

Social Policy Responses to Globalisation in Australia and New Zealand, 1980–2005

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This paper examines the changing nature of social policy and social inequality in Australia and New Zealand from the 1980s to the mid-2000s. In response to pressures of globalisation both countries pursued neo-liberal economic policies as they opened up their markets during terms of both conservative and Labor governments. However, poverty and inequality increased more in New Zealand than in Australia. The use of market-oriented policies and the pace of their introduction in New Zealand were more aggressive than in Australia, as was the way in which social policy was used to reinforce rather than ameliorate increased inequality and poverty. By the mid-2000s there were signs that Australia was catching up on both fronts, but in the meantime New Zealand's hardline position had softened. This may suggest that pressures from globalisation are difficult to resist in the long run, but there may be lessons to be learned from the New Zealand experience if more negative outcomes are to be avoided.

Introduction

New Zealand and Australia share a similar colonial past and many common cultural and social characteristics. As small Antipodean trading countries they have both been exposed to economic pressures from globalisation that have had implications for

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social policy. The question we ask here is whether they have responded differently and, if so, whether these different responses are ultimately sustainable.

Historically, it is clear that different policy trajectories can develop and do impact differently on key indicators of the distribution of well-being, especially poverty and inequality. Here we are particularly interested in how the governments in New Zealand and Australia have responded to globalisation with social policies that either reinforce or ameliorate market-based inequalities and the factors that may have affected the adoption of particular policies.

Three factors might contribute to variation in social policy responses to globalisation. First, different political ideologies of the parties in office can influence the nature of policy responses to increased inequality. Second, there are differences in starting points which relate to the role of existing institutions in affecting the capacity and interest to adopt different policies. Third, there are differences in the use of neo-liberal economic and industrial relations policies that affect the extent to which social policy is required to undertake a compensatory role and the consequent pressure this places on social policy responses.

The second section discusses ideas and issues pertaining to policy choice and convergence under conditions of increasing globalisation and their relevance to Australia and New Zealand. The third section briefly describes each country's policies, and the fourth section compares outcomes. The final discussion relates these outcomes to the three key differences, returning to the question of whether differences both in policies and outcomes are sustainable and speculates on whether there are lessons from the Antipodean experience.

Globalisation: Choice or Convergence?

Globalisation is a complex phenomenon, with economic, political and cultural dimensions. At the centre are economic pressures stemming from trade liberalisation and increased international competition driven by technological change and growth of the knowledge economy. But political globalisation as reflected in regional groupings, American power, and the influence of global institutions such as the OECD and the IMF may also compromise the self-determination of individual countries. Moreover, as Giddens (2000, 2001) suggests, there are also powerful influences that stem from a cultural globalisation of ideas and values. Thus the process of globalisation results in the dissemination and transfusion of ideas that attain significant global social policy currency. Individual countries can both contribute to and be influenced by this process.

With respect to social policy it is clear that the focus on 'welfare dependency' and 'social exclusion' has been an important aspect of the process of cultural globalisation, and led to an acceptance of the need for 'active welfare' including the promotion of work as the most important way to reduce poverty. Such social policies, when combined with market-oriented or 'neo-liberal' economic policies, may be regarded as the core of the 'third-way' policy approach (Giddens 2001). In essence, that approach provides a middle ground between 'social democratic' interventionism and neo-liberal policy minimalism. In 'third way' or 'enabling' welfare states (Gilbert 2002), the aim of social policy is to prioritise and promote capacities to respond to a new economic and social world in which risk and uncertainty are present. Individuals must learn to cope with the new risks inherent in a globalised economy rather than, as in the past, rely on the 'passive welfare' afforded by state provision.

The view that policy choices are limited and some kind of convergence is inevitable is based on a perception that globalisation leads to a 'hollowing out of the national state' (Jessop 2003). International competitiveness creates pressures for labour market deregulation, constrains or reduces taxes on mobile factors of production (companies, capital and high-skilled individuals) and, by limiting the tax base, also restrains social expenditure. At the same time, the reduced capacity for some workers to support themselves increases pressures especially in the welfare system. Thus, globalisation both increases market-based inequalities through increased labour-market inequality and also places pressure on the capacity of governments to ameliorate them through tax policy and transfer payments and services.

Not all authors are agreed on the negative social policy impact of globalisation. One view is that there is considerable and persistent divergence between countries in the way they have responded to globalisation and that such divergences are substantially attributable to past institutional arrangements and to current government policies (Weiss 2003). Continuing high levels of social expenditure and considerable differences in levels of poverty and inequality provide support for this view and challenge the idea of an inevitable globalisation-induced 'race to the bottom' in social spending. An alternative view (Castles 2005a) suggests that, although expenditure patterns over recent years have been broadly convergent, the trend is not, in fact, towards the bottom, but towards generally higher levels of spending and a greater salience of welfare state objectives.

Poverty rates are the proportion of the population in relevant households with less than 50% of median equivalised disposable income at around 2000. Child poverty is the proportion of children in households with less than 50% median after-tax income. Note that the poverty figures for New Zealand have been officially corrected (Perry 2005).

Table 1 provides information on a variety of social policy indicators at around the turn of the millennium, with lower levels of spending and higher levels of poverty

Table 1. Indicators of social outcomes and policy difference in selected OECD countries around 2000

Country	Relative poverty (%)	Child poverty (%)	Income inequality (Gini)	Public social spending (% GDP, 2001)	Total net social expenditures (% GDP factor cost, 2001)	Proportion of government transfers to bottom three deciles	Taxation revenue (% GDP, 2002)
Australia	11.2	11.6	30.5	20.4	24.0	37.2	32.6
Canada	10.3	13.6	30.1	20.4	23.3	22.0	39.2
Denmark	4.3	2.4	22.5	34.2	26.4	36.1	52.2
Finland	6.4	3.4	26.1	28.0	22.6	31.3	48.4
France	7.0	7.3	27.3	33.0	31.2	27.6	
Germany	9.8	12.8	27.7	30.6	30.8	22.3	43.5
Japan	15.3	14.3	31.4	18.5	22.1	15.7	29.9
The Netherlands	6.0	9.0	25.1	24.3	25.0	29.8	41.9
New Zealand	9.8	14.6	33.9	21.1	18.2	31.2	39.1
Norway	6.3	3.6	26.1	27.0	23.6	43.8	56.3
Sweden	5.3	3.6	24.3	35.1	30.6	29.5	54.6
UK	11.4	16.2	32.6	25.4	27.1	34.7	38.3
US	17.0	21.7	35.7	15.7	24.5	17.6	29.8

Note:

The exact year for individual countries may vary.

Source: Keating (2004); OECD (2005); Adema and Ladaique (2005).

and inequality in the English-speaking countries indicative of these countries' more market-oriented response to recent globalisation pressures (Pakulski 2004). Nevertheless, significant differences remain even within the English-speaking group. Looking at Australia and New Zealand, the net total social expenditure/GDP ratio in 2001 was 24% in Australia compared to only 18.2% in New Zealand (Adema and Ladaïque 2005) suggesting that support for the welfare state may be significantly higher in Australia than in New Zealand.¹ This difference may in turn be reflected in the social indicators of poverty and inequality which are more favourable in Australia.

This difference has arisen despite the close ties between Australia and New Zealand and strong similarities in their historic institutional arrangements. Both countries belong to the Commonwealth and have strong British cultural traditions (Finer and Smyth 2004). Other similarities include welfare arrangements in large part premised on compulsory wage-setting arrangements and a history of economic dependence on Britain, increasing these countries' vulnerability to external global forces, combined with a no less prominent history of industry protection designed precisely to keep external economic forces at bay (Castles and Shirley 1996).

Nevertheless there are significant political differences between the two countries, both constitutional and institutional: New Zealand has a unitary government with a unicameral parliament, while Australia has a federal system and bicameral national parliament. This helps to explain why policy change can be both much faster in New Zealand and much more extreme. There are also differences in the character of the countries' electoral systems, the structure and affiliations of political parties, their historic stance on policy issues and their current ideological positions. There are also more general differences in policy legacies between the countries. In a social policy context, a particularly significant difference has been the greater emphasis on universal provision in New Zealand than in Australia, with major implications for the structuring of both retirement income and accident compensation policy. There were also marked differences in the priorities and timing of policy initiatives by the ruling Labour governments in the 1980s. As Hazledine and Quiggin point out in their contribution to this special issue, protections in the manufacturing and agriculture sector were removed in New Zealand far more rapidly than in Australia. When the New Zealand economy failed to respond as expected, poor outcomes were blamed on the fact that the labour market had not been exposed to forces of competition. However, the aggressiveness of labour market reforms once they were undertaken were in turn implicated in New Zealand's poorer social outcomes in the 1990s.

According to Cass (1996), Australian social policy reforms in the 1980s provided a greater degree of social protection and responded more appropriately to a changed economic and social environment than was the case in New Zealand. Examining 'the great reform experiment' of the 1980s, Castles and Shirley (1996, 105) conclude that 'some modest case can be mounted for Labor in Australia as refurbisher of the welfare state'. Their verdict on the fourth Labour government in New Zealand is less

¹Net social expenditures adjust gross public social expenditure for taxes and mandatory private provision and give a much fuller picture of government's involvement in the welfare state. Along with employment opportunities, these expenditures impact on living standards and on social outcomes such as poverty and inequality, which are the main focus of this paper. Nevertheless, it should be noted that they are not always a good indicator of government's efforts to reduce inequalities. For instance, mandated private pensions are not redistributive and may reinforce inequalities in old age.

sympathetic, claiming that it may have been a 'gravedigger', preparing the way for large reductions in welfare payments and reduced service access under the National Party government in the 1990s. The nature of the differing policy responses in this latter period is the subject matter of the next section.

Policy Development

New Zealand

In New Zealand, individualised market-based thinking in the Treasury had been fomenting long before 1984. The incoming Labour government embraced the Treasury vision and embarked on a radical programme of economic restructuring, privatisation and deregulation (Easton 1997a, b; Jesson 1999; Kelsey 1993, 1997). While economic policy rather than social policy was the major focus of this period, the turn of social policy was to follow. As just noted, the foundations for an aggressive round of welfare state reforms had already been put in place by the fourth Labour government (Castles, Gerritsen and Vowles 1996). The promised 'return to the decent society' by the Bolger National government, in fact, marked the intensification of Labour's neo-liberal reforms (Boston, Dalziel and St John 1999; Easton 2005).

In the early 1990s, there were major moves to dismantle the traditional New Zealand system of welfare provision, with all the individualistic rhetoric of, but a great deal more policy substance than, the earlier Thatcher reforms in the United Kingdom. Welfare benefits were cut, user pays for health and education, and housing reforms based on market rents were introduced (St John and Rankin 1998, 2002; Stephens, 1999). Far from the 1970s ideals of participation and belonging, the social policy of the early 1990s was driven by concepts of self-reliance, targeting and a movement away from universal provisions of all kinds (Boston and St John 1999). Cutting government spending was not the main reason given for these changes. Rather, using the shrillest rhetoric of the enabling society, it was claimed that the welfare state created poverty by encouraging state dependency and that lower social welfare benefits and tighter targeting were required to push dependent people into finding paid work.

The legacy of the National government in the early 1990s was widespread disillusionment with 'first-past-the-post' electoral outcomes. The electoral system was changed to MMP (mixed member proportional voting) and a Coalition government was formed in 1996 between National and New Zealand First. The next three years of the National government saw a further undermining of the welfare state with a sharp emphasis on work incentives and welfare-to-work policies. In general, the position of the old had been relatively protected during the 1990s with the state pension (for those over 65) given a reprieve from the general welfare cuts in 1991 and eventually made fully universal in 1998. However, in late 1998, the National government attempted to reduce the pension by lowering the floor of wages to which it was tied (St John 1999).

The installation of the Labour minority government in 1999 did not represent a major turning point in social policy, yet in the first year some well-signalled reversals did take place. The accident compensation scheme that had been partially privatised in 1998 was renationalised, the wage-related floor of the state pension was restored and cemented into legislation, the minimum wage was raised and income-related

rents were introduced for state house tenants. Welfare-to-work policies were reversed and health care reforms to increase access to primary care introduced. But there was no going back to reinvent Labour as a clear party of the Left. Thus, there was to be no attempt to reform the welfare benefit system or to restore the benefit cuts. Nor was there to be a return to the principles of allowing beneficiaries to participate and belong, as enunciated by the former two Royal Commissions (Royal Commission of Inquiry on Social Security in New Zealand 1972; Royal Commission on Social Policy 1988).

Nevertheless, the terms 'social inclusion' and 'social capacity' and even 'poverty' began to enter into the official discourse. But economic growth and enhanced work opportunities were seen as the way to solve the problem of poverty, not 'passive' welfare. New Zealand Treasury deliberations reflect these ideas (2001, 62):

While acknowledging New Zealand's strengths, it is not difficult to point to areas in which New Zealand currently falls short. Average material living standards have fallen relative to most other OECD countries; income inequality increased particularly in the late 1980s; the incidence of household poverty is too high; there are wide gaps in ethnic averages across a range of social indicators; there are poor outcomes in health and education among lower socio-economic groups; there are quite sharp divisions in values and attitudes on key socio-economic issues; and there are institutional weaknesses that trouble Crown-Māori aspirations and our levels of social capability more generally.

The emphasis on an active enabling approach to welfare is clearly apparent:

An 'active' approach to raising low incomes through policies that improve education and labour-market opportunities in the lower part of the distribution offers the best prospect to make a difference to distributional outcomes over the medium term. (New Zealand Treasury 2001, 11)

While few new social policy initiatives were enacted during the 2002–05 term of the Labour-led government it was apparent that poorer families with children had been neglected for most of the 1990s and an unacceptable level of poverty had emerged. A significant new package called Working for Families was announced in the 2004 budget (St John 2004). The clear emphasis of these reforms, to be rolled out between 2005 and 2007, was to reward work with an extensive use of work-related child payments. Although child poverty is projected to decline (Perry 2004), children who are brought up in benefit-dependent families have been left relatively further behind (St John and Craig 2004).

The period from 1999 to 2005 was one of strong inward migration, historically and internationally exceptionally low levels of unemployment, low inflation and strong economic growth. A fiercely fought election in 2005 saw both major parties offer spending inducements; Labour in the form of interest-free loans for students and further improvements in tax credits for working families; National, in the form of tax cuts for all. After protracted negotiations with minor parties a Labour/Progressive government emerged with accommodations on supply and confidence with the conservative parties, United Future and NZ First.

While the Labour government has attempted to redress some of the inequities of the welfare reforms of the 1990s, the entrenched nature of the emergent poverty has made this a difficult task. In the mid-2000s, harsher economic winds were beginning to blow; the low unemployment figures masked a problem of low-wage

casualised work with few protections for workers; the overheated property market was slowing rapidly along with net immigration; interest rates were rising even though they were already the highest in the developed world; and social unrest in ethnically diverse areas such as South Auckland was beginning to erupt. The political accommodation with the Centre-Right that was the outcome of the 2005 election portends a period of slower reduction to the social inequalities inherited from the 1990s.

Australia

Between 1983 and 1996 successive Australian Labor governments adopted market-oriented economic policies accompanied by targeted, compensatory social policies. In contrast to New Zealand, changes to taxation, government transfer payments, and improved service provision either entirely offset, or at the very least substantially moderated, the increase in inequality of market incomes over the period (Harding 1997; Johnson, Manning and Hellwig 1998). 'Social wage' improvements included better access to and affordability of key services such as health and child-care and large increases to payments for low-wage and jobless families with children. 'Active society' measures were introduced in a modest and generally positive way to limit the growth of poverty and inequality. However, the targeted, compensatory social policy approach still had its critics, as Smyth (2006) comments:

Nevertheless the goals of social policy were increasingly redefined and expectations minimised in a policy pattern dominated by the market-based approaches to restructuring. Indicative of the narrowing space occupied by social policy was the controversy accompanying the increased targeting of welfare ... The ever-increasing resort to targeting invited that decline in legitimacy specified by the critics, a decline which accelerated at the end of the century. (Smyth 2006, 109)

By the mid-1990s there was growing resentment of Paul Keating's Labor government. A slow recovery in job growth following the recession of the early 1990s meant continuing high unemployment in many working-class areas. The forces of globalisation were seen as having been embraced rather than resisted, and many struggling Australians missed out because of the tight targeting of government payments. The Howard Liberal government won the 1996 election after expressing concern for the fate of the 'battlers', but with little policy detail. Echoing the post-election behaviour of the Bolger National government in New Zealand, neo-liberal economic policies were expanded and enhanced along with a socially conservative orientation in social policy. This involved market-based approaches to social service delivery and private financing in health, education and community services, individual self-reliance, family and community initiatives, and a greater emphasis on philanthropic effort by business.

The Howard government's first budget contained significant cuts to services, including a 30% cut to labour-market programs (Disney 2004) and community-based child-care services. The trend from universality towards a clear public/private divide in many areas meant that most expenditure increases were directed to support private-sector expansion and use, often through tax concessions such as the Private Health Insurance Rebate. However, many low-income families also benefited from increases to child-related payments.

Despite a moderation in the growth in earnings inequality due to strong economic and employment growth, there was little change in disposable income inequality

(Australian Bureau of Statistics, 2004, 2005) and it appears that government action became less redistributive (The Allen Consulting Group 2004). Between 1995 and 2000 poverty increased overall and also for children (Harding, Lloyd and Greenwell 2001), although child poverty may have declined slightly since then (Scutella and Smyth 2005).

Tax changes were dominated by the introduction of a 10% GST in 2000, some 14 years after the GST was introduced in New Zealand. Strong economic growth together with the broadening of the consumption tax base enabled a slight but steady increase in taxation to around 33% of GDP. This provided the capacity for the government to give income tax cuts in 2004 and 2005 (with more planned for 2006), directed primarily at high income earners.

As in New Zealand, strong economic and employment growth over the latter part of the 1990s and early 2000s contained the growth in the inequality of earnings as unemployment and joblessness declined. There were also real increases to minimum wages awarded by the Industrial Relations Tribunal.

But significant inequalities in employment, income, education, health and housing remained. The casualisation of the labour market, which commenced under Labour, continued through the 1990s and most of the jobs growth over that decade was in part-time rather than full-time work. The significant impact was the loss of full-time jobs for prime-aged males. Keating (2004, 115) has calculated a decline in full-time employment for men aged 45–54 and 55–64 of between 16% and 32%, respectively.

Significant shifts in the social policy discourse became apparent during the latter part of the 1990s. Issues such as poverty and adequacy lost currency. For individuals the focus shifted to the problems created by welfare dependency and social exclusion, and for communities to problems of declining social capital and entrenched social disadvantage. Supporting community and family strengthening, and promoting welfare to work emerged as the main policies to promote inclusion, with participation (in paid work) taking priority over adequacy as the main goal of income support. Action to promote ‘whole of government’ responses to the ‘wicked problems’ of homelessness, entrenched joblessness and drug addictions also emerged as the period progressed.

‘Mutual obligation’, whereby welfare recipients were expected to do something in return for their payment, was introduced and made income support payments less ‘rights-based’ and much more conditional on the participation of defined activities, such as training programs and ‘Work for the Dole’. Initially introduced for younger unemployed people, over time mutual obligation has been extended to most groups, apart from those on the Aged Pension, and those who are severely disabled or caring for very young children.

Further welfare reform legislation in 2005 proposed large cuts in income support payments for new applicants who are single parents (with a youngest child aged over eight years) or have a disability and are able to work more than 15 hours per week, which will come into force from July 2006 onwards. The cuts range from a minimum of \$29 per week to almost \$100, depending on the number of hours worked (Harding et al 2005a, b). These requirements represent a shift in policy orientation towards changing behaviour through incentives and compulsion and away from meeting basic needs on a common basis. Similar shifts have occurred in the policy approach to indigenous people and to refugees. Thus different groups could be treated differently according to whether they required compulsion or encouragement to be in paid work.

In a policy shift reminiscent of New Zealand over a decade earlier, industrial relations changes also legislated in 2005 further substantially deregulated wage fixing, with a reduction in workers' entitlements to five basic conditions, the removal of the role of arbitration (the Industrial Relations Commission) in the setting of award and minimum wages, exemptions for some employers from unfair dismissal laws, and changes away from collective bargaining towards individual contracts. The Howard government's Senate majority from July 2005 onwards provided the political means for previously blocked changes to industrial relations and income support entitlement to pass through parliament, heralding a much tougher approach in these areas and an historic move away from a system of social policy based on compulsory wage regulation; that is away from the traditional Australian conception of the 'wage-earner's welfare state'.

To summarise: New Zealand's earlier shift to a free-market economy and a deregulated labour market under a National government in the 1990s, together with social policies that reduced protections, resulted in a faster growth of inequality and poverty than in Australia. In Australia a more modest adjustment to global pressures is evident, reflecting the greater strength of the organised labour movement in that country and the blocking effect of its federal institutions (see Castles, Gerritsen and Vowles 1996; Castles 2005b). However, since the turn of the millennium, the conservative government in Australia has gained the power to implement the same kinds of policies that the New Zealand Labour government is now attempting to reverse.

Outcomes to Date

Australia's and New Zealand's divergent policy responses and policy timing are reflected in significantly different outcomes for inequality and poverty. On the one hand, as Table 1 clearly demonstrates, New Zealand has become far more unequal than Australia, with the latter directing a higher proportion of government transfers to the bottom three deciles. On the other hand, family joblessness, long-term unemployment and unemployment have all been lower in New Zealand (Whiteford 2005).

Low-income children and struggling families fared better in Australia, and the differences in social outcomes in relation to child poverty stand out as the starkest differences between the two countries. Moreover, unlike New Zealand, where child poverty rose steeply in the early 1990s, in Australia, child poverty rates actually declined after the early 1980s (Harding, Lloyd and Greenwell 2001).

Australia's lower level of child poverty reflects a number of factors. First are the significant increases in financial assistance for low-income families in Australia, from 60% of the OECD average in 1980 to 140% in 1994, and almost 160% in 2001 (Whiteford 2005). The story in New Zealand was dreary; a persistent neglect of family assistance saw it fall in real terms throughout most of the period 1986–2005 (St John 2001, 2004; St John and Craig 2004). Long-overdue reforms to family assistance began to be implemented in 2005, but with critical aspects such as indexation not to be introduced until 2008.

Second, Australia and New Zealand generally have more targeted income support systems in comparison with other OECD countries, with a higher proportion of payments being directed to those on low incomes. However, Australia directs 37%

of benefits to the bottom three deciles as compared to 31% in New Zealand (see Table 1).

Third, family-related payments are more generous to jobless families in Australia, including lone parents and other families where the head is unemployed (Whiteford 2005). This reflects the structure of family assistance in Australia, where children from 'in work' and 'workless' families are entitled to similar benefits. In contrast, New Zealand has failed to remedy punitive treatment of children in poor, benefit-dependent families. Not all children are treated in the same way and, while the poverty trends of the 1990s have been halted and are even reversing, children in families on benefits have been left to fall further behind relative to children in low-income working families. This discrimination, which affects about one in five New Zealand children, has been challenged in the courts under provisions of the Human Rights Act.²

Fourth, until recently, basic income support for sole parents and people of work-force age in Australia were not subject to the same kinds of savage cuts that occurred in New Zealand in the early 1990s, thus providing more protection for families wholly reliant on government payments. However, this is about to change, with the 2005 Australian welfare reform package coming into effect in July 2006 containing significant reductions in income support for some categories of sole parents and disabled people.

In both countries, housing outcomes have worsened for low-income families. In New Zealand, the proportion of households paying more than 30% of their income in housing costs rose from 11% to 25% between 1988 and 1997, levelled off at 25% and then fell back to 21% by 2004 (Perry 2005). As in New Zealand, housing stress in Australia has increased, with a significant growth in the proportion of low-income families paying more than 30% of income in rent (Dalton 2006). There also appears to be a long-term decline in home ownership in both countries, traditionally an equalising feature of wealth and income distribution for families and in old age (Johnson 2004; Stretton 2005).

In contrast with the poverty and inequality comparisons, New Zealand has lower levels of unemployment, long-term unemployment and family joblessness than Australia, as well as higher employment-to-population ratios for both men and women (including for mothers with children). Australia has one of the highest rates of family joblessness in the OECD (14% in 2000 compared to 10% in New Zealand). A number of factors contribute to this high rate, including an increased spatial divide in employment opportunities, the poor incentives to work provided by the joint income test, the correlation of educational and employment disadvantage within couples, and the high numbers of sole parents.

New Zealand was one of four countries identified by the OECD as experiencing a strong increase in inequality during the mid-1980s to mid-1990s; by 6.1 percentage points as measured by the Gini coefficient (Förster and D'Ercole 2005). In contrast, inequality declined in Australia by 0.7 percentage points.³ Since then, despite very low unemployment in New Zealand, there is evidence of further growth in inequality (Perry 2005).

²See Child Poverty Action Group's Web page (www.cpag.org.nz).

³These conclusions about inequality are also supported by changes to the P90/P10 decile ratio, which increased by 0.4 percentage points in New Zealand while falling 0.4 percentage points in Australia.

Discussion

One clear outcome by the end of the 1990s, especially in New Zealand, was a worrying social divide and the rise of social exclusion. Australia's record in social policy throughout the 1990s was not as bitterly divisive and the outcomes not so perverse for income and wealth distribution. Nevertheless, just as earlier in New Zealand, the focus in Australia has now shifted sharply to reducing welfare dependency, with the social policy discourse in both countries moving away from considerations of poverty and citizenship rights to a focus on work as the way to promote well-being.

In the 2000s, governments in both countries have sought to exploit new opportunities through the emphasis on 'making work pay', although in Australia, since the advent of the Howard Coalition government in 1996, the main vehicle for moving from welfare to work has been through increased conditionality and compulsion. This contrasts with the approach taken in the 1980s and early 1990s by the Hawke and Keating governments, when substantial assistance was provided to both low-wage and workless families.

Under the first term of the fifth Labour government in New Zealand, 1999–2002, there were some significant reversals in the direction of social policy, but the second three-year term was largely one of consolidation with few new initiatives. An extension of work-related incentives for families in the form of the Working for Families package is the flagship of social policy in the third term. Nevertheless, many of the New Zealand labour market reforms of the 1990s that reduced traditional protections for workers have been retained.

As governments consider that it is less possible or desirable to intervene extensively in social protection in a globalised environment, there has been a growing emphasis on community action and the development of local social capital as a characteristic feature of the third way or enabling approach. Devolution and local initiative become a substitute for national action, with the rhetorical social policy justification that local action leads to social inclusion. However, the differences in the policies and social outcomes between the two countries over the period indicate that broader government action still matters—the different social outcomes in relation to poverty and inequality mirror the policy changes introduced by different governments in the two countries.

Above, we suggested that three factors might contribute to variation in social policy responses to globalisation: differences in party ideology, differences in starting points and differences in economic and industrial relations policies. The impact of different ideologies is most apparent in relation to the more aggressive deregulation of the industrial relations system and welfare cuts undertaken by National in New Zealand. Even so, similar changes have recently been introduced by the Liberal Coalition government in Australia. In both countries, the periods of office of Labour governments saw a lower increase in poverty and inequality and less harsh social policies than under the more market and individually oriented National and the Liberal/Coalition governments.

However, the second factor—differences in institutional starting points—may well have played a greater role. The close relationship between the Labour Party and the union movement in Australia assisted in the development of the Prices and Incomes Accord. In contrast to New Zealand, where no such relationship existed, Australia was more resistant to extreme labour market reform. Further, in Australia over much of the period, the opportunity for divisive policy change was limited by the

absence of a Senate majority by the government in power and by the existence of State governments. In contrast, New Zealand's unicameral system of government provided greater opportunity for more extreme policy change, now also tempered by the introduction of the MMP.

The structure of existing policy systems may also have contributed to differences in outcomes. On the one hand, the more targeted nature of Australia's income support system offered a means for providing protection at relatively low cost (see Castles and Shirley 1996). On the other, the more inclusive structure of Australia's assistance to low-income families provided greater protection to jobless families than in New Zealand. However, in both countries, the incomes-tested and more discretionary nature of the income support system makes for a somewhat punitive approach to the establishment and retention of entitlement for people of workforce age.

The third factor is the influence on social policy of broader economic and industrial relations policies. Cass (1996, iv) comments that 'economic and social policy choices are fundamentally interconnected' and that, given the histories of both countries as 'workers' welfare states', the relationship between work and welfare is particularly relevant. Economic policies that impact on work—its availability and its remuneration—have had a particular impact on social policy.

Two connections between economic and social policy are especially worthy of mention. First, economic policies that increase market inequalities because of a lower priority for employment growth in secure well-paid work create pressure for welfare expenditures to increase to compensate for loss of work income or for inadequate earnings. In turn, pressure mounts to contain expenditure and limit entitlement or the adequacy of assistance. As noted above, both countries experienced concerns about rising welfare expenditures and increased welfare dependency, but in New Zealand this happened earlier, probably due to the much more aggressive neo-liberal economic policies adopted there in the 1980s and early 1990s. This development took longer in Australia, with debates on welfare dependency surfacing in a major way only in the latter half of the 1990s.

The second connection is the specific relationship between wages policy and income support payments. Industrial relations changes that reduce wages at the lower end of the labour market over time (in real or relative terms), create a dynamic for less generous income support payments for people of workforce age as concerns about work incentives and replacement rates mount. Once again, this occurred earlier in New Zealand and the significant industrial relations changes were accompanied by welfare cuts. A similar combination has now been enacted in Australia, with the future impact of these changes likely to be highly significant. In the past, income support payments complemented the capacity of regulated wages to protect the vulnerable. Richardson (1999, 12) notes that, in Australia, these factors, together with full employment, arbitration and social security,

removed two major sources of harsh treatment of workers. One was the 'race to the bottom' whereby firms that adhered to award conditions might be put out of business by those who breached them. The other was the need for workers to accept any terms, legal or not, because they had no alternative source of income: the welfare system increasingly came to provide a 'reservation wage' below which workers need not sink.

These are bulwarks against external economic vulnerability, which are now being dismantled as a deliberate act of public policy.

Conclusion: Pointing to the Future

A tentative conclusion for New Zealand is that adoption of 'third way' politics by the fifth Labour government has encouraged market solutions while diminishing political dissension through the appearance of more representation under MMP. In the early to mid-2000s, New Zealand enjoyed a time of apparent unparalleled economic prosperity and political stability. While acknowledging real achievements in the reversal of the worst excesses, in this market environment it has been easy to undermine rather than strengthen the traditional securities of the welfare state and to marginalise those outside of the impact of the economic boom. This is a story that has parallels in Australia, where there has been a long-sustained economic boom since 1996.

It may appear paradoxical that under the Howard Liberal government child poverty and inequality has been much lower than under the New Zealand Labour government. Yet it is important to recognise that much of the increase in inequality and poverty in New Zealand occurred under a majority National government and has not been easy for a Labour government to reverse. In contrast, until 2005, the Howard government's wish to deregulate wages and cut welfare payments was stymied by a Senate in which it lacked a majority.

This is no longer the case and there are ominous portents for Australia in the New Zealand experience of the early 1990s, where a majority government was able to introduce a significant deregulation of the wages system and the inevitable welfare cuts that accompany a harsher labour market. The Howard government's 2005 changes to industrial relations and welfare reform contain elements of this approach. The New Zealand experience indicates that such changes have adverse effects on poverty and inequality and are not readily wound back with a change of government.

Certainly, both Australia's and New Zealand's experience over the next few years will be instructive. Will Australia move more towards experiencing the outcomes for inequality that beleaguered New Zealand in the 1990s, just as New Zealand is slowly moderating the impacts of those earlier divisive policies? As yet we cannot be certain whether increased globalisation means a convergence in the outcomes of social policy in the twenty-first century in the sense of a common movement towards similar levels of expenditure and similar qualities of social rights. However, there can be little question that, over the past couple of decades, New Zealand and Australia have been part of a quite widespread international movement towards an enabling state based on reframing the individual's relationship to the labour market and with major, and potentially seriously adverse, implications for poverty and inequality.

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