiscal Surplus in % of GDP</i>	-1.3	-4.8	-2.1	-0.6	2.2
<i>Net Public Debt in % GDP</i>	11.2	27.5	44.4	45.8	24.4
<i>Current Account Surplus in % GDP</i>	-5.1	-5.8	-4.5	-3.8	-5.6

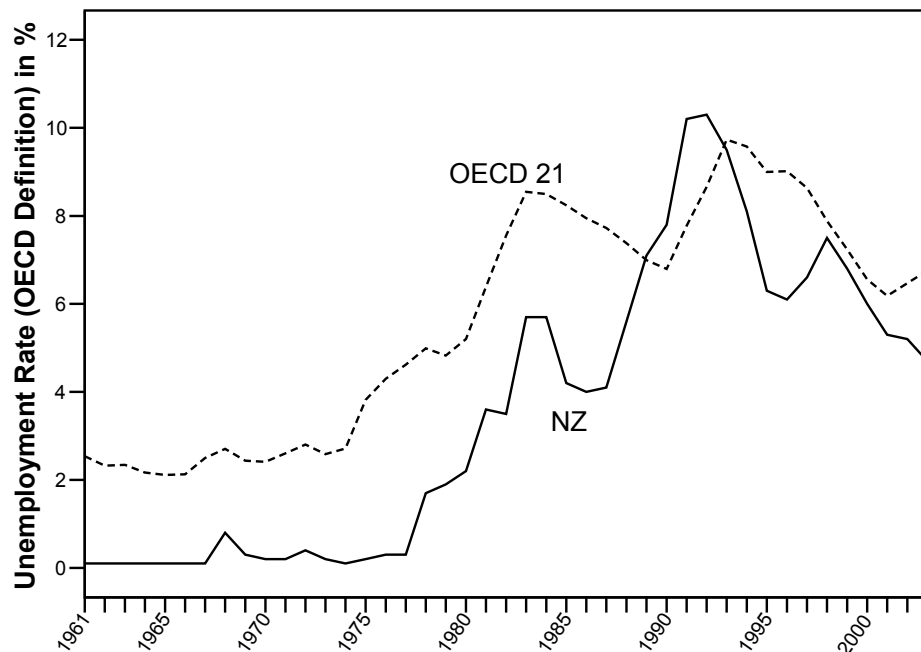
*Source:* Data are mostly official data and are taken from Dalziel/Lattimore 2004. For exact sources and definitions see Dalziel/Lattimore 2004. Economic growth rates calculated on the basis of Maddison's (2003) data.

From 1974, the economy virtually stagnated and then slid into recession in 1977/78, before recovering again slowly in the early 1980s (see table 1 for an overview of New Zealand's economic performance). From about 1977, unemployment began to rise which came as a shock to a country with an outstanding record of virtual full employment throughout the post-war years (see figure 1). As in many other OECD-nations,

consumer price inflation rose sharply after 1973 but soon reached above the OECD-average where it stayed until the beginning of the 1990s. Public finances reflected the adverse economic conditions: A small financial surplus of the public accounts in 1977 and 1978 was rapidly eaten up and deficits of up to 6.4 per cent of GDP were to follow until the mid-1990s.

The National Party came into office in 1975 and Prime Minister Robert Muldoon soon began to tackle the economic problems with a mixture of cautious liberalisation and traditional state intervention. Particularly during the early 1980s, and despite calls for further liberalisation coming from his own party and officials at the Treasury and the Reserve Bank, Muldoon refused to introduce big changes *à la* Margaret Thatcher in Britain. Instead, he imposed a wage and price freeze in 1982 and set up ‘Think Big’, a package of large-scale public investment projects, particularly in the energy sector. Ironically, New Zealand’s Westminster-style system of government, which gave later governments the opportunity to push through sweeping policy changes, helped the late Muldoon block liberalisation. New Zealand before 1993 was one of the clearest examples of a ‘majoritarian democracy’ (Lijphart 1999) where power is concentrated in (usually a single-party majority) cabinet and not divided between federal and regional levels, strong parliamentary chambers etc. Muldoon took this concentration of power to the extreme by occupying both the Prime Minister’s and the Minister of Finance’s position during his time in office between 1975 and 1984.

**Figure 1:** Unemployment, 1961-2003



Source: OECD Labour Force Statistics (OECD various years).

Under Muldoon, a number of social policy reforms were enacted (see table 3 in the annex for an overview). Yet, despite the pressure coming from rising fiscal deficits and unemployment, Muldoon's overall record is one of welfare state *expansion* rather than of retrenchment. There were a number of cost containment measures but, without question, the most significant reform was the introduction of National Superannuation, a universal and generous system of flat-rate, non-contributory pensions.

In 1974, the previous Labour government had legislated for New Zealand Superannuation, a contributory funded scheme with earnings-related benefits which was supposed to fully replace universal Superannuation after a phase-in period of at least 40 years (Collins 1977). This gave National the opportunity to campaign for a simpler scheme with a comprehensive universal flat-rate pension called National Superannuation to be paid directly out of general revenue and, more importantly, immediately from the time of enactment. National's proposal also appealed to women who were still largely excluded from full-time work and would have been losers under Labour's contributory plan (McClure 1998: 190-196).

With this platform, famously called "the biggest election bribe in the country's history" by historian Keith Sinclair (1991: 316), the conservatives won the 1975 general election and in 1976 National Superannuation replaced both the existing dual pension structure established in 1938 as well as Labour's short-lived social insurance scheme of 1974. National Superannuation was paid from 1978 to all New Zealanders above age 60 at a generous level of (combined) 80 per cent of gross average ordinary weekly wages for a married couple and 48 per cent for a single person (Booth 1977: 116).

Due to its generous character and the low eligibility age, the cost for National Superannuation began to rise quickly. Officials at the Treasury and the Department of Social welfare were highly critical of the new scheme (McClure 1998: 194). Between 1975 and 1984, the number of pensioners rose by over 55 per cent and within the first four years of the National government, net expenditure on the aged increased from 3.6 per cent to 5.7 per cent of GDP (NZPC 1979: 78). In an attempt to curb the burgeoning cost of superannuation, the calculation base for benefits was reduced from gross to net average wage levels in 1979, a decision that can be seen as the starting point of the retrenchment period in social policy in New Zealand.

Yet, retrenchment was only partial and was introduced alongside more expansionary measures as, for instance, in family policy. The universal Family Benefit, introduced after World War II and since that time the main instrument in family policy, had been neglected by politicians. As it was not indexed, the benefit's real value eroded markedly over the years, from about eight per cent of average wages in 1946 to around 3 per cent by 1983 (St John 2001: 3). The development of social security spending on children reflects this trend: It declined from 2.7 per cent of GDP in 1950 to just under one per

cent in 1979 (NZPC 1979: 78). However, the changes in Superannuation indexation in 1979 released resources of \$114 million that were used to double the Family Benefit to \$6 weekly, which represented the last ever increase of this benefit before its abolition in 1991 (McClure 1998: 200). Yet, this benefit increase – although significant as an immediate cash injection for families – was again quickly eaten up by inflation due to the government's refusal to give way to calls for the indexation of the Family Benefit. Modifying the existing system of provision, a new strategy of needs-based assistance was introduced, initially in the form of tax rebates such as the Young Family Rebate in 1976 (Koopman-Boyden/Scott 1984: 144-150).<sup>4</sup> In contrast to the Family Benefit, however, the tax rebates were insensitive to the number of children in the household and did not reach families without significant taxable income. In short, they were a rather blunt instrument for targeting assistance to the needy. It was not until Labour took office in 1984 that a clearer needs-based policy towards families emerged.

Most measures in other areas of the welfare states during the Muldoon years involved incremental, if largely negative, adjustments, such as the reduction in the value of the main benefit for lone parents, the Domestic Purposes Benefit (DPB), by \$16 for the first six months, enacted in 1977 after rising DPB beneficiary numbers and public concerns about the moral effects of granting a benefit to lone mothers had motivated the government to set up a DPB Review Committee (Easton 1981: 91-94). In 1979, eligibility for the accommodation benefit was limited and unemployment benefit recipients without children had to face a significant reduction in their benefits in the 1979 budget, whereas most other payments remained relatively stable in real terms over the period 1975-1984 (Stephens 1992: 104).

In health care, some pressure for change began to build up in the 1970s (Gauld 2001: 31-38) and the government started what in the long run turned out to be a process of decentralisation of provision. In order to devolve some responsibility for the management of secondary and tertiary care, the Area Health Boards Act 1983 allowed for the establishment of regionally based and elected area health boards (AHBs), the majority of which was set up only after 1984, under the subsequent Labour government. In accident compensation, some changes were introduced in 1982, with a reduction in earnings-related compensation levels but increased maximum lump sums for some types of damages.

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<sup>4</sup> The Young Family Rebate amounted to up to \$9 per week for families with at least one dependent child under five years and replaced existing tax exemptions that had been unfavourable for low-income families. Several similar rebates were added over the following years and some were merged again into new types of rebates, resulting in a highly complex structure (cf. Nolan 2002).

On the whole, instead of drastic cutbacks as a response to economic crisis the period between 1975 and 1984 was marked, at first, by a dramatic *expansion* of state involvement and then – in part precisely because of this expansion – by stagnation as well as some retrenchment from 1979 onwards.

In the early 1980s, Muldoon's mixture of interventionist policies and cautious economic liberalisation had become increasingly unpopular. Even among National Party members, support was crumbling. Within National and Labour, monetarist ideas began to spread and new movements – such as the free-market New Zealand Party (NZP) – emerged. In June 1984, in the midst of a turbulent financial crisis, Prime Minister Muldoon called a snap election and lost it. At first, the change in government did not improve the state of the economy but even deepened the crisis: Financial markets expected a Labour victory and a depreciation of the New Zealand Dollar, forcing the Reserve Bank to suspend all foreign exchange dealings. The incoming government depreciated the dollar by 20 per cent as expected, even before having been sworn in by the Governor-General. This was but the first step in what might be the most rapid and radical economic reforms an OECD-country has seen in recent years.

### **3.2 1984-1990: More Market – Less Social Welfare?**

The history of the economic liberalisation policies known as 'Rogernomics' after Minister of Finance Roger Douglas has been told in great detail (e.g. Easton 1989a, 1997; Dalziel/Lattimore 2004; Quiggin 1998; Silverstone et al. 1996). Some elements were the floating of the exchange rate and comprehensive deregulation of financial markets, the creation of an independent central bank, radical tax reforms<sup>5</sup>, the reduction of tariffs and other trade barriers, the abolition of subsidies in agriculture and – albeit somewhat more slowly – in the manufacturing sector, privatisation of state-owned enterprises and restructuring of the state sector in general. It was not just the extent but also the speed of change that impressed (or worried) New Zealanders and foreign observers. In any case, Rogernomics provided both admirers and critics of free-market reforms with a new benchmark – probably an even better one than 'Thatcherism', taking place at about the same time in Britain. Yet, the question of whether the reforms have been an overall success or failure is still open to debate (Dalziel 2002; Evans et al. 1996).

The sharp policy reversal towards 'more market' in economic policy in 1984 has been explained by the crisis situation the newly elected government found itself in, combined with the considerable leeway given to crucial actors within the government

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<sup>5</sup> The 1980s saw a strong shift in New Zealand's tax mix away from direct taxation and towards much stronger reliance on indirect taxes, namely through the new Goods and Services Tax (Dalsgaard 2001: 42). Changes in the income tax structure – flattening the scale and broadening the base – were equally radical by international standards (Ganghof 2001).



(Debnam 1990)<sup>6</sup>. With the help of monetarist economists at the Treasury, Roger Douglas and his supporters in cabinet and parliament could push through economic policy proposals at great speed in cabinet committees, often at very short notice and unchecked by a president, a second chamber, a constitutional court or other potential veto players (Tsebelis 2002).

Against the backdrop of radical economic restructuring, expectations were high that social policy would suffer a similar fate:

*“In the context of such a comprehensive overhaul of all aspects of the New Zealand economy, it was inevitable that the social security system would also come in for attention. Moreover, given that the wider reforms had largely focussed on questions of efficiency, it was also inevitable that the changes would be largely concerned with the efficient targeting of social security expenditure” (Mackay 2001: 9).*

This need for reform was expressed quite clearly by bureaucrats. Indeed, *Economic Management* and *Government Management*, the Treasury briefing papers that are sometimes seen as the blueprint for New Zealand’s reforms (NZ Treasury 1984, 1987), contain a number of recommendations which aim at stronger targeting of benefits and reduction of government involvement in the provision of social services. The universal elements of the New Zealand welfare state, e.g. National Superannuation and the Family Benefit, came under particularly critical scrutiny from officials and business lobby groups such as the influential Business Roundtable.

The government’s position on welfare state reform was more complex. Labour’s election platforms in 1984 and 1987 were relatively vague on this issue, which can be seen as a reflection of an unresolved conflict between the different internal factions. To the right, the so-called ‘troika’, consisting of Minister of Finance Roger Douglas and his junior ministers Richard Prebble and David Caygill, formed the centre of a group of Labour MPs in favour of more radical adjustments. To the left, Prime Minister Lange, although a defender of economic restructuring, was much more cautious with respect to social policy. In the late 1980s, Labour’s more traditional wing – of which Lange was a part – actively tried to limit the Treasury’s and Douglas’s influence in social policy matters. The establishment of a *Royal Commission on Social Policy* in 1986, with wide-ranging terms of reference, is often seen in this light:

*“Lange appears to have been trying to construct a fence between those areas – typically business – which he considered the proper domain of Rogernomics and those areas which would not be subject to the same degree of commercialisation – typically social*

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<sup>6</sup> Geoffrey Debnam regards the 1980s reforms as a good illustration of the ‘adversary politics’ in Westminster systems where a two-party competition leads to sharp U-turns triggered by a climate of stress, e.g. an economic crisis (1990).

*policy. The Treasury and the Treasury Ministers objected to such a fence, resisting the establishment of a Royal Commission which might attempt to build one” (Easton 1989b: 174).*

The most prominent social policy reforms under Labour were certainly the legislative changes concerning the pensions regime. The government restricted eligibility for National Superannuation and future benefit increases were to become more modest in scope. The first important decision – for New Zealand one of the most crucial decisions in social policy of the last 25 years – was the introduction of the ‘Superannuation tax surcharge’, a claw-back tax on pensioners with additional income.<sup>7</sup> Under the conditions of a budget deficit of 8.7 per cent of GDP, the main motivation was cost containment. And superannuation was a likely target: Treasury officials and many politicians questioned the legitimacy of a relatively generous pension paid to rich and poor alike irrespective of other resources. Furthermore, according to OECD data, by 1984 over 40 % of public social expenditure (including health) was on old age cash benefits, i.e. National Superannuation (OECD 2004a; see figure 3). Therefore, changes in the level of the pension for some or all recipients would contribute significantly to a deficit reduction.

Shortly after coming into office, Labour introduced the surcharge, thereby ignoring a campaign promise not to change superannuation (McClure 1998: 214). Although technically the surcharge was merely a tax on additional income of superannuitants – on top of the regular income tax – the effect was similar to an income-test: Above a fixed threshold, additional income was taxed with an added 25 per cent up to the exact amount of the pension. Thus, in the first year, about 10 per cent of all pensioners lost their pension entirely, another 13 per cent had to pay back some of it in taxes. Even though the vast majority of pensioners remained unaffected, the surcharge became – and remained – one of the most unpopular social policy changes of the whole period since 1975. One reason was the uncertainty surrounding the surcharge, with frequent adjustment of the rate and basic allowance according to the budget situation governments were facing (see PRG 1997 for details).

The overall pension level relative to wages was not reduced during Labour’s first term; on the contrary, it was considerably lifted, even *above* the initial 80 per cent level (Preston 2001). By 1987, the government restored the 80 per cent ratio which remained until 1989 when the Finance Act 1989 introduced a new indexation mechanism: Superannuation was to increase in line with either wages or prices, whichever was growing

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<sup>7</sup> New Zealand was not the only country with a universal pension scheme to opt for a ‘claw back’: “Since the early 1980s, Australia, Canada, Denmark, Finland, New Zealand, and Sweden have all adopted some form of selective targeting to reduce formerly universal flat-rate benefits for high-income seniors” (Myles/Pierson 2001: 321).

slower, but within a band of 65 to 72.5 per cent of average earnings. Wage relativity was thus not completely abolished. As a result, even without nominal cuts, the level shifted downward at considerable speed during the early 1990s to just 69.6 per cent of average earnings by 1992 (Preston 2001). Further wide-ranging reforms such as a long-term rise in the eligibility age were announced by Labour in 1990, only months before the general election, but never implemented.

With regard to private and occupational pensions, New Zealand has been remarkable in that it removed all tax subsidies for these schemes in the late 1980s as part of the general tax reforms. A neutral tax treatment now applies for private retirement savings relative to other types of savings – except for home ownership – which is highly unusual in comparison to other OECD-countries (Yoo/Serres 2004). However, private provision for retirement has traditionally been weak in New Zealand. In the late 1980s, only about 15 per cent of those over 60 years had a private pension – mostly from occupational schemes – and many of the pensions were rather small (St John 1992: 130).

In family policy, Labour tried a novel approach and diverged even further from the traditional universal design than National did between 1975 to 1984. Starting off with Family Care, a wage supplement available for low-income family on a per-child basis in addition to the Family Benefit, the government attempted to target assistance more effectively. Only ‘working families’ with paid work of at least 30 hours weekly per household were eligible. However, take-up rates were very low (McClure 1998: 216), a pattern which repeated itself with the Guaranteed Minimum Family Income (GMFI), introduced two years later. Family policy under Labour was not aimed solely at working families. In 1986, together with GMFI, the government launched Family Support, a tax rebate to low-income families, which was to become the main family cash transfer over the years.<sup>8</sup> This shift towards means-tested benefits was intensified by the non-adjustment of the universal Family Benefit during times of high consumer price inflation. By 1991, it was worth less than 1 per cent of average wages (St John 2001: 3). However, the newly introduced Family Support was not inflation-proof, either. Consequently, its real value declined markedly during the late 1980s and up to the mid-1990s (St John 2004: 7).

For other programmes such as the Unemployment Benefit the Labour government maintained the restrictive stance of its predecessors and tightened eligibility even further. A range of subsidised employment schemes of the 1970s and early 1980s were scrapped in 1985 on grounds of possible market distorting effects and replaced by ACCESS, a training scheme, in 1987 (Higgings 1999: 262-263). In accident compensa-

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<sup>8</sup> Family Support replaced Family Care as well as the family tax rebates introduced under National, i.e. the Family Rebate, the Principal Income Earner Rebate and the Family Maintenance Allowance (Nolan 2002: 3).

tion, when faced with shrinking reserves in 1987, the government raised levies by over 300 per cent but left entitlements untouched (St John 1999a: 159). In health care and housing policy, Labour received a number of wide-ranging policy recommendations but in the end resisted major changes.

In sum, Labour did introduce social policy reforms, though far less radically than in the economic field. Most of the changes during their two terms in office aimed at retrenchment but not across-the-board retrenchment. The programme most affected was National Superannuation, the most generous – and therefore most expensive – universal scheme. The surcharge effectively led to means-testing the pension which can be seen as a watershed in New Zealand’s recent history. In family policy, Labour also shifted towards needs-based policies. Most of the other programmes, however, remained largely unaffected. With hindsight, Francis G. Castles and Ian Shirley see the Labour government “not so much as the executioner of New Zealand’s welfare state, but rather as its gravedigger”, paving the way for more radical retrenchment by subsequent conservative administrations (Castles/Shirley 1996: 89). Without the ensuing 1990s cuts, their verdict would probably have been less pessimistic.

After Labour’s re-election in 1987, internal tensions had intensified and finally conflicts over personal and policy issues led to David Lange’s resignation in August 1989. His successor Geoffrey Palmer also resigned after just over one year in office and was followed by Mike Moore who led the government during the two-month transition period until Labour’s crushing defeat in the 1990 general election. National won the election largely on the basis of voters’ disillusionment with Labour, a disillusionment that had been visible for some time (Vowles/Aimer 1993: 3). What was to follow were nine years of conservative rule with important consequences for the welfare state.

### **3.3 1990-1999: Conservative Retrenchment and Restructuring**

The 1990s, the first half of the decade in particular, can be seen as “the most radical reshaping of the welfare state in New Zealand since the Great Depression” (Boston 1992a: 15-16). In a relatively short period of time, the conservative government introduced significant changes in two respects. First and foremost, social welfare entitlements were changed in structure and level with the stated aim of converting the welfare state into a ‘modest safety net’ for the needy (Minister of Social Welfare Jenny Shipley as cited in Boston 1992a: 1). Secondly, the ways in which benefits and services were provided were considerably transformed in many fields, in line with theoretical models promising large efficiency gains. As in the preceding sections, I will focus on the first aspect, that is, changes on the *benefit side* and give only a brief overview about changes in the structural framework of provision.

National’s radicalism in social welfare policy after taking office surprised many voters as their election programme had been rather vague about their position on the wel-

fare state, with a promise to scrap the hated pension surtax and to keep spending in health care at the same level. However, senior members of the party – among them the incoming Minister of Finance Ruth Richardson – already pushed for a sweeping reform of the welfare state (Boston 1992a: 6).

In economic policy, National largely continued what Labour had started in the 1980s, with one major extension. In 1991, the Employment Contracts Act effectively dismantled the traditional system of wage setting which, under Labour, had seen only minor reforms. National opted for a highly decentralised system instead, based on individual employment contracts (Bray/Walsh 1998; Harbridge 1993).

Just like Labour in 1984, the National government had come into office in the midst of a renewed crisis. Unemployment was still rising and around the time of the change in office, the fiscal outlook had worsened considerably. Compared to the fiscal forecast on which Labour's last budget in 1990 was based, the revised figures of the Treasury's *Briefing to the Incoming Government* of July 1990 were much more pessimistic, with projected budget deficits of 4.8 per cent of GDP for the financial year 1991/92, rising to 5.7 and 6.3 per cent in the following years respectively (NZ Treasury 1990: 64; see Dalziel 1992). Politically, the fiscal crisis provided National government with a powerful justification for the benefit cuts introduced in 1991.

The two most important events in this respect were the announcement in December 1990, only weeks after the change in government, of an Economic and Social Initiative and the presentation of the 'mother of all budgets' in July 1991. Both initiatives included massive benefit cuts intended to reduce social welfare expenditure by NZ\$ 1.275 billion or 1.7 per cent of GDP in the first year (Dalziel/Lattimore 2004: 77). These measures were justified by Minister of Finance Ruth Richardson and Minister of Social Welfare Jenny Shipley on grounds of a fiscal crisis and unfavourable work incentives as well as with reference to principles of equity – for instance, when criticising the fact that up to now, too many transfers went not just to the poor but to large parts of the middle class. Political scientist Jonathan Boston points out, however, that the resulting cuts were not very much in line with National's stated philosophy, as universal benefits such as health care and education remained largely unscathed whereas programmes which were already highly targeted to the poor were attacked most thoroughly (Boston 1992b: 94-97; Waldegrave/Frater 1991).

The benefit cuts announced in December 1990 and July 1991 affected most working-age benefits such as the Sickness and Unemployment Benefit, Training Benefit and the Domestic Purposes Benefit.<sup>9</sup> Nominal benefit levels were cut by up to NZ\$ 35.40 a

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<sup>9</sup> The only nominal *increase* in the package concerned the Invalids' Benefit for married couples with children (Waldegrave/Frater 1991: 77, Table B.6).

week, i.e. up to 24.7 per cent of the initial level. The categories most affected included single young unemployed and single parents with one child (10.7 per cent reduction) (Stephens 1992; Waldegrave/Frater 1991: 77, Table B.6). In real terms, the cuts were even more drastic and even beneficiaries without nominal reductions experienced a decline in living standards because the regular inflation adjustments due in April 1991 were cancelled (see section 4 below).

Some benefits were completely restructured including family transfers which became fully means-tested for the first time since 1946. For low-income families, the value of the Family Benefit was added to existing Family Support payments, whereas higher-income families lost eligibility altogether. One theme of the benefit cuts was to shift responsibility back to the family: Payments for 20-24 year olds were reduced to youth rates and the eligibility age for the DPB for single parents and for unemployment benefits was raised from 16 to 18 years. Several retrenchment measures affected stand-down periods, eligibility rules and abatement rates for additional income (Stephens 1992: 109-110; Waldegrave/Frater 1991: 8-11). Furthermore, instead of automatic adjustments in line with inflation, benefits are now adjusted annually on a discretionary basis (St. John and Rankin 2002: 13).

For housing assistance, the early 1990s mark a turning point (see below for changes in the forms of provision). National phased out income-related rents for state houses and at the same time introduced a new Accommodation Supplement, an income and asset-tested cash transfer to help pay the – now significantly higher – market rents (Thorns 2000). In practice, however, the Supplement did not make up for the rent increases. As a result, the government subsidised a smaller share of a household's rent expenditure which, combined with the benefit cuts, hit many poor families extremely hard. People already in the private rental market who had hitherto received the Accommodation Benefit were made eligible for the Accommodation Supplement, too.

In terms of the distributional effects of the 1990/91 benefit cuts, Charles Waldegrave and Paul Frater calculated that both the absolute and relative impact was significantly higher for low-income families with children than for families fewer or no children and/or higher household incomes. Contrary to National's claim of greater targeting toward the really needy, they concluded that these policies must be viewed as "a strategy we associate with King John and the Sheriff of Nottingham" (1991: 59).

National attempted tighter targeting in health care, also. Primary care subsidies were reduced for higher income categories and increased for low-income earners and the chronically ill. New user charges for hospital visits, however, proved damaging in terms of public opinion and had to be abolished after only 13 months (Ashton 1999).

Accident Compensation, New Zealand's only public social insurance scheme, also came under attack from National. The 1992 Accident Rehabilitation and Compensation

Insurance Act considerably shifted the cost for accident insurance from employers back to workers. Among other things, the range of accidents covered by the employer-financed part of ACC was narrowed and the benefits available were reduced (St John 1999a: 162-165).

During the 1990 general election campaign, National had promised to abolish the unpopular superannuation surcharge. After a turbulent period of failed attempts to reach a multi-party agreement (St John 1992) and a first radical proposal on superannuation that was condemned by pensioner organisations such as Grey Power and Age Concern as well as by opposition parties and large parts of the public, National finally presented a plan that maintained the means test via the surcharge inherited from the Labour government. The government even increased the rate of the surcharge from 20 to 25 per cent and lowered the tax exemption threshold. The eligibility age was to increase step-by-step to 65 by 2001, starting in 1992. Pension indexation was suspended for two years and from 1993, the level was to rise in line with prices without being propped up by the ‘floor’ of 65 per cent of average wages Labour had introduced in 1989.

These reforms were highly unpopular, especially within National’s own constituency of support. In the run-up to the 1993 general election, in order to respond to voters’ concerns, National, Labour, and the Alliance – a merger of several left-wing parties – tried to secure the pension *status quo*. The aim was to avoid another election battle around this highly sensitive issue. The signatories of the ‘Multi-Party Accord on Superannuation’ pledged to retain a pension at age 65 (from 2001), indexed to the Consumer Price Index within a wage band of 65 to 72.5 per cent (couple rate) of average wages<sup>10</sup>. The surcharge on high-income pensioners – which by now affected over 30 per cent of superannuitants – should stay. Yet, the Accord’s effectiveness was weakened by the refusal of the populist New Zealand First (NZF) party to add their signature. This shortcoming proved to be fatal in the 1996 election campaign, when NZF, followed by all Accord parties except National, called for the return to a more generous pension scheme (St John 1999b: 184-288). Just before the election, even National had to give in and eased the effects of the surcharge by increasing the income exemption threshold markedly.

Apart from benefit retrenchment and tightening of eligibility rules, the National government introduced sweeping changes to the *structure of provision* of benefits and social services. These changes were part of an overall re-organisation of the public sector and the state apparatus, starting already under Labour (cf. Boston et al. 1991). Due to

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<sup>10</sup> In 1998, the short-lived National minority government under Jenny Shipley’s premiership, lowered the wage floor from 65 to 60 per cent of average wages. This change, however, was reversed by Labour in 2000.

their role as social services the organisational changes in health care, accident compensation and the housing sector proved to be particularly important in political terms.

In 1993, the conservative government sought to radically reform health care institutions by introducing a ‘purchaser-provider split’, thereby hoping to increase the system’s efficiency. Four Regional Health Authorities (RHAs) replaced the elected health boards and were to act as the main purchasing organisations, each with a single budget to buy primary and secondary health services and disability support on behalf of the population – three areas until then separately financed. In terms of the interface with patients, the change was just as radical: The government regrouped public hospitals and community services into 23 profit-oriented Crown Health Enterprises and made them compete with private hospitals, general practitioners (GPs) and voluntary organisations in an internal market for contracts with the RHAs (Ashton 1999). A number of further organisational changes – such as the creation of a new Public Health Commission – were part of the package, although some of them were never implemented (Easton 1994; Gauld 2001).

Housing policy saw a similar shift (Thorns 2000). The Housing Corporation, established in 1974 to manage the public housing stock and provide mortgage financing, was restructured: The housing stock was transferred to Housing New Zealand Ltd. (HNZ), a state-owned enterprise, while the mortgage business was privatised. HNZ was required to introduce market-rents and operate along commercial lines. When seen in conjunction with the introduction of the Accommodation Supplement, the basic rationale for National’s housing reforms becomes clear: “The reforms were designed to remove the state from its traditional role in the housing market as a provider of accommodation and finance, and to replace this system with a policy regime that purported to empower consumers to meet their own housing needs via income support” (Murphy 1999: 218).

The most recent shift towards a market-based model of provision occurred in accident compensation. From 1999, private providers were allowed to enter the market for insurance cover of work-related personal injury. Hitherto, the Accident Compensation Commission (ACC) had been the publicly owned monopoly provider (see section 2). Now employers were to choose a (private or public) company to insure their employees. The government did not, however, abolish mandatory work accident insurance altogether. This part-privatisation of provision was reversed by the incoming Labour-led government as early as 2000.

With respect to public opinion, National’s early retrenchment policies and the broken superannuation surcharge promises proved damaging. Public support for the Bolger government plunged to just over 20 per cent by late September 1991, about one year after the election (Boston/Dalziel 1992: x). Disenchantment with National was part of a wider dissatisfaction with the political process, ultimately leading to major changes in



the electoral system. When asked whether to change the electoral system in two referenda in 1992 and 1993, a large majority of New Zealanders voted in favour of replacing the single-member plurality (or ‘First-Past-the-Post’) electoral system with proportional representation. Interestingly, this constitutional reform was triggered ‘by accident’ during the 1987 general election campaign, when Labour Prime Minister David Lange unintentionally promised to hold a binding referendum on this issue – instead of a merely indicative one, as he intended. After Labour failed to deliver following its re-election in 1987, the conservative opposition tried to capitalise on this broken promise three years later and pledged to hold a binding referendum after a change in office. National won the election and, in 1992 and 1993, two referenda were held – one indicative referendum and eventually a binding vote. Ironically, in a unique conjunction between the dynamics of party competition, voter dissatisfaction and historical accidents, the two parties that benefited most from the old electoral system gave way to abolishing it. Many (e.g. Mulgan 1995) argue that New Zealanders changed their electoral system because they had become increasingly critical about the way governments could push through reforms at great speed and without much external consultation. During the post-war years, and largely due to the electoral system, governments in New Zealand were at all times supported by a single-party majority in parliament. Still, no single government between 1954 and 1993 was elected with more than a *plurality* of the popular vote. This is why political scientist Jack Nagel has termed the pure Westminster system ‘pluralitarian’ (Nagel 2000) instead of just ‘majoritarian’ (Lijphart 1999). In 1992 and 1993, a large majority of New Zealanders voted for a change, with the hope that future governments would reflect a bigger share of the electorate.<sup>11</sup>

Despite its low popularity, the National government survived the 1993 general election – the last one under the old plurality system – and it survived the following election in 1996. Even so, the government’s position had weakened significantly. In 1993 National gained only a razor-thin majority in the House of Representatives – which it soon lost as a consequence of defections from dissatisfied National MPs – and in 1996 it fell short of a single-party majority altogether. After lengthy negotiations, National and New Zealand First formed a coalition government.

The period between 1996 and 1999 – with National now governing in coalition with New Zealand First<sup>12</sup> – was characterised less by radical retrenchment than by cautious policymaking and even a number of significant *reversals*. Health policy – one of the key

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<sup>11</sup> There is evidence that this might not be the sole reason for change, and that dissatisfaction with the current government’s policies was another decisive factor (Levine/Roberts 1993, 1994; Denmark 2001).

<sup>12</sup> The coalition broke apart in August 1998, and National stayed in office as a minority government under the premiership of Jenny Shipley until 1999.

issues in the 1993 and 1996 general elections – is a case in point. The 1993 health reforms were widely regarded as a fiasco. Survey evidence of 1994 (Laugesen 2001: 136; cf. Donelan et al. 1999) shows that only around 10 per cent of respondents considered them a success against about 73 per cent calling them a failure.<sup>13</sup> Even 59 per cent of National voters thought so. But it was not only public opinion and the electoral outlook that worried politicians. It turned out that the new system did not produce the efficiency gains reformers had hoped for – in some areas it even performed much worse than the old system. As a result, the coalition watered down the quasi-market structure as early as 1997. The most important changes in this respect were the merger of the four RHAs into one single purchasing organisation, the Health Funding Authority (HFA), increased funding, and the abolition of the profit-orientation National had imposed on public providers in 1993 (Ashton 1999). Moreover, GP services and pharmaceuticals were made free of charge for children under six.

A second big reversal occurred in the field of pensions. From the outset, New Zealand First had campaigned against cuts in Superannuation in general and the surcharge in particular. Winston Peters, NZF's charismatic leader, refused to sign the Accord on retirement policies in 1993 and actively called for the abolition of the surcharge during the 1996 election campaign. As a result, his party received great support from pensioners, wealthy ones in particular. The 1996 coalition agreement with National included two features in pension policy that were central to New Zealand First. On the one hand, the surcharge, dubbed “the single most significant cause of political instability and public rancour” since 1985 (St John 1999b: 283), was abolished. On the other hand, there would be a proposal for individual compulsory saving for retirement that would be put to a referendum. A far-reaching proposal was worked out and eventually rejected in a referendum in September 1997 by an overwhelming margin of 91.8 per cent (Preston 1997).

One innovation of the 1990s was workfare. Here, New Zealand borrowed heavily from other English-speaking countries. From the mid-1990s, the government reinforced the workfare or activation approach towards beneficiaries (Higgins 1999). Work-testing had been part of social welfare legislation for a long time, but was seldom enforced with great vigour. Moreover, it applied only to the unemployed. There were a number of small training and active labour market schemes in place, albeit with little overall success in bringing the long-term unemployed into private sector employment. New groups were made subject to a work test: single parents, spouses or partners of beneficiaries, and people with a disability, sickness or injury (Mackay 2003: 104). The amount of

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<sup>13</sup> Miriam Laugesen, however, noted that “[t]he Government was often blamed for difficulties that were long-standing features of health care services in New Zealand, such as long waiting times for surgery” (2001: 136).

work that was expected from beneficiaries varied according to medical condition and the family situation. Furthermore, the new regime would be accompanied by more individual case management and some additional child care subsidies. Sanctions should ensure that the work tests were effective. Irrespective of its low popularity among beneficiary groups, there are doubts concerning extent to which the sanctions regime was actually enforced ‘at the street level’. There were also a number of changes on the benefit side: A new Independent Family Tax Credit (IFTC) for working families and new abatement rules for additional income were designed to ‘make work pay’ for beneficiaries (Mackay 2003: 105-106).<sup>14</sup> In 1998, the National/NZF coalition merged the unemployment and sickness benefit and – in the spirit of mutual obligation between the welfare administration and the individual beneficiary – renamed it ‘Community Wage’. Under the Community Wage framework, beneficiaries who did not find employment could also be required to take on community work, e.g. in the voluntary sector. However, there is no evidence that the Community Wage programme worked very effectively.<sup>15</sup> Admittedly, the scheme was not given much time to bear out the expectations. In 2000, the incoming Labour government disestablished many – but by no means all – of the elements of their predecessors’ workfare policies.

To sum up, the phase between 1990 and 1999 has seen the most turbulent struggle around New Zealand’s welfare state since the 1930s. The Bolger government’s first term, in particular, was a period of deep benefit retrenchment in virtually all areas of the welfare state. Moreover, driven by ideas about the superiority of market or quasi-market structures for benefit provision and service delivery, the health, housing and accident compensation sectors were extensively remodelled along these lines. From the mid-1990s, however, and particularly once National had entered a coalition with New Zealand First, the pace of change slowed down appreciably and some reforms were reversed, namely in pensions and health care, albeit only partially.

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<sup>14</sup> The IFTC – later renamed Child Tax Credit (CTC) – is important in that it provides significantly higher assistance than the existing Family Support, i.e. the assistance for families on other benefits (St John 2004: 7). Thus, the dual structure of family assistance, originating under Labour during the 1980s but with little real significance due to low take-up rates, was strengthened with this reform. In October 1999, the three tax credits available for working families only – the CTC, Parental Tax Credit and Family Tax Credit, the former GMFI – were amalgamated into the Family Plus package (Nolan 2002).

<sup>15</sup> In 2000, an internal evaluation of the Community Wage scheme carried out by officials under the National Government was made public by Labour. The study found no evidence that beneficiaries under the Community Wage scheme were more likely to enter into paid employment than others (“Damning report charts failure of work-for-the-dole scheme”, Press Statement by Hon Steve Maharey, Minister of Social Welfare, 16 November 2000, <http://www.beehive.govt.nz>).

### **3.4 1999-2004: A Third Way?**

The election of 1999 brought Labour back into power, now under the leadership of Helen Clark. The party gained 49 seats in the 120-seat parliament and chose to form a minority coalition together with the left-wing Alliance. The coalition was supported by the Green Party on confidence matters. In terms of party positions, Labour had moved back towards the centre-left during the time on the opposition bench and Helen Clark's campaign was characterised by promises to reverse many of National's reforms and to allow for more state intervention into the economy. The economic situation looked better than in 1984 or 1990. New Zealand had weathered the storm of the 1998 Asian crisis relatively well; unemployment began to fall again in 1999 and economic growth regained pace. What followed the election were two terms of centre-left rule under Prime Minister Helen Clark, first in form of a Labour/Alliance coalition until the Alliance broke apart in 2002. Since then, Labour has governed with the Progressive Coalition Party, a former Alliance member. At the time of writing, a continuation of a Labour-led government of some sort even beyond the 2005 election seems likely.

In contrast to the National/NZF coalition, social welfare policies under the Labour/Alliance and Labour/Progressive coalitions tend to be much more harmonious. The policy positions of the coalition partners indeed overlap quite considerably on these issues. As to the changes brought to the welfare state since 1999, the first term has largely been about reversing the retrenchment and marketisation policies of the 1990s whereas the second term brought about a number of fresh expansionary initiatives.<sup>16</sup>

Policy reversals occurred, for instance, in Accident Compensation where the Clark government restored the state monopoly in provision. With respect to housing, the government reintroduced income-related rents and repealed the profitability requirement for state housing. The Accommodation Supplement has been retained as the main instrument of housing assistance in the private sector and was increased in the 2004 budget (Murphy 2003).

A major U-turn took place in health care: The New Zealand Public Health and Disability Act 2000 established 21 District Health Boards responsible for both funding *and* provision of services in their districts, thus abandoning the purchaser-provider split of 1993. To a small extent, the private sector is still involved in delivery of public services but the reach of the controversial 'market model' is now significantly limited (Health Reforms 2001 Research Team 2003). With the current system, New Zealand seems to have come full circle, as it very much resembles the Area Health Board system legislated for under Muldoon and implemented during the 1980s. Boards are elected – rather

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<sup>16</sup> One of the measures during Helen Clark's first term was the partial reconstruction of collective wage bargaining with the Employment Relations Act 2000.

than centrally appointed – and given the task of achieving a better integration of services. A number of health strategies have been set up, e.g. the primary health care strategy (Ministry of Health 2001). The latter aims, among other things, at improving access to primary care for poor New Zealanders through a new subsidy regime based on primary health organisations (PHOs), i.e. associations of general practitioners and other primary care providers (Barnett/Barnett 2004).

The Labour-led coalition reduced some of the work obligations for the sick and for lone mothers but pursued the overall activation strategy. Furthermore, the government is increasingly trying to move beneficiaries into work through intensive case-management combining tight monitoring and a wider range of employment and training opportunities. To what extent the mix of ‘carrot’ and ‘stick’ elements really differs from the regime under National is, however, open to debate, particularly since many of the sanctions criticised by Labour were only seldom used under National. Despite the ‘activation’ rhetoric and many workfare reforms since the mid-1990s, New Zealand remains a rather ‘passive’ welfare state, with an emphasis on cash transfers instead of active labour market policies (OECD 2004b: 319-327).

As far as pensions are concerned, the government of Helen Clark restored the ‘wage floor’ of 65 per cent of average wages for New Zealand Superannuation in 2000, after the short-lived National minority government had lowered the floor to 60 per cent in 1998. Population aging was the motive when, in 2001, the government set up the NZ Superannuation Fund to pre-fund part of the future pension expenditure. Like all Western societies, New Zealand’s society is aging, less dramatically though than Continental Europe for example (NZ Treasury 2003a). Expenditure on Superannuation is projected to rise to just over 8 per cent of GDP (NZ Treasury 2003b), which would still be lower than the share countries such as Germany and France are already spending *today* on old age pensions. Without affecting individual pension entitlements, the NZ Superannuation Fund aims at smoothing the fiscal effects of this demographic shift. It is expected to begin paying out resources during the 2020s and about twenty years later, its payout will peak at 29.5 per cent of the projected cost of Superannuation (PRG 2003).

There is considerable continuity in social assistance and family policy under the current centre-left government. Comparative research has shown that in 2001, despite much activity around family assistance since the 1970s, New Zealand was still a laggard in terms of the value of the child benefit package typically given to low-income families (Stephens 2003). The continuing pattern of needs-based assistance with a dual structure consisting of basic safety-net type benefits and additional in-work tax-credits is still highly visible in the NZ\$ 1.1 billion ‘Working for Families’ benefit package announced in May 2004. Instead of restoring the 1991 benefit cuts, as called for by beneficiary groups, the government opted for a strategy aiming at strengthening incentives to work

for low-income families. The provisions of the package are to be phased in over a period of three years. The main instrument is the In-Work Payment (IWP), which in fact is the renamed and augmented Child Tax Credit, introduced in 1996 under the name of Independent Family Tax Credit by National. Apart from yet another change in the benefit name – a very popular practice among New Zealand governments – the IWP again draws a line between Family Support and assistance for working families.

Although ‘Working for Families’ is probably the biggest expansion of the welfare state since National Superannuation was introduced in the 1970s, the government has been criticised not only by market-liberals but also by pro-welfare state groups. Critics such as the Child Poverty Action Group point out that the package discriminates against children of beneficiaries (CPAG 2004). On the one hand, ‘Working for Families’ increases Family Support – i.e. the benefit available for all needy families, irrespective of employment status – and for the first time introduces automatic inflation adjustment for *all* major family benefits. Yet, on the other hand, critics argue that the package favours working families in particular because only working families will be eligible for the IWP. The government’s response to these criticisms is that stronger work incentives will push more people into paid employment, thus making them eligible for the IWP. In the end, even many who at the beginning were on Family Support will be much better off (*The Dominion Post* 15 November 2004).

The introduction of paid parental leave and the expansion of childcare subsidies also reflect the government’s will to make the combination of paid work and family life easier. Unpaid parental leave had already been introduced in New Zealand in the 1980s and only in 2002 did the government finally set up a comprehensive paid parental leave scheme which was enhanced further in 2004 to bring the country in line with current ILO standards (The Jobs Letter 2004). Childcare has grown significantly over the last decades. To a large extent, this trend was driven by increased demand. With about 40 per cent of all children aged 0-3 attending early childhood education today, the use of formal childcare is high by international standards. Although the government supports both providers – directly – and parents – through the Child Care Subsidy and the OSCAR subsidy (“Out of School Care and Recreation Subsidy”) – fees are still relatively high in most cases (OECD 2004c: ch. 4). As part of ‘Working for Families’, childcare subsidy rates are to increase by 10 per cent each in 2005 and 2006 in combination with higher income thresholds.

Recent social policy initiatives have been couched in terms of ‘social investment’ and equality of opportunity (Ministry of Social Development 2004a), echoing what is known as the Third Way of social democracy (cf. Dalziel 2001). The Ministry of Social Welfare was renamed Ministry of Social Development, emphasizing the shift from ‘redistribution’ to ‘investment’. The government is trying to develop a strategy where so-

cial policy is perceived as complementing and supporting rather than impeding economic development in an ‘inclusive economy’ (NZ Treasury 2001). This can also understood as an attempt to distinguish current strategies from Labour’s ‘more market’ rhetoric of the 1980s. To what extent this shift in rhetoric will lead to a clear shift in policy remains to be seen.

So far, the centre-left government has mostly worked at reversing some of the reforms of the 1990s and, with the 2004 ‘Working for Families’ package, even considerably expanded benefits for families.

**Table 2:** *Overview of Long-term Welfare State Development, 1975-2004*

<b>Policy Area</b>	<b>Overall Trend</b>
<i>Pensions</i>	Reduced eligibility and generosity within a universal framework
<i>Health Policy</i>	Decentralised organisation, expansion of private provision
<i>Labour Market/Social Assistance</i>	Reduced basic benefits; workfare and case management
<i>Family Policy</i>	From universal towards purely needs-based assistance, increasingly dual structure with additional in-work tax credits
<i>Housing</i>	From state-provided housing and subsidised financing towards income support and residual public provision
<i>Accident Compensation</i>	From a comprehensive social insurance framework towards more selective insurance

#### **4. HOW MUCH CHANGE?**

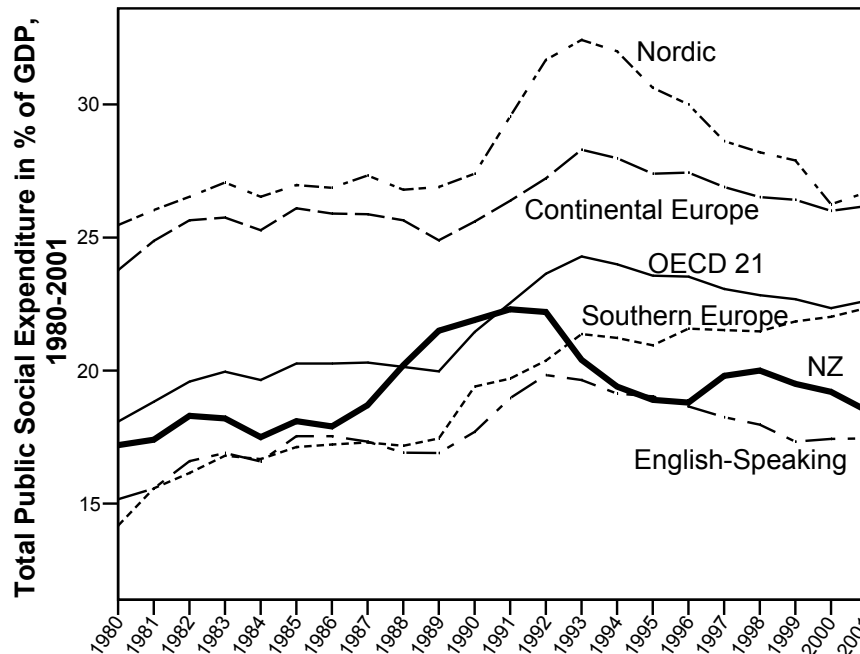
To what extent has New Zealand’s welfare state been transformed over the last 30 years? Can we identify a particular pattern of reforms? The historical narrative suggests that change has been quite substantial, with an expansion of the state’s role in the mid-1970s and then, from 1979, retrenchment, starting rather slowly but later – namely under the first Bolger government between 1990 and 1993 – carrying on much more radically. Table 2 sums up the long-term qualitative trends for the six policy areas examined here: pensions, health care, labour market and social assistance policies, family policy, housing and accident compensation.<sup>17</sup> Common to all areas are a reduction of levels of protection and a stronger targeting of benefits. The most radical structural shift took place in family assistance with a clear movement away from the traditional universal

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<sup>17</sup> Note, however, that in some areas, especially in pensions, there have been extreme short-term deviations from this long-term trend. In a flip-flop fashion, some changes have been introduced and then reversed.

approach towards purely needs-based support. The available aggregate data confirm the qualitative results.

**Figure 2: Social Expenditure Development, 1980-2001**



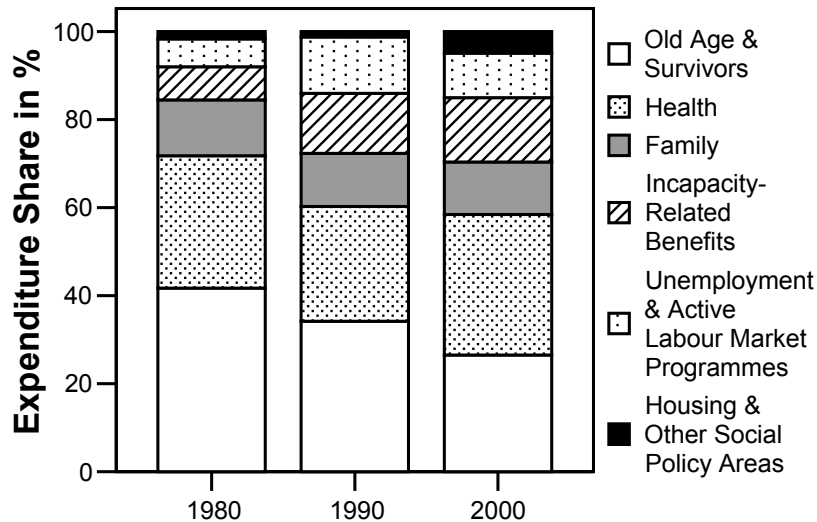
Source: OECD Social Expenditure Database (OECD 2004a). Note: Country groupings are based on the ‘families of nations’ concept (Castles 1998b and Obinger/Wagschal 2001). ‘English-Speaking’: AUS, CAN, IRE, NZ, UK, USA; Continental Europe: A, B, F, GER, NL; Nordic: DK, FIN, NOR, SWE; Southern Europe: GRE, IT, POR, ESP; OECD 21: all countries included in the families + JAP + CH.

At the moment, the OECD provides comparative data on public social expenditure between 1980 and 2001. Figure 2 shows New Zealand’s social expenditure development compared to the OECD mean and the mean values of four ‘families of nations’ (Castles 1998; Obinger/Wagschal 2001). The families of nations should be seen as heuristic yardsticks rather than rigid types. A second caveat concerns the expenditure dynamics themselves: There is ample evidence that social expenditure is determined to a large extent by socio-economic factors, particularly economic growth, the unemployment rate and the old age ratio (e.g. Kittel/Obinger 2003). Therefore, an increase or decrease in ‘welfare effort’, i.e. social expenditure as a percentage of GDP, is not necessarily the result of policy changes. This is clearly the case in New Zealand (see figure 1). Rising unemployment in the late 1980s can be regarded a crucial factor behind the increase in welfare effort. Unemployment peaked at around 1992, and this is when aggregate expenditure began to fall. As we will see, however, this sharp drop in the early 1990s was also due to benefit retrenchment. In comparison, New Zealand had a below-average expenditure pattern for much of the period between 1980 and 2001. Comparative research has shown a catch-up movement of former welfare state ‘laggards’ in social ex-



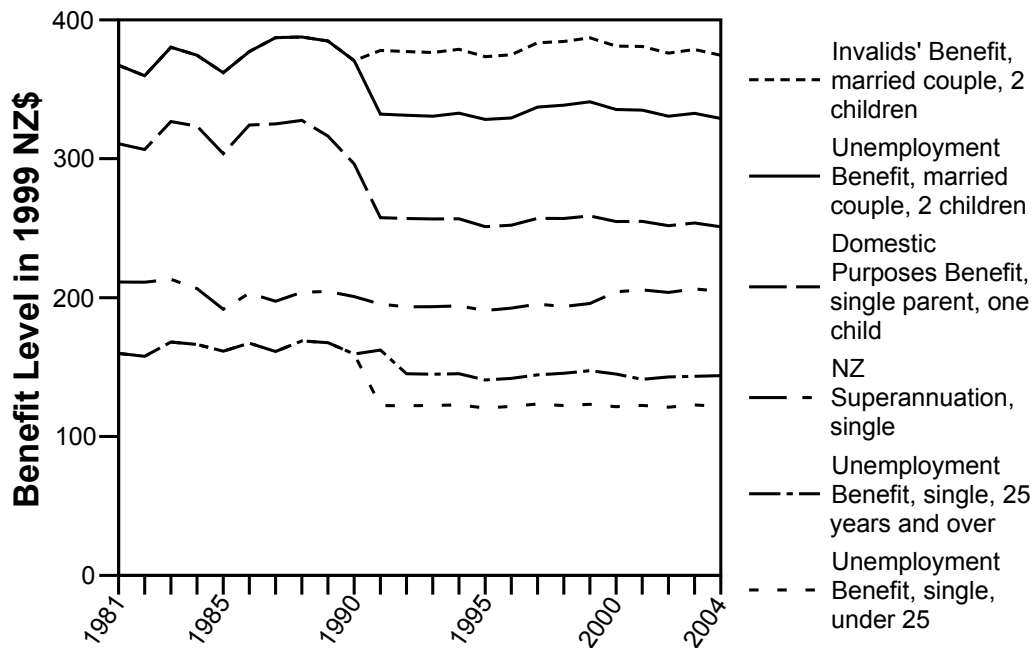
penditure which has taken place over the last decades (Castles 2004; Obinger et al. 2005). Yet, in New Zealand, twenty years of reforms have held back this upwards trend. Social expenditure in 2001 was only at around the 1980 level.

**Figure 3: Structure of Social Expenditure, 1980-2000**



Source: OECD Social Expenditure Database (OECD 2004a).

This indicates that reformers from the 1990s onwards have been partly successful in reducing welfare effort in New Zealand. Figure 3 shows where exactly this reduction was most prominent. According to the latest OECD data, the expenditure share going into old age and survivors' pensions has fallen noticeably between 1980 and 2000. In 1980, three years after the introduction of the costly National Superannuation, it stood at more than 40 per cent of total public social expenditure. Twenty years later its share was down to just over a quarter of total expenditure. This is highly unusual for a Western country. In 21 OECD countries, average expenditure on old age pensions as a share of GDP grew from 5.6 per cent in 1980 to 7.9 per cent in 2001. During the same period this share actually *dropped* in New Zealand – from 6.9 per cent to 4.7 per cent of GDP. Only Ireland and the Netherlands experienced a similar trend. In the case of New Zealand, policy changes account for this development, mainly changes in the pension adjustment mechanism and benefit level and, above all, the higher retirement age. For the OECD the decision to raise the eligibility age from 60 to 65 is “[b]y far the biggest step toward controlling future costs” of the pension (OECD 2002: 67). This is ironic, as for much of the period it was not the retirement age but the unpopular superannuation surcharge on rich pensioners which caught the public's attention.

**Figure 4: Selected Real Benefit Rates, 1981-2004**

Source: Benefit data provided by Kay Goodger, Ministry of Social Development; own calculation using Statistics New Zealand CPI index figures.

With respect to benefit levels, retrenchment is clearly visible. Figure 4 shows real benefit levels for selected categories over the period 1981 to 2004. Since all benefits are flat-rate benefits and usually not supplemented by comprehensive public social services, this figure provides a relatively accurate picture of the real value of benefits. Still, even though benefit levels are a key indicator of retrenchment, they do not reflect the changes in eligibility rules that took place in New Zealand. Thus, figure 4 is, if anything, likely to *understate* the real extent of retrenchment. What the figure does clearly show are the 1991 benefit cuts, a main turning point. Their impact was greatest for unemployed couples with children, unemployed youths and for lone parents.

Taking the qualitative and quantitative results together, we can conclude that, far from being 'resilient', the New Zealand welfare state has been scaled down to a considerable extent. Of course, it has not been completely dismantled. New Zealanders are still protected against the same range of risks as most people in other Western countries are. Some, such as low-income working families, will even benefit from higher assistance from 2005 onwards. In terms of its structural characteristics, the welfare state is still a mix of needs-based and citizenship-based programmes. Pensions and health care are still essentially universal schemes, and – with the longstanding but minor exception of accident compensation – social insurance-based policies are non-existent. Means-testing is now even more important than in 1975. Family policy has seen an outright shift in principle, from universal benefits towards means-tested assistance. This means that the 'liberal' elements in New Zealand's welfare regime have been strengthened, including

the ‘liberal’ characteristics in terms of social outcomes. Writing in the mid-1990s, economist Robert Stephens concluded: “The welfare state in New Zealand has been reformed and would certainly now be called a residual, or liberal model. This is not just based on entitlement rules for benefits, or input expenditures, but also on the outcomes of poverty and inequality in income, educational attainment and health status” (Stephens 1996: 490).

Now, how about ‘social protection by other means’? Does New Zealand still complement its liberal system of social security with a wage earners’ welfare state? The answer is no. Probably since the economic reforms of the 1980s and certainly since the 1990s, the wage earners’ welfare state has ceased to exist in New Zealand (Castles 1996). Trade protectionism is no longer actively pursued and the highly regulated wage setting system which once formed the basis of the ‘family wage’ was dismantled by the conservative government in 1991. A shift in emphasis had probably already been taking place for some time. The introduction of the family tax credits in the early 1980s, for instance, can be seen in this light, “as either a method for reducing poverty among low paid workers or allowing employers to reduce pay rates for competitive advantage reasons in the knowledge that the government subsidy will maintain take home pay” (Stephens 1996: 465). Already back then, poverty was no longer something to be tackled within the labour market but rather through income transfers. Some of the ‘demand’ factors behind the wage earners’ welfare state have undergone change, too. Although New Zealand is currently enjoying record-low unemployment rates, among the lowest rates in the OECD, full employment is no longer a permanent condition. Family structures and employment patterns have changed. Women have moved into the work force over the last decades and care work is increasingly provided by public and private institutions instead of the family. Next to the United States, the country has the highest rate of single-parent families in the world. This share has risen from 14.1 per cent in 1981 to 24.5 per cent in 1991 and 29.2 per cent in 2001 (MSD 2004b: 19). Home ownership, another important pillar of the post-war regime, albeit still high by international standards, is also in decline (PRG 2003: 37). Thus, although not all of the elements that once characterized the wage earners’ welfare state are completely gone, they do no longer form a coherent arrangement. Instead of regulating the market directly, the emphasis today is on market conformity of social policies. Stripped of its protective belt in form of a wage earners’ welfare state, the contemporary system of social protection could now better be described as purely *residual*.

## 5. CONCLUSION

New Zealand’s welfare state has not proven resilient to attacks. After numerous reforms – most of which retrenchment measures – it must now be called residual, or ‘liberal’. Not only has the ‘wage earners’ welfare state’ ceased to exist but individual entitle-

ments to cash transfers and social services have been lowered and based more clearly on the condition of need, too.

Even if the question as to what accounts for welfare state retrenchment cannot be fully answered in a case-study format, the New Zealand case still highlights a number of important points which are relevant for welfare state reform at large.

A ‘globalisation effect’ is clearly visible with regard to the demise of the wage earners’ welfare state. The highly regulated economy, with a ‘family wage’ to tackle inequality and poverty within the labour market, could only work under the conditions of trade protectionism. Tariff barriers and import licenses allowed employers to pay high wages even in sectors which were not internationally competitive. When Labour started to dismantle these trade barriers in the 1980s, the other pillars of ‘social security by other means’ started to crumble, too. This conclusion, however, is highly contingent on the specific political economy of Australasia. Globalisation should not be expected to have exactly the same effect in the OECD-countries of the Northern hemisphere.

The impact of domestic economic pressure should not be underestimated. In comparative research, economic performance indicators, especially unemployment (see table 1 and figure 1), have proved powerful determinants of welfare state change, with a positive effect on social expenditure (e.g. Kittel/Obinger 2003) and a negative effect on benefit replacement rates (Korpi/Palme 2003). In New Zealand, the ‘big bang’ reforms of the early 1990s coincided roughly with the peak in unemployment and a massive budgetary crisis. This does not mean, though, that welfare reforms are inevitable and follow a ‘logic of no alternative’. Economic problems might as well only make it easier to justify wide-ranging retrenchment to the public. Either way, a closer look at the motives of political actors is warranted; and this is where the position of parties and politicians on the ideological spectrum come into play.

There is one key reason why – despite economic problems – the National Party did not embark on a New Right course similar to Margaret Thatcher’s in the early 1980s: Prime Minister Robert Muldoon. He was a populist oriented towards the interests of ‘the ordinary bloke’ and, with respect to his policy positions, increasingly isolated within his own party facing an ever stronger market-liberal faction. Muldoon was “in the party, but not of it” (James 1986: 87). His relative success in general elections and his autocratic leadership style, though, prevented National from moving further to a ‘more market’ position. Surprisingly, it was Labour who made the move to ‘more market’ in the 1980s. Rogernomics entailed policies more suitable for a secular conservative party than for a traditional labour party. However, this shift to the right was far from being unanimously accepted among Labour politicians, a fact which became clear when Minister of Finance Roger Douglas proposed an overhaul of the welfare state. Apart from the cuts in pensions, the welfare state was largely shielded from retrench-

ment under Labour. This changed under National, by then under the influence of the neo-liberal faction around Ruth Richardson. But although large-scale retrenchment occurred, the window of opportunity for free-market reforms was short; Richardson was replaced as early as in 1993 and in 1996 New Zealand First entered cabinet.

The introduction of proportional representation (with a relatively low threshold) transformed New Zealand's party system pretty much as was expected. NZF was but one of a number of small parties that entered the arena during the transition period from 1993 to 1996. New Zealand First revived some aspects of the populism of the Muldoon years. While still a member of the Bolger government, NZF leader Winston Peters was already a strong critic of National's free market reforms, which lead to his dismissal from Cabinet in 1991. During the coalition, NZF forced National to move closer to the centre in social policy. To the left, under Helen Clark's leadership, Labour shifted away from the neo-liberalism of the 1980s and back to a more pragmatic position. Overall, ideological positions clearly did matter for social policy decisions during the period 1975-2004, though behind the party labels a great deal of volatility and internal strife were the rule.

Contrary to what might be expected in a highly centralised political system, 'blame avoidance' did not play an important role for retrenchment. According to some scholars, politics of welfare state retrenchment in democratic political systems have to be seen as 'the politics of blame avoidance' (Weaver 1986; Pierson 1994). Since entitlement cuts are deeply unpopular but politicians nonetheless want to be re-elected, 'blame avoidance' is indispensable whenever cut backs are on the agenda. Paul Pierson (1994) argues that, in this context, political institutions have an ambiguous effect on the potential for welfare state retrenchment. On the one hand, institutions may concentrate power in the hand of reformers who then do not have to compromise very much on their goals. On the other hand, concentration of power entails concentration of accountability and, because of the low popularity of cutbacks, governments may be unable to 'avoid blame' and thus shy away from deep cuts in order not to lose office.

New Zealand's almost prototypical Westminster system before 1993, with high concentration of power and accountability (with a 3-year electoral term), makes it a crucial case for Pierson's institutional claim about retrenchment. There is no doubt that retrenchment in New Zealand was unpopular; the fate of the superannuation surcharge is a case in point. However, politicians do not seem to have been trying to hide the cuts in technical details; most of the time they were clearly visible to the public (cf. Mackay 2003: 88). Although it became evident that the 1991 'Mother of all Budgets' was not an election-winning formula, the National government under Prime Minister Bolger, with the clear will to cut back entitlements, used the opportunities provided by the centralised political system and pushed the reforms through. Although 'blame avoidance' may

have taken place in other countries, the case of New Zealand casts doubt on the claim that it helps explain *why* retrenchment does or does not occur. There is little evidence of an ‘accountability effect’. The ‘concentration of power effect’ seems to be more important. One could argue, however, that the failure to avoid blame ultimately led to electoral system change.

In theory, the change in the electoral system from First-Past-the-Post to proportional representation (PR) can be regarded as a social experiment, a unique opportunity to study the effects of electoral system changes. When it comes to policy effects, there is no agreement in the literature on what to expect from the new electoral system. It is unclear whether PR – particularly in terms of the usual consequences for party systems and cabinet types – matters at all for social policy (Armington 2002; Boston 1994; Castles 1994; but see Persson/Tabellini 2003). In the language of veto player theory (Tsebelis 2002), PR makes multi-party governments, and hence the presence of a higher number of veto players (i.e. the coalition partners), more likely. As a result, radical policy change becomes less likely, *ceteris paribus*. In the case of New Zealand, with New Zealand First entering cabinet in 1996, the number of veto players increased by one. As already mentioned, the policy distance between National and NZF on welfare state issues was considerable. Arguably, the chance for wide-ranging retrenchment was therefore significantly diminished. NZF’s great influence on policy must also be seen in the light of the particular election result in 1996 that gave them the role of a pivotal party and ‘king maker’ (Boston/McLeay 1997; Brechtel/Kaiser 1999). This position allowed NZF to move policy – particularly social policy – towards the centre. From 1998, coalition governments have been the rule, too, but the two centre-left minority governments since 1999 have contained parties that were whose policies were much closer to each other. Here, the ‘stabilising effect’ of more veto players should be less visible. Hence, what we can see is that the policy effects of the electoral system change are far from straightforward and probably interrelated with the issue of party competition and government formation.

On the whole, this discussion demonstrates that an explicitly multicausal explanation – taking the economic situation, party ideologies and the effects of political institutions into account – is necessary. More attention should be paid to the motives for reforms, namely economic pressure and partisan ideology as well as possible interaction between these two variables. Quantitative research on comparative welfare state development has indeed shown that most of the time single factors account for only a fraction of what is going on. Of course, this is something qualitative researchers should not ignore, either.

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## APPENDIX

*Table 3: Overview of Major Reforms, 1975-2004*

Year	Reform
<b>1975-1984: The Muldoon Years</b>	
1976	National Superannuation: Universal pension at age 60
1976-83	Introduction of various tax rebates for families
1977	Domestic Purposes Benefit reductions
1979	Calculation base of pension reduced from gross to net average wage level
1979	Last increase of the universal Family Benefit before its abolition in 1991
1979	1979 Budget: some benefit reductions
1982	ACC replacement rate reduced, higher maximum lump-sum compensation in some cases
1983	Area Health Boards Act: decentralisation of the health sector
<b>1984-1990: First Cuts Under Labour</b>	
1984	Family Care: wage supplement for low-income families
1984-89	Establishment of 14 Area Health Boards (AHBs)
1985	Superannuation tax surcharge: claw-back tax on higher-income pensioners
1985	ALMP and wage subsidy schemes replaced with a single training scheme (Access)
1986	Family Support and Guaranteed Minimum Family Income: Means-tested family tax credits
1988-90	Tax concessions for private and occupational pensions abolished
1989	New pension indexation formula to curb future increases
1990	Government announces rising pension age
<b>1990-1999: Conservative Retrenchment</b>	
1990-91	Major benefit cuts
1991	Family Benefit abolished
1991	Pension: Eligibility age to rise to 65 until 2001; increased claw-back through surcharge; no inflation adjustment in 1991 and 1992
1991	Employment Contracts Act: Deregulation of industrial relations
1992	User charges for hospital services – abolished in 1993; tighter targeting of health subsidies
1992	Accident Compensation: various retrenchment measures
1993	Health and Disability Services Act: comprehensive reorganisation of the health sector; purchaser-provider split, quasi-market, opening up to private providers
1993	Accommodation Supplement: targeted benefits in housing instead of income-related rents
1993	Multi-party Accord on Superannuation
1996	Independent Family Tax Credit: tax-credit for working families
1997	Health reforms: partial reversal of the profit-oriented structure introduced in 1993; free GP services and pharmaceuticals for children under six
1998	Superannuation surcharge abolished
1998	Community Wage: workfare scheme for the unemployed and sickness beneficiaries
1999	Privatisation of accident compensation – reversed in 2000
<b>1999-2004: Reversal and Reconstruction</b>	
2000-02	Reversal of reforms in housing, pensions and accident compensation; repeal of tough work tests for lone mothers and sickness beneficiaries
2000	Health policy: purchaser-provider split abolished
2001	NZ Superannuation Fund to pre-fund part of the future pension expenditure
2002	Paid parental leave
2004	Working for Families package: Expansion of family benefits and childcare subsidies

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