
THE WELFARE REFORMS OF THE FOURTH (1990-99) AND FIFTH (2008-2014) NATIONAL GOVERNMENTS

A Critical Analysis and Evaluation

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ABSTRACT

This thesis seeks to describe, critically analyse and evaluate the welfare reforms of the Fourth (1990-99) and Fifth (2008-2014) National Governments. I develop a theoretical framework for these tasks, drawing from the social democratic and neo-Marxist traditions of the political economy of welfare. In particular, the theories of Gosta Esping-Andersen and Frank Castles are used. Esping-Andersen developed a set of criteria for categorising welfare states, leading to the identification of three regime types: liberal, social democratic and conservative. Castles argues New Zealand was part of a separate category, which he characterised as the Wage Earners Welfare State (WEWS). The WEWS linked social security to participation in paid work, and ensured full employment for working-aged males. These theories are complemented by the insights from the neo-Marxist tradition, which provides a more critical analysis of the role the welfare state plays in maintaining capitalism. This framework is supplemented by an analysis of the new paternalist school of thought originating in the United States. New paternalism strongly influenced the welfare reforms of the Fourth National Government, and provides a basis for critically analysing the similarities and differences of the two National Governments.

The thesis then outlines the focusing on the Fourth and Fifth National Government's respectively. Each of the Fourth National Government's three terms is described and analysed. This Government's welfare reforms initially focused on improving the financial incentives facing beneficiaries, but by the end of National's reign the emphasis had shifted to implementing obligations, backed with the threat of sanctions. I argue this reflected a move away from a neoliberalism dominated by classical liberalism, to a neoliberalism more heavily influenced by conservatism and new paternalism. The Fifth National Government has reintroduced and expanded the obligation and sanction-based approach, reflecting the influence of a neoliberalism influenced by conservative principles.

Overall, I argue that a neoliberal welfare regime emerged under the Fourth National Government, which has been entrenched by the Fifth National Government. This critical investigation has generated four key findings. First, it is demonstrated that new paternalism heavily influenced the reforms of the Fourth National Government and the Fifth National Government continued to implement paternalist reforms.

Second, New Zealand has clearly moved towards what Esping-Andersen identified as the liberal welfare regime, which excludes and stigmatises beneficiaries. Third, I draw on the argument that the WEWS has been “hollowed out” by welfare reforms. I demonstrate that the WEWS now represents a Trojan horse, which maintains the valorisation of work and protection for working families, but brings with it increased inequality, poverty, and stigmatisation and exclusion of beneficiaries. Finally, underlying these welfare reforms is a changed relationship between the state and the reserve army of labour. The state is now driven by two goals: to decrease the cost of the reserve army to the state through reduced welfare spending and to assist the growth of low quality work by encouraging beneficiaries into jobs characterised by low wages and little job security.

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I wish to acknowledge those whose lives have been affected by the reforms I describe. A quote from a welfare beneficiary discussing their experience of poverty in a focus group in the 1990s:

“You are limited so much that when someone does show you a bit of human kindness you lap it up like cream – I reckon it is quite sad ... I think myself that life is just a thing you have got to put up with. If you’ve not got the guts to commit suicide just keep going.”

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INTRODUCTION

On April the 1st, 1991, benefit rates were slashed by the National Government as part of its neoliberal redesign of the welfare state. The result of these cuts was a 40% rise in poverty.¹ In 1999, a Labour-led Government was elected, and despite stating their goal to reduce poverty amongst beneficiaries, did not increase benefit rates to pre-1991 levels.² In 2004, the Labour Government introduced the Working for Families package, which was in part designed to eradicate poverty. The package targeted families with at least one partner in fulltime work. Beneficiaries would not receive the package, as they were not in full time work. Thus, even by the predictions of government research, the package would reduce child poverty by only 30%. The children of beneficiaries would remain as part of the 70% in poverty.³ Currently, approximately 16% of the total population live below the poverty line, a total of 690,000 people. Childhood poverty remains, with 22%, or 230,000 children, living in poverty.⁴ In families reliant on a benefit for their income, child poverty is between 75-80%, compared to 11% for families with at least one parent in full-time employment, as Labour's WFF package did reduce poverty amongst working families. In total, 62% of children in poverty come from homes that rely on a benefit, with the remaining 38% coming from families with employment.⁵ Clearly, New Zealand's welfare state fails to prevent poverty amongst the wider population, and particularly for those who rely on a benefit for their main source of income. This outcome has been driven in part by the policy decisions made by consecutive governments. This thesis examines some of these decisions, particularly those made when the National Party has been in Government.

¹ Brian Easton, "Poverty and Families: Priority or Piety?," (Paper to "Issues for Families" workshop, October 1993, Working Paper 93/62 Economic and Social Trust on New Zealand), 11.

² Helen Clark and Steve Maharey, *Pathways to Opportunity: From Social Welfare to Social Development* (Wellington: Government Printer, 2001), 2.

³ Brian Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935* (Southbank: Thomson Dunmore Press, 2005), 233.

⁴ Bryan Perry, *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013: Summary Report* (Wellington: Ministry of Social Development, 2014), 23.

⁵ *Ibid*, 24.

This thesis seeks to describe, critically analyse and evaluate the welfare reforms of the Fourth (1990-99) and Fifth (2008-2014) National Governments. I limit my analysis of the Fifth National Government to all policies implemented until their re-election for a third term in September 2014. The thesis proceeds in four parts. First, I seek to develop a theoretical framework, which provides the tools for analysing and evaluating the welfare reforms. Second, I aim to describe the Fourth and Fifth National Government's welfare reforms. This involves describing the key policy reforms of the governments, as well as identifying the theoretical underpinnings of these policies. Third, I critically analyse the key similarities and differences between the two governments. More specifically, I aim to identify whether the two National Governments have been guided by a shared theoretical outlook on welfare, and whether this has manifested in the advocacy of similar policy reforms. Finally, I will use the concepts developed in the theoretical framework to evaluate whether National's reforms represent a fundamental change in the way New Zealand delivers social security. Thus, I seek to describe the welfare reforms, critically analyse the similarities and differences between the two Governments, and evaluate the importance of these reforms by applying a theoretical perspective which I have developed. In writing this thesis I hope to provide an insight into how social security has evolved under National, and to contribute to the analysis of the Fifth National Government's reforms. It is important to note here that I am not seeking to identify the causes of welfare reform. There is a substantial amount of literature on this topic, and such a task has been well done in the New Zealand context.⁶ Identifying the causes of the reforms would require expanding my research aims to encompass the wider history and political economy of welfare reform. Such a task is not possible given the length of a Master's thesis.

Terminology

The literature on welfare reform is characterised by a range of approaches, reflecting differing definitions of what the welfare state encompasses. The welfare state can be defined to include: social welfare (e.g. unemployment, sickness benefits etc.);

⁶ See Peter Starke, *Radical Welfare State Retrenchment: A Comparative Analysis* (Basingstoke: Palgrave Macmillan, 2008).

housing; health; education; accident compensation; and economic regulations.⁷ Thus, it is important to identify what aspects of the welfare state will be analysed in this thesis. My approach is guided by the work of Mike O'Brien and Frank Castles. In his 2008 book *Poverty, Policy and the State*, O'Brien sought to provide a comprehensive discussion and examination of the broad shape of social security reform. Social security refers to the "provision of some form of secure basis of income for members of society," which is provided on the basis of shared citizenship.⁸ This includes the major benefit categories, such as the unemployment, sickness and domestic purposes benefit, as well as family benefits. Castles argues New Zealand's social security, or a minimum income for members of society, has historically been delivered through a system of economic regulation, which he calls the Wage Earners' Welfare State (WEWS). This argument is explored in-depth in chapter one. Thus, O'Brien's definition of social security provision is supplemented by an emphasis on the economic regulations which support it. When I discuss social security, I refer to both welfare benefits and the economic regulation which supports it, whereas welfare refers only to the provision of welfare benefits (unemployment, DPB etc.). This definition excludes health, education, and superannuation. Following from O'Brien's approach, superannuation is not considered for two reasons. Firstly, such an analysis would require too much space, which would reduce the quality of the rest of his work. Secondly, the elderly are far less likely to be in poverty.⁹

Chapter Summary

With respect to the overall structure of the thesis, chapters one and two outline the theoretical framework for this thesis. Chapters three and four present the two case studies; chapter three describes the Fourth National Government's welfare reforms and chapter four the Fifth National Government, who have adopted an approach which is kindred in many respects with the welfare reforms of the 1990s. Chapter five brings the previous four chapters together, and critically analyses and evaluates the National Government's welfare reforms.

⁷ Chris Rudd, "The Welfare State," in *The Political Economy of New Zealand*, ed. Brian Roper and Chris Rudd (Auckland: Oxford University Press, 1997), 237.

⁸ Mike O'Brien, *Poverty Policy and the State: Social Security Reform in New Zealand* (Bristol: The Policy Press, 2008), 11.

⁹ Ibid, 5.

The first chapter develops the theoretical framework for describing and evaluating the impact of welfare reforms. This framework is developed through a review of the political economy of welfare. The chapter begins with a description of the “regimes debate” between Gosta Esping-Andersen and Frank Castles. Esping-Andersen began this debate with his typology of welfare regimes. He argues welfare states could be categorised into three “regimes”: liberal; social democratic; and conservative. He characterises New Zealand as a liberal regime, which seeks to ensure the primacy of the market by encouraging beneficiaries to participate in paid employment, and consequently leads to the stigmatisation of those outside the labour market. Frank Castles shows several deficiencies with this categorisation. He argues Australia and New Zealand were characterised by a WEWS, which provided social security through ensuring full employment and high wage work. Then, the three dominant traditions in political economy are described: neoliberalism; social democracy; and neo-Marxism. Each tradition provides a different characterisation of the relationship between the welfare state and capitalism. Neoliberals view the welfare state as a costly burden on the economy; social democrats view welfare as ameliorating inequality and extending social citizenship; and neo-Marxists view it as a crucial institution in ensuring the profitability and legitimacy of capitalism. Finally, I outline my own position in relation to these traditions. I predominantly draw from the social democratic theories of Esping-Andersen and Castles. I supplement their theories with the more critical insights derived from neo-Marxism, particularly regarding the role welfare and unemployment plays in maintaining capitalism.

The second chapter contributes to the theoretical framework by providing a basis to critically analyse the similarities and differences between the welfare reforms of the two National Governments. This is found in the work of Conservative thinkers from the US in the 1970s and 80s, from whom emerged a school of thought known as new paternalism. These conservatives argue the then current generation of adults were behaving fundamentally differently from previous generations, which was driven by a breakdown of morality. This led to the rise of an underclass, who were united by their behavioural deficiencies. Out of this wider concern for society came a specific analysis and critique of welfare. They argue beneficiaries were unable to help themselves because of their behavioural deficiencies. Thus, welfare agencies must actively intervene in order to inculcate morally appropriate behaviours. This intervention drew inspiration from the relationship between parent and child, as parents help

mould their children's behaviour, hence the name new paternalism. This eliminates the behavioural deficiencies which caused people to require welfare, allowing beneficiaries to exit welfare and poverty. From this discussion, the key elements of new paternalism are identified.

The third chapter outlines the welfare reforms of the Fourth National Government. It begins with a brief description of the economic history of New Zealand dating back to 1945. It outlines New Zealand's history of economic growth and full employment, and then the lengthy crisis which engulfed the country from the mid-1970s. This provides context for the reforms National implemented. Each of National's three terms is considered chronologically. The major reforms in each term are described, and the key themes identified. Broadly, the three terms are characterised by a shift in thinking by the Government. I argue the reforms of the early 1990s were driven by neoclassical economic theories. This meant an emphasis on reducing public debt and decreasing benefit rates. By the end of the 1990s, National was strongly influenced by the new paternalist school of thought. I characterise this shift as a change from a neoliberalism dominated by classical liberalism, to one more heavily influenced by conservatism.

The fourth chapter describes the welfare reforms of the Fifth National Government. It begins with a brief description of the welfare reforms of the Fifth Labour Government (1999-2008) and the economic conditions facing National upon its return to Government. Then, as with previous chapter, the welfare reforms are described, and their key themes identified. Overall, National's goal was to reduce welfare dependency by encouraging people into work. This encouragement took the form of a "punitive, obligation-based, sanction-reinforced process."¹⁰ Sole parents, people with health issues, and youth were targeted by reforms, with each group facing an array of new obligations. National also utilised a particular form of rhetoric to justify their reforms, which sought to avoid the controversy created by its 1990s reforms. This chapter does not contain the same level of analysis as the previous chapter, as that task is left until chapter five.

The final chapter critically analyses and evaluates the welfare reforms of the two National Governments. I critically analyse the similarities and differences between

¹⁰ Mike O'Brien, "Work-First and Active Labour Markets," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 53.

the two Governments by comparing the reforms of the two National Governments in light of the new paternalist ideology set out in chapter two. I show that there are significant similarities between the two governments with respect to new paternalism. Then, I begin the evaluation of the reforms by applying Esping-Andersen's concepts to the reforms; this analysis shows a clear movement towards a liberal welfare regime. A similar analysis is done using Castles' concepts. This shows the WEWS was effectively destroyed by the Fourth National Government. Labour made some attempt to reform the WEWS in the 2000s, and the Fifth National Government have largely kept the reforms. However, I argue these reforms represent a Trojan horse; it keeps the façade of the WEWS, but brings with it increased inequality, poverty, and the stigmatisation and exclusion of beneficiaries. Then, I utilise the insights of neo-Marxism to develop two related arguments, that underlying the welfare reforms was a changing relationship between the state and the reserve army of labour, and further that welfare reforms now serve to strengthen the incentive to work through increasing poverty, in order to encourage participation in low quality work. Finally, I bring these four key findings together, and show that the Fourth National Government was a more radical reformer of welfare. The Fifth National Government is less radical, but has continued to move New Zealand to the political right, guided by neoliberalism. Given the popularity of these reforms, I conclude the Fifth National Government is entrenching the neoliberal features of New Zealand's welfare and social security provision.

Wider Significance of Analysing Welfare Reform

I hope this work will contribute to wider academic debates in three areas. Firstly, the analysis of the Fifth National Government's welfare policies has been relatively limited. Mike O'Brien, Susan St John, Louise Humpage and Peter Starke have published articles or chapters on welfare reform.¹¹ A larger volume was published by

¹¹ Mike O'Brien, "Lone Parents Working for Welfare in New Zealand," *Local Economy* 27 (5-6, 2012): 577-592, Mike O'Brien and Tapio Salonen, "Child Poverty and Child Rights Meet Active Citizenship: A New Zealand and Sweden Case Study," *Childhood* 18 (2, 2011): 211-226, Mike O'Brien, "Welfare Reform in Aotearoa/New Zealand From Citizen to Managed Worker," *Social Policy and Administration* 47 (6, December 2013): 729-748, Susan St John contributed to Shaun Wilson et al., "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?," *Social Policy and Administration* 47 (no. 6, December 2013): 623-646, Louise Humpage, "Do New Zealanders Really Support

the Child Poverty Action Group, and some interest arose after the establishment of the Welfare Working Group in 2010.¹² However, these pieces have addressed welfare reform in a piecemeal fashion, focusing only on small elements of the reforms. Further, there have been no attempts to analyse the similarities or differences between the two National Governments, though Mike O'Brien has begun such an analysis.¹³ Thus, this thesis adds to the emerging literature on contemporary welfare reform. It provides both a comprehensive summary of reforms and a comparison with the previous Government.

Secondly, it was noted by Shaun Wilson et al. that little work has been done on analysing the evolution of New Zealand's social security since the 1990s.¹⁴ Those reforms led to a substantial increase in poverty, and made welfare the subject of both public and academic interest. A wide array of research was created which focused on the political economy of New Zealand, the welfare regimes debate, and the lived experiences of poverty.¹⁵ However, since the 1990s the evolution of welfare has been largely left unanalysed.¹⁶ In the fifth chapter, I build on what work has been done since 1999, and I argue the WEWS has been hollowed out into a Trojan horse.

Finally, there has been both academic and public discourse over whether the Fifth National government can be classified as neoliberal. This debate was begun by an article by Brian Roper, which analyses the Fifth National Government, published in 2011. Overall, he concludes "this Government is committed to retaining and

Welfare Reform?," in *The New Electoral Politics in New Zealand: The Significance of the 2011 Election*, ed. Jack Vowles (Wellington: Institute for Governance and Policy Studies, 2014), 77-8, and Peter Starke, "Antipodean Social Policy Responses to Economic Crises," *Social Policy and Administration* 47 (no. 6, December 2013): 647-667.

¹² Claire Dale et al., eds., *Left Further Behind: How Policies Fail the Poorest Children in New Zealand* (Wellington: Child Poverty Action Group, 2011), Jonathan Boston, ed., *Policy Quarterly Special Issue: The Welfare Working Group's Report 7* (Issue 2, May 2011).

¹³ Mike O'Brien, "Welfare Reform in Aotearoa/New Zealand From Citizen to Managed Worker."

¹⁴ Shaun Wilson et al., "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?," 625.

¹⁵ For example, see Brian Roper and Chris Rudd, eds., *The Political Economy of New Zealand* (Auckland: Oxford University Press), Frank Castles, ed., *Families of Nations* (Aldershot: Dartmouth, 1993), and Mike O'Brien, *Poverty Policy and the State: Social Security Reform in New Zealand*, chapter 5.

¹⁶ A notable exception is Peter Starke, *Radical Welfare State: A Comparative Analysis* (Basingstoke: Palgrave MacMillan, 2008).

extending the neoliberal policy regime.”¹⁷ This spawned two notable responses. The first came from Kate Nicholls, who argues the Fifth National Government’s reforms represent “*typical centre-right responses* to economic hard times,” and that “neoliberalism does not necessarily provide the best “lens” through which to understand the nuances of government policy since the late 1990s.”¹⁸ In the second response, Grant Duncan argues “the analysis and critique of neoliberalism is increasingly of historical interest only.”¹⁹ Whilst many of the neoliberal reforms remain, this “does not necessarily mean that neo-liberalism continues to dominate.”²⁰ Duncan argues neoliberalism’s influence is waning, and is dying a “strange non-death.”²¹ Thus, according to these authors, neoliberalism’s period of dominance has passed, and we should look for new analytical tools to analyse the Fifth National Government.

This debate has been mirrored in the public sphere. On a popular blog, author Danyl McLauchlan argues National “aren’t neoliberal.” Instead, they are guided by “Right-wing intellectual thought ... [which] is focused on the primacy and infallibility of ‘business’ and the wisdom and needs of the private sector.”²² In the comments, prominent right-wing political commentator Matthew Hooton enthusiastically agrees with McLauchlan’s thesis.²³ Hooton has restated this thesis several times, arguing the Fifth National Government has made a decisive break from neoliberalism.²⁴ In another blog, economist Brian Easton puts forward a supporting thesis. He states “I don’t think we have a ‘neoliberal’ government. Recall the short shift Key gave to Don

¹⁷ Brian Roper, “The Fifth (Key) National Government’s Neoliberal Policy Agenda: Description, Analysis and Critical Evaluation,” *New Zealand Sociology* 26 (Issue 1, 2011): 37.

¹⁸ Italics in original, Kate Nicholls, “Beyond Neoliberalism: A Response to Brian Roper,” *New Zealand Sociology* 26 (Issue 2, 2011): 83, 78.

¹⁹ Grant Duncan, “After Neo-Liberalism, What Could Be Worse?,” *New Zealand Sociology* 29 (Issue 1, 2014): 15.

²⁰ Ibid, 23.

²¹ Ibid, 22.

²² Danyl McLauchlan, “On Neoliberalism,” *The Dim-Post*, January 30, 2015, accessed February 25, 2015, <https://dimpot.wordpress.com/2015/01/30/on-neoliberalism/>, Danyl McLauchlan, “Vague Trotteresque Musings of the Day,” *The Dim Post*, January 20, 2015, accessed February 25, 2015, <https://dimpot.wordpress.com/2015/01/20/vague-trotteresque-musings-of-the-day/>.

²³ Danyl McLauchlan, “Vague Trotteresque Musings of the Day.”

²⁴ “Politics with Mike Williams and Matthew Hooton,” *Nine To Noon*, Radio New Zealand (Wellington: 25th May, 2015).

Brash (who is definitely a neoliberal). In fact this government is ... a business-oriented one.”²⁵ This means, as McLauchlan also pointed out, business use government to actively pursue their own interests, to which the Government responds favourably to.²⁶ Overall, the debate on whether New Zealand is still dominated by neoliberalism is nascent, but one of crucial importance, as it questions how best to analyse the Fifth National Government, and is becoming an important topic in the public sphere.

²⁵ Brian Easton, “How Shallow is Intellectual Life in New Zealand?,” *Pundit*, January 29, 2015, accessed February 25th, 2015, <http://pundit.co.nz/content/how-shallow-is-intellectual-life-in-new-zealand>.

²⁶ *Ibid.*

CHAPTER ONE

THE POLITICAL ECONOMY OF WELFARE

The first chapter seeks to develop a theoretical framework to evaluate the two case studies. The first part of this framework is developed through a review of the political economy of welfare. This field seeks to identify the key features of the welfare state, and place it in the wider context of politics and the economy. The first two sections of this chapter outline the regimes debate between Gosta Esping-Andersen and Frank Castles. The regimes debate concerns how to categorise different national welfare states. Section 1.1 outlines Esping-Andersen's typology of welfare states, which identifies three welfare regime types: liberal; social democratic; and conservative. Section 1.2 describes Castles' critique of this work, as his work provides a more accurate conceptualisation of New Zealand's welfare state prior to the neoliberal reforms of the 1980s and 90s. Then, the three major traditions within the political economy of welfare are considered: neoliberalism; social democracy; and neo-Marxism. Each tradition provides a different characterisation of the relationship between the welfare state and capitalism. Finally, section 1.6 outlines my own theoretical framework. It draws predominantly from the theories of Esping-Andersen and Castles, and is supplemented by the critical insights of neo-Marxism.

1.1. Welfare State Regimes

One of the key developments in modern political economy is the "regimes debate." An analysis of this debate provides a basis for examining the broad changes of New Zealand's social security, as it identifies the key elements of different kinds of welfare regimes, a concept which includes both social welfare and economic regulations. This debate was started, and continues to be dominated by, Gosta Esping-Andersen's seminal text *The Three Worlds of Welfare Capitalism*.¹ His key insight is that welfare states cluster around three types, or 'regimes'.² His analysis begins with a reconceptualisation of the welfare state, premised on Thomas Marshall's classic

¹ Christopher Pierson, *Beyond the Welfare State? The New Political Economy of Welfare* (Cambridge: Polity Press, 2006), 171.

² Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990), 2, 19-20.

statement on the welfare state and citizenship.³ Marshall argues citizenship evolves through three stages. The first is civil citizenship, which relates to the rights necessary for individual freedom. Second is political citizenship, which allows for mass participation in political institutions. The final stage is social citizenship, which includes “the whole range [of rights], from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standard prevailing in the society.”⁴ Social rights are realised through extensive education, health, housing and income maintenance policies.⁵ According to Marshall, the evolution of social citizenship would ameliorate differences based on class.⁶ All citizens would be equal with respect to the rights endowed by citizenship, and would thus guarantee equality of status, which Marshall viewed as superior to equality of income.⁷

From this basis Esping-Andersen reconceptualises the welfare state. His account is based on two principles. The first is the concept of decommodification, which “refers to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation.”⁸ Welfare policies are highly decommodifying if they are “rendered as a matter of right” of citizenship, which achieves Marshall’s concept of social citizenship.⁹ Alternatively, welfare policies can be commodifying if they “compel all but the most desperate to participate in the market.”¹⁰ He argues this occurs when benefits levels are set near the poverty line, and welfare is associated with social stigma. Such policies are discussed in greater detail later in the chapter.

The second principle is social stratification. Esping-Andersen notes the welfare state is often naively seen as a system which promotes equality. Instead, he argues welfare

³ Ibid, 21

⁴ Christopher Pierson, *Beyond the Welfare State?*, 29.

⁵ Hartley Dean, *Welfare, Law and Citizenship* (Hertfordshire: Prentice Hall/Harvester Wheatsheaf, 1996), 4.

⁶ Thomas H. Marshall, “Citizenship and Social Class,” in *The Welfare State Reader 2nd Edition*, ed. Christopher Pierson and Francis Castles (Cambridge: Polity Press, 2006), 32.

⁷ Hartley Dean, *Welfare, Law and Citizenship*, 5.

⁸ Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 35.

⁹ Ibid, 21-2.

¹⁰ Ibid, 22.

should be seen as system of social stratification in itself.¹¹ Highly commodifying regimes can produce social stigma for welfare recipients, creating divisions between those reliant on state welfare, and those who rely on the market. Conversely, universal programs can foster social solidarity, furthering the cause of equality.¹² This relates to Marshall's conception of citizenship; if welfare states attribute rights based on citizenship, a sense of equality can be fostered which acts as a counter to the inequality produced by the market.

Esping-Andersen operationalises these two concepts into new 'indexes', which are used to measure decommodification and stratification. He includes three measures for the decommodification index. Firstly, he measures how easy it is to access a benefit, including: whether it guarantees a standard of living regardless of previous employment or financial contribution; whether the benefit is time-limited; and if it includes a needs-test. Secondly, he includes the level of income replacement, which measures the level of benefit income as a percentage of previous market income. Finally, he measures how extensive the range of benefits is. A limited range would only apply to old age, sickness and unemployment, and a wide range would include a social wage for all citizens.¹³ For the stratification index, he measures the level of means-testing, the extent of market provision in welfare and the extent of universalism. Regimes with greater universalism, fewer means-tests and less market-based welfare foster a sense of solidarity, and lower stigma.¹⁴

According to Esping-Andersen's data, welfare states cluster around three regime types. The first is the liberal regime, which is predominantly found in Anglo-Saxon countries, including New Zealand, which measure low in decommodification, and rely extensively on means-tests and market-based welfare.¹⁵ The second are the social democratic countries, found in Scandinavia, which measure high on decommodification and universalism.¹⁶ The final regime type is described as Conservative, and is found predominantly in Continental Europe. The conservative

¹¹ Ibid, 55.

¹² Ibid, 24.

¹³ Ibid, 47.

¹⁴ He also included measures for Conservative welfare regimes, but they will not be considered here. Ibid, 69.

¹⁵ Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford: Oxford University Press, 1999), 77.

¹⁶ Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 26.

regime type will not be considered here, as it is not relevant to a discussion on New Zealand's welfare state.¹⁷ The liberal and social democratic regime will now be described in greater depth.

The Liberal Welfare Regime

The liberal regime is characterised by the “logic of the market.”¹⁸ The goal is to minimise the state, and promote market solutions to welfare.¹⁹ This logic is seen in the liberal approach to decommodification. The market is viewed as “emancipatory, [and] the best possible shell for self-reliance and industriousness.”²⁰ Thus the goal of welfare is to ensure the participation in the market by all those who are capable to do so. There are, however, clear instances where people are unable to work; the old, the sick and so on.²¹ Esping-Andersen identifies two responses from liberals. Firstly, they adopt the principle of less eligibility. According to this principle, benefits should be set at a level below what is provided by the market. This ensures incentives to work are maintained, as individuals can gain more money via work than from welfare. Secondly, the concept of public insurance, based on previous contributions to insurance funds, as well as private insurance, is accepted.²² In terms of decommodification, welfare should have the lowest possible effect. Welfare only provides an income for those completely unable to participate in paid employment, and does not interfere in the workings of the market. Thus welfare supported the process of commodification.

¹⁷ The conservative welfare state is characterised by a set of policies which seek to uphold existing class and status differentials, with an emphasis on preserving the family. The decision to exclude the conservative regime is also adopted by Chris Rudd, who was attempting to characterise New Zealand's welfare state according to Esping-Andersen's criteria. See Chris Rudd, “The Welfare State,” in *The Political Economy of New Zealand*, ed. Brian Roper and Chris Rudd (Auckland: Oxford University Press, 1997), 239. Jonathan Boston also argues the conservative (or insurance model, as he calls it) has had little influence on New Zealand's welfare state. See Jonathan Boston, “Welfare State in Transition,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 8.

¹⁸ Christopher Pierson, *Beyond the Welfare State?*, 173.

¹⁹ Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies*, 75.

²⁰ Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 42.

²¹ Ibid.

²² Ibid, 44.

The logic of the market is also seen in the stratification principle. The stratification outcomes produced by the market are seen as inherently justified, as they reflect “effort, motivation, adeptness, and self-reliance.”²³ According to Liberals, welfare should seek to reinforce the individualism fostered by the market. Further, liberal ideals stress the importance of formal equality and universalism.²⁴ However, as welfare should not interfere with the market, benefits cannot be provided to all citizens, as it would reduce the work incentive. So, the equality becomes one of need. Only after proving an individual is in genuine need will welfare be provided. Thus, formal equality is guaranteed as everyone is eligible for welfare. However, Esping-Andersen argues this creates a duality. Those who are poor are forced to rely on state benefits, whereas those who are better off rely on the market for their well-being.²⁵ This dualism stigmatises the poor for being “market failures,” and is worsened when benefits are associated with “punitive” conditions.²⁶ So, in practice, liberal welfare states show several key characteristics; they are generally means-tested, with few modest universal transfers, are associated with social stigma, which leads to low levels of decommodification, and a dualism between the poor and everyone else.²⁷

The Social Democratic Welfare Regime

The second regime Esping-Andersen identifies is the social democratic welfare regime. This regime is typified by a commitment to “a welfare state that would promote an equality of the highest standard.”²⁸ Decommodification is central to achieving this equality. This is, Esping-Andersen argues, because of social democracy’s socialist roots. He identified the goal of destroying the “commodity-logic of labour” as the core of socialist movements.²⁹ The radical socialists view revolution as the best path to this goal. Moderates, however, accept decommodification through the welfare state as an acceptable reformist path to socialism. Thus, reformists seek to provide the populace with a social wage outside of the market, effectively achieving an acceptable level of decommodification, and the first step towards a socialist

²³ Ibid, 62.

²⁴ Ibid.

²⁵ Ibid, 65.

²⁶ Ibid, 62.

²⁷ Ibid, 27.

²⁸ Ibid.

²⁹ Ibid, 44.

economy.³⁰ Thus, whereas liberal welfare regimes seek to limit the role of welfare, social democracies extend it.

A similar logic is seen in the stratification principles of social democracy. Social democrats seek to build a basis for solidarity in society.³¹ This solidarity is built on shared citizenship, which is based on the principle of universalism: programs would be provided to everybody, not just those defined as in need.³² This equality was threatened by the emergence of the middle-class, who expected a higher quality of public service, including health and education. The social democratic response was to implement earnings-related benefits, which provide high benefits levels for those who earn more through the market. Though this creates inequality between individuals, it is justified as it ensures continued support for welfare, and prevents market provision of social services.³³ Overall, the social democratic welfare regime is characterised by: universal and generous programs; high replacement rates; generous eligibility criteria; leading to a high level of decommodification and an attempt to build solidarity through the welfare state. It also entails a strong commitment to full employment, including measures to encourage female employment, in order to fund a generous welfare state.³⁴

1.2. The Fourth World of Welfare - Critiquing the Three Worlds

Esping-Andersen's work on welfare regimes was ground-breaking, and has been immensely influential in the political economy of welfare. Indeed, much of the work in the field during the 1990s and 2000s "can be seen as a 'settling of accounts' with Esping-Andersen."³⁵ Given the immense popularity of his work, it is little wonder it has come under sustained criticism. The critiques are wide-ranging, including arguments to add more regimes, criticisms that he implicitly relies on a male-breadwinner model of welfare, and is too narrowly focussed on income maintenance.³⁶ Only the argument for including additional regimes will be analysed

³⁰ Ibid, 44-6.

³¹ Ibid, 65.

³² Ibid, 97-8.

³³ Ibid, 26.

³⁴ Ibid, 28.

³⁵ Christopher Pierson, *Beyond the Welfare State?*, 173.

³⁶ See Wil Arts and John Gelissen, "Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report," *Journal of European Social Policy* 12 (2, May 2002): 137-

here, for two reasons. Firstly, despite these critiques, Esping-Andersen's typology remains popular and in wide usage.³⁷ Secondly, the first critique is based on an analysis of New Zealand's social security, giving it direct relevance to this thesis.

The most important critique relating to New Zealand is put forward in the works of Frank Castles.³⁸ Castles' work analyses the welfare state prior to the radical neoliberal reforms of the 1980s and 90s. He shows several deficiencies in Esping-Andersen's work, arguing the welfare states of the Antipodean (Australia and New Zealand) countries were fundamentally different from their European counterparts. He argues European democratic socialist parties aimed to "procure state action to alter the reward structure of capitalism by the provision of income transfers, public consumption items and fiscal benefits."³⁹ So, welfare measures were aimed at supplementing the resources provided by the market. Thus welfare states in Europe had to include substantial redistribution of income in order to ameliorate the inequality produced by the market, with the more generous countries utilising extensive universalism in their welfare policies. New Zealand and Australia had low levels of total expenditure, and made extensive use of means testing in their benefits.⁴⁰ This led Esping-Andersen to place these countries in the liberal category.⁴¹

158, and for Esping-Andersen's reply, see Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies*, chapter 4.

³⁷ Paul Pierson uses a similar justification, stating "I am struck by the extent to which other analysts ... have gravitated towards similar demarcations," see Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," In *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001), 431.

³⁸ See Frank Castles, *The Working Class and Welfare* (London: Allen and Unwin, 1986), Frank Castles "Needs-Based Strategies of Social Protection in Australia and New Zealand," in *Welfare States in Transition*, ed. Gosta Esping-Andersen (London: Sage, 1996), 88-115, Frank Castles and Deborah Mitchell, "Worlds of Welfare and Families of Nations," in *Families of Nations: Patterns of Public Policy in Western Democracies*, ed. Frank Castles (Aldershot: Dartmouth, 1993), 93-128, Frank Castles, "The Wage Earners' Welfare State Revisited: Refurbishing the Established Model of Australian Social Protection," *Australian Journal of Social Issues* 29 (no. 2, May 1994): 120-145, and Frank Castles and Ian Shirley, "Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State," in *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand*, ed. Frank Castles, Rolf Gerritsen and Jack Vowles (Auckland: Auckland University Press, 1996), 88-106.

³⁹ Frank Castles, *The Working Class and Welfare*, 76.

⁴⁰ Frank Castles "Needs-Based Strategies of Social Protection in Australia and New Zealand," 88.

This, according to Castles, was a mistake, stemming from the uniqueness of the Antipodean approach to welfare. These countries provided “social protection by other means” through what he called a “wage earners’ welfare state (WEWS).”⁴² Instead of seeking to ameliorate inequality after its distribution by the market, the Antipodean countries sought to reduce these inequalities through regulating wages.⁴³

Regulating wages was achieved through two means. Firstly, both countries had extensive systems of compulsory arbitration, where the wages of some occupations were set by a special employment court. The Court of Arbitration set wages at a level which enabled the “average” employee to participate in their community. The notion of an average employee was based on the expectation that men would be the sole breadwinner, and would earn enough to support a family.⁴⁴ Thus, many occupations had wages which were set according to social criteria, not by market demands. The second means was a commitment to full employment. Employment could only act as an effective social protection if it covered all those who sought it. Thus, governments implemented a series of policies which ensured unemployment would be virtually eliminated, including: immigration controls; tariffs and subsidies; and a general commitment to Keynesian economic principles (discussed further later in the chapter). This system of regulated wages was supported by remarkably high levels of home ownership, which ensured security for individuals in their old age. Further, progressive taxation helped to curb inequality. This led to internationally-low levels of inequality in both countries.⁴⁵

Overall, New Zealand “experienced a relatively high level of social protection throughout the mid-twentieth century, especially compared to European countries.”⁴⁶ The emphasis on work meant that security was not guaranteed by welfare or citizenship, but by status as a wage earner.⁴⁷ This strategy was largely successful, as remarkably low levels of unemployment enabled virtually all adult males to be

⁴¹ Wil Arts and John Gelissen, “Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report,” 146.

⁴² Frank Castles “Needs-Based Strategies of Social Protection in Australia and New Zealand,” 111.

⁴³ Frank Castles, *The Working Class and Welfare*, 76-7.

⁴⁴ Frank Castles “Needs-Based Strategies of Social Protection in Australia and New Zealand,” 92.

⁴⁵ Ibid, 89, 91.

⁴⁶ Ibid, 89.

⁴⁷ Frank Castles, “Labour and Social Policy,” 91.

employed.⁴⁸ This had a significant impact on the role of the welfare state. As security was guaranteed through the (managed) market, welfare played a residual role as it supported only those who fell outside the labour market.⁴⁹ Given the high wages and employment, the relative lack of generosity of welfare was less important than in other countries.⁵⁰ However, because of the residual nature of welfare, there were “some remarkably large holes in the welfare-safety net.”⁵¹ In particular, sole parents, large families, and those who fell outside the labour market were more likely to be in poverty.⁵²

In a chapter co-authored with Deborah Mitchell, Castles launches a direct critique of Esping-Andersen. At the heart of their critique is a simple proposition; Esping-Andersen fails to take into account the *distributional* effects of liberal welfare states, which leads him to miscategorise all Anglo-Saxon countries together. When this is taken into account, Castles and Mitchell argue there are not three worlds of welfare, but four: conservative; social democratic; liberal; and a new ‘radical’ world. The liberal world includes the US, Canada, Switzerland and Japan. The ‘radical’ world includes New Zealand, Australia, Ireland and the United Kingdom. The authors point to three measures to support their new categorisation. The first is benefit equality, which measures the extent to which benefits increase income equality. The data mostly supports Esping-Andersen’s characterisation of social-democratic and conservative welfare regimes. However, it shows a clear separation within the ‘liberal’ world, with the ‘radical’ countries falling into a separate category.⁵³ This is because the targeting of benefits in the Antipodes does not have the negative outcomes Esping-Andersen claimed. In fact, targeting increases equality by ensuring expenditure was spent only on the poorest.⁵⁴ This point is reinforced by the second measure, which is the extent to which welfare expenditure and tax mitigate the inequalities created by the market. The impact of tax is not measured by Esping-

⁴⁸ Frank Castles “Needs-Based Strategies of Social Protection in Australia and New Zealand,” 90.

⁴⁹ Frank Castles, “Labour and Social Policy,” 91.

⁵⁰ Frank Castles “Needs-Based Strategies of Social Protection in Australia and New Zealand,” 93.

⁵¹ Frank Castles, *The Working Class and Welfare*, 86.

⁵² Ibid, 106.

⁵³ Frank Castles and Deborah Mitchell, “Worlds of Welfare and Families of Nations,” 104.

⁵⁴ Ibid, 95.

Andersen.⁵⁵ Again, the data shows a clear differentiation within the liberal world, with the radical countries exhibiting higher levels of equality than liberal countries.⁵⁶ Finally, they note the extent to which liberal countries (prior to 1984) utilise public sector employment to reduce total levels of unemployment.⁵⁷

Overall, the ‘radical’ countries are characterised by the commodification of labour, as they tie social security to work. However, the state extensively manages the market, and ensures wages are set predominantly to social, rather than market, demands. Further, wage regulation, combined with heavy benefit targeting and progressive taxation, entails a high degree of redistribution, which is a characteristic of social democratic, not liberal, regimes.⁵⁸ This has a significant effect on stratification; as the equalisation of wages promotes a kind of equality usually associated with social democratic regimes. So, the unique combination of commodification and residual welfare, along with high redistribution and low stratification, constitutes a fourth ‘radical’ world of welfare.⁵⁹

Esping-Andersen was initially supportive of including the wage-earners welfare state in his own categorisations. However, he later retracted his support, as neoliberal reforms fundamentally changed the Antipodean welfare states.⁶⁰ Indeed, Castles himself argues neoliberal reforms had destroyed the uniqueness of Australia’s welfare state.⁶¹ These arguments will be addressed in the chapter five.

Political Economy of Welfare States: Schools of Thought

The regimes debate provides a series of important insights into the nature of welfare states. More insights can be gained by analysing the three major schools of thought within the political economy of welfare. The first school of thought which will be addressed is neoliberalism. Understanding neoliberalism is crucial, as it came to

⁵⁵ Ibid, 98.

⁵⁶ Ibid, 114.

⁵⁷ Ibid, 108.

⁵⁸ Christopher Pierson, *Beyond the Welfare State?*, 174.

⁵⁹ Frank Castles and Deborah Mitchell, “Worlds of Welfare and Families of Nations,” 124-5.

⁶⁰ Wil Arts and John Gelissen, “Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report,” 153.

⁶¹ Frank Castles, “A Farewell to Australia’s Welfare State,” *International Journal of Health Services* 31 (no. 3, 2001): 537-44.

dominate liberal welfare states during the 1980s and 1990s.⁶² This was particularly true in New Zealand, where neoliberalism arguably dominated policy making more than any other democratic country.⁶³ Secondly, the social democratic viewpoint will be addressed. This tradition has been the dominant viewpoint in the field.⁶⁴ Finally, the neo-Marxist tradition is addressed, as it provides a critical account of both neoliberal and social democratic theories.

1.3. Neoliberalism

In order to understand neoliberalism, it must first be defined; as it has been argued that the concept is often undefined, creating confusion over its meaning.⁶⁵ Two key ideological strands can be identified within neoliberalism: classical liberalism and conservatism. Classical liberals are defined by two key beliefs. The first is an absolute commitment to the importance of freedom, defined in the negative sense as an absence of restraints.⁶⁶ Thus classical liberals advocate: individual property rights; the rule of law; sanctity of contracts; and that individual freedom of conscience and action are prerequisites for a good society.⁶⁷ The second is the revival of neoclassical economic theories. The market is considered the most efficient and equitable guarantor of economic growth.⁶⁸ Thus, neoliberal economic policy seeks to maximise the role of the market, and minimise state intervention. Several economic schools are associated with the neoclassical revival: the Chicago and Austrian Schools; monetarism; public choice; and supply-side economics.⁶⁹ Conservatism is concerned with “the conditions that are required for the establishment and maintenance of

⁶² Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies*, 175-8.

⁶³ Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment?* (Auckland: Auckland University Press, 1997), 1.

⁶⁴ Torben Iversen, *Capitalism, Democracy, and Welfare* (Cambridge: Cambridge University Press, 2005), 7.

⁶⁵ Taylor Boas and Jordan Gans-Morse, “Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan,” *Studies in Comparative International Development* 44 (2, June 2009): 139.

⁶⁶ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 80.

⁶⁷ *Ibid*, 64.

⁶⁸ Brian Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935* (Southbank: Thomson Dunmore Press, 2005), xvii-xviii.

⁶⁹ *Ibid*, and Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (Hampshire: MacMillan Education Ltd, 1988), 46-48.

social order.”⁷⁰ Unlike classical liberals, conservatives are less concerned with the maintenance of freedom, and are willing to violate freedom in order to maintain social order and a just society.⁷¹ Despite these differences, these groups are united by a common belief in the importance of free market capitalism, and opposition to social democratic and socialist policies.⁷² Thus neoliberalism in the real world is characterised by a variety of different practices, united by an emphasis on free market economics. Depending on which school of thought within neoliberalism is dominant (e.g. supply-side economics, public choice, new paternalism), neoliberalism can include a range of different policies and appeal to different values to justify these policies. Indeed, it is the combination of classical liberalism and conservatism which makes neoliberalism unique.⁷³

Neoclassical Economics

Having defined neoliberalism, the next task is to outline the neoliberal political economy of welfare. As stated in the definition, neoclassical economics forms the basis of neoliberalism. As such, the description of neoliberalism must start there. At its core, neoclassical economics is based on the idea of an ‘economic man’.⁷⁴ Two key assumptions are posited about this individual. Firstly, they are considered to be rational. Rationality is defined narrowly as meaning having a set of desires or preferences, and pursuing an efficient way of achieving them.⁷⁵ Secondly, humans are considered to be self-interested. This is defined as attempting to seek advantage, in order to fulfil your own welfare by achieving your preferences.⁷⁶ This does not mean humans are always selfish, as it is defined widely enough to include altruism.⁷⁷

⁷⁰ Ibid, 54.

⁷¹ Ibid, 55.

⁷² Ibid, 54-60.

⁷³ Ibid, 28.

⁷⁴ Richard Shaw and Chris Eichbaum, *Public Policy in New Zealand: Institutions, Processes and Outcomes 3rd edition* (Auckland: Pearson, 2011), 214.

⁷⁵ James Caporaso and David Levine, *Theories of Political Economy* (Cambridge: Cambridge University Press, 1992), 9.

⁷⁶ Jack Hirshleifer, *Price Theory and its Applications 4th edition* (New Jersey: Prentice-Hall, 1988), 15.

⁷⁷ Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957), 37.

Neoclassical economists argue the key to understanding how the market economy works is through the price system.⁷⁸ The price system performs two functions: it transmits information; and it creates incentives to act on the information.⁷⁹ Put simply, prices create incentives for economic actors; if prices are high, it encourages individuals to enter the market, thereby decreasing the price of goods through competition.⁸⁰ As entrepreneurs seek to increase their own profit, they are incentivised to keep costs as low as possible. Thus they will seek out the most efficient production techniques available.⁸¹ The market also responds to the demands of the people; as greater demand means greater potential profit, entrepreneurs will produce goods which others desire.⁸² Thus, market incentives produce a system which is both efficient and responsive to the needs of individuals, thereby producing benefits for the entire community. This is best summed up by Adam Smith, an intellectual forerunner of neoclassical economics: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”⁸³

Neoclassical economists argue the process of market incentives produces market equilibrium; where sellers are willing to sell a set amount of product, which is the same amount that buyers are willing to purchase at equilibrium price.⁸⁴ When this analysis is expanded to the entire economy, neoclassical economists argue there exists a general equilibrium, which is the aggregate of all individual market equilibriums.⁸⁵ The key point to note about general equilibrium is that it is always tending towards, or achieves, full utilisation of resources, including labour, as a result of market pressures.⁸⁶ So, markets will reflect the desire of the people, work efficiently and utilise all resources, which leads to economic growth. All that is

⁷⁸ Robert Frank and Ben Bernake, *Principles of Economics International Edition* (New York: McGraw-Hill International, 2009), 84.

⁷⁹ Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (New York: Harcourt Brace Jovanovich), 15.

⁸⁰ Ken Cole et al., *Why Economists Disagree: The Political Economy of Economics* (London: Longman, 1991), 68.

⁸¹ Milton Friedman and Rose Friedman, *Free to Choose*, 18-9.

⁸² Ken Cole et al., *Why Economists Disagree*, 68.

⁸³ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indiana: Hacket Publishing Company, 1993), 11.

⁸⁴ Robert Frank and Ben Bernake, *Principles of Economics*, 68.

⁸⁵ Hugh Gravelle and Ray Rees, *Microeconomics 2nd edition* (Essex: Longman, 1992), 438.

⁸⁶ Brian Roper, *Prosperity for All?*, 161.

required for this to happen is to allow the forces created by the market to run effectively. The role of government is strictly limited to supporting the market, through ensuring “private property rights, individual liberty, unencumbered markets, and free trade.”⁸⁷ Thus, the state sets up a legal and political framework for markets to prosper within; after which the state does not need to intervene further.⁸⁸

Neoliberal Political Economy of Welfare

The neoliberal analysis of welfare is categorised by a distinct split between the liberal and conservative traditions. Amongst conservatives, the new paternalist ideology became the dominant view of the welfare state. As this is covered in chapter two, only the liberal understanding of welfare will be described here. The liberal political economy of welfare is a critique of welfare’s effects on society. A generous welfare state is considered to be politically and economically undesirable and unsustainable. The political critique is drawn from three ideas. The first is a conception of democracy taken from the work of Joseph Schumpeter, who argues democracy is defined by the competition for votes by elites to gain power. Because politicians desire power, they therefore desire votes above all else.⁸⁹ The second idea is that voters will behave rationally and self-interestedly, and is drawn from neoclassical economics.⁹⁰ Finally, voters are considered to have limited information when voting for their representatives.⁹¹

From these three premises, neoliberal Samuel Brittan contended that liberal democracies were under serious threat in the 1970s. He argues the costs of being fully informed on political issues are high, and the ‘benefit’ is extremely low; as it is unlikely a single vote will influence the outcome of an election. Thus, by applying an economic analysis to voting, it is clear that “it is irrational to be too rational,” as the cost of being informed is too high.⁹² Politicians take advantage of this lack of

⁸⁷ David Harvey, “Neoliberalism as Creative Destruction,” *The ANNALS of the American Academy of Political and Social Science* Vol. 610 (no. 1, March 2007): 22.

⁸⁸ *Ibid*, 22-23.

⁸⁹ Joseph Schumpeter, *Capitalism, Socialism and Democracy*, 4th edition (London: Allen and Unwin, 1952), 269, 285.

⁹⁰ Anthony Downs, *An Economic Theory of Democracy*, 4.

⁹¹ *Ibid*, 79.

⁹² Samuel Brittan, “The Economic Contradictions of Democracy,” *British Journal of Political Science* 5 (1975): 138-9.

knowledge by making increasingly grandiose and unrealistic promises.⁹³ The welfare state is emblematic of the problem; politicians can promise increased spending in welfare, despite its growth providing a clear threat to the health of capitalism.⁹⁴ Given the cost of being politically informed on this issue is high, and the benefit of increased spending satisfies peoples immediate self-interest, there is no incentive to stop this process. Brittan concluded this would lead to economic catastrophe, which threatened to undermine liberal democracies.⁹⁵

Continuing on from the economic analysis of democracy, neoliberals argue the welfare state creates perverse economic incentives. The impact of this is seen on two levels; for welfare beneficiaries, and for the economy as a whole. For beneficiaries, welfare payments are designed to prevent poverty. But by doing so, it also creates an alternative to work. Beneficiaries are then able to reject low quality and low wage work (e.g. cleaning), as they can maintain a living on a welfare benefit. This is a rational response from beneficiaries if welfare rates are high. The ‘disutility’ of working an unpleasant job needs to be lower than the benefits of working (increased income). If welfare payments are high, there is little benefit to be gained, meaning it is rational to abstain from work. In the long-term, this has a negative effect on the beneficiary. They spend more time out of the work force, which atrophies their work ethic. Further, these low-paying jobs often lead to better paying work, which lifts the beneficiary out of poverty without assistance.⁹⁶ Thus welfare creates a “poverty trap,” where it is rational to remain on a low income (welfare), increasing the likelihood that beneficiaries will remain in poverty.⁹⁷ Welfare, then, actually hurts the most vulnerable in society by keeping them in a state of near poverty.

High spending on welfare also increases total government expenditure, requiring increased taxation to cover the costs. The effect of this is threefold. Firstly, if tax rates are high, individuals reduce their work effort, particularly if taxation is highly progressive. The argument is the same as for beneficiaries; if high income earners face low benefits from increased work, they will rationally choose not to work

⁹³ Ibid, 129.

⁹⁴ Ibid, 143.

⁹⁵ Ibid, 129.

⁹⁶ Charles Murray, “The Two Wars against Poverty: Economic Growth and the Great Society,” *The Public Interest* 69 (1982): 11.

⁹⁷ Treasury, *Government Management* (Wellington: Treasury, 1987), 179-80.

harder.⁹⁸ Secondly, entrepreneurial behaviour is discouraged. Starting a business is a significant financial risk, and will only be undertaken if the potential pay-off is large enough. High taxation reduces this pay-off, which disincentivises risk-taking behaviour.⁹⁹ Finally, talented individuals are likely to immigrate to countries with lower taxes, depriving countries of their most talented people.¹⁰⁰

Further issues arise due to the government provision of welfare. Government provision falls prey to two key problems: fiscal inefficiency and poor targeting due to special interests. The first issue derives from the assumption of human self-interestedness. Milton Friedman argues that individuals will achieve the best value for money when spending their own money on themselves. The incentives are clear; the money spent (costs) directly affects you, and the benefits are enjoyed by you. Government spending is the opposite. Politicians and civil servants spend other people's money (taxes), and the benefits go to other people (e.g. welfare beneficiaries). The only incentive for government officials to spend efficiently is "human kindness," and not "the much stronger and more dependable spur of self-interest."¹⁰¹ Friedman concludes these incentives explain "the wastefulness and ineffectiveness of ... spending" on welfare.¹⁰² A further issue draws on the critique of representative democracy discussed earlier. Writing in the New Zealand context, James Cox argues most welfare provision is directed to those on middle-to-high incomes, especially in areas such as education and health.¹⁰³ Politicians use welfare as a tool to gain more votes. The poorest in society are the least likely to vote, so there is no political gain by targeting them. Thus politicians will push initiatives which favour the better off, rather than the most vulnerable.¹⁰⁴

⁹⁸ Treasury, *Economic Management* (Wellington: Treasury, 1984), 257.

⁹⁹ Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 163.

¹⁰⁰ Milton Friedman and Rose Friedman, *Free to Choose*, 101.

¹⁰¹ *Ibid*, 117.

¹⁰² *Ibid*.

¹⁰³ James Cox, *Middle Class Welfare* (Wellington: New Zealand Business Roundtable, 2001), 3.

¹⁰⁴ *Ibid*, 12.

1.4. Social Democracy: Keynesian Economic Theory

Historically, social democracy has been associated with Keynesian economic theory.¹⁰⁵ This theory was considered economic orthodoxy throughout the middle of the twentieth century, but has since declined in popularity after the rise of neoclassical economics.¹⁰⁶ At its most basic level, Keynesianism represents a fundamental challenge to classical and neoclassical economic theories. They, as previously discussed, argue the market creates incentives which produce economic growth and high levels of employment. Keynesians reject this view. Instead, they argue markets are capable of producing long-lasting recessions, and under-utilise economic resources, particularly labour, leading to low growth and high unemployment.¹⁰⁷

The key to this critique is the concept of aggregate demand.¹⁰⁸ Put simply, Keynesians argue markets do not produce sufficient levels of demand to ensure high levels of growth and employment.¹⁰⁹ If sufficient levels of demand are created, the market can produce economic prosperity. This can be achieved through the active intervention of the state in the economy.¹¹⁰ This intervention is achieved through a wide variety of mechanisms. The primary instrument available to the state is fiscal policy. In times of recession, it can increase state spending in order to increase aggregate demand, thereby increasing economic growth. In times of high growth, the state reduces its spending, decreasing economic growth.¹¹¹ This prevents the boom-and-bust cycle of free-market capitalism, ensuring consistent growth and full employment.¹¹² The state can also intervene in a wide array of other areas to ensure economic growth, including: building infrastructure; restricting foreign imports; subsidising local

¹⁰⁵ Brian Roper, *Prosperity for All?*, 121-2.

¹⁰⁶ *Ibid*, xvii-xviii.

¹⁰⁷ Toshiaki Hirai et al., *Keynesian Reflections: Effective Demand, Money, Finance, and Policies in the Crisis* (New Delhi: Oxford University Press, 2013), 96.

¹⁰⁸ Mark Setterfield, "Effective Demand," in *The Elgar companion to Post Keynesian Economics*, ed. John Edward King (Cheltenham, UK: Edward Elgar Publishing, 2003), 108.

¹⁰⁹ Philip Arestis, *The Post-Keynesian Approach to Economics: An Alternative Analysis of Economic Theory and Policy* (Aldershot: Edward Elgar Publishing, 1992), 93.

¹¹⁰ *Ibid*, 240-1.

¹¹¹ Richard Shaw and Chris Eichbaum, *Public Policy in New Zealand*, 215.

¹¹² Brian Roper, *Prosperity for All?*, 129.

industry; restricting foreign investment; and maintaining high levels of funding for the welfare state.¹¹³

Social Democratic Political Economy

The literature on social democratic political economy of welfare is expansive. Indeed, it is considered to be the dominant viewpoint within the field.¹¹⁴ Given the breadth of literature which could be discussed, this section will only focus on two elements of social democratic political economy: its theory of state; and the broad principles underlying social democratic welfare states.

The social democratic theory of state is drawn from the power resources theory (PRT). PRT is, at its core, a theory of power within society. There are three key institutional sectors within society: the market; democratic politics; and the family.¹¹⁵ Within the economic sphere, capitalists are dominant, as they (by definition) own the means of production, giving them control over the economic process. The democratic sphere, however, is driven by a different logic. This sphere can be dominated by sheer numbers via elections. Here, labour movements, due to their superior size, can gain influence to implement social reform.¹¹⁶ Crucial to this theory is the role of representative democracy. Parliamentary democracy is considered an “effective institution for the translation of mobilised power into desired policies and reforms.”¹¹⁷ Thus, progress is achieved through democracy via gradual reform, coalition building and compromise.¹¹⁸

The importance of the political sphere is complimented by the work of Karl Polanyi. Polanyi argues the logic of free market capitalism “assures the destruction of both

¹¹³ Ibid, 129-30.

¹¹⁴ Torben Iversen, *Capitalism, Democracy, and Welfare*, 7.

¹¹⁵ Walter Korpi, “The Icerberg of Power Below the Surface: A Preface to Power Resource Theory,” in *Power Resources Theory and the Welfare State: A Critical Approach, Essays Collected in Honour of Walter Korpi*, ed. Julia O'Connor and Gregg Olsen (Toronto: University of Toronto Press, 1998), viii.

¹¹⁶ Walter Korpi, “Social Policy and Distributional Conflict in the Capitalist Democracies. A Preliminary Comparative Framework,” *Western European Politics* 3 (Issue 3, 1980): 298.

¹¹⁷ Gøsta Esping-Andersen, “The Three Political Economies of the Welfare State,” *International Journal of Sociology* 20 (No. 3, Fall, 1990): 99-100.

¹¹⁸ Bo Rothstein, “Social Democracy,” in *The Encyclopaedia of Political Science Volume 5*, ed. George Thomas Kurian (Washington, DC: CQ Press, 2011), 1552.

society and the natural environment.”¹¹⁹ Capitalism turns everything, including labour, into a commodity. Labour then becomes subject to the “artificial” and volatile market forces.”¹²⁰ However, labour is not truly a commodity; it represents people and their livelihoods. The negative outcomes of market forces are visible to all; destitution, poverty and so on.¹²¹ Thus, as capitalism spreads, a countermovement is created which seeks to protect society from the negative effects of markets.¹²² Politics, as a realm where this conflict is visibly seen, then becomes fundamentally important.

Once the working class is in power, social democrats seek to reform capitalism in order to improve the conditions of the working class. The introduction of Keynesian economic controls represents a fundamental advancement of the social democratic position. Economic controls represent “a system of control over economic life.”¹²³ By having political controls over the economy, the working class can control the economic sphere without the use of central planning or implementing socialism.¹²⁴ This constitutes a form of socialisation of the economy, where the non-capitalist class can exert its influence, and ensure its own prosperity. In 1956, British MP Tony Crosland wrote the classic statement of social democratic thought, arguing the rise of Keynesianism and the welfare state had shifted power so far towards the working class that Britain was on the cusp of realising a democratic form of socialism.¹²⁵

Social democrats view the state as an effective institution for translating working class demands into political reality, allowing them effective control over the economy. This, however, begs the question of what principles would be used to guide social democratic reforms. For this, we return to the work of Esping-Andersen, who is located within the social democratic tradition.¹²⁶ Thus his concepts provide an accurate summation of social democratic principles, which emphasise

¹¹⁹ Fred Block, Introduction to *The Great Transformation: The Political and Economic Origins of our Time*, by Karl Polanyi (Boston: Beacon Press, 2001), xxiv.

¹²⁰ Gareth Dale, *Karl Polanyi* (Cambridge: Polity Press, 2010), 61.

¹²¹ Ibid

¹²² Fred Block, Introduction, xxvii.

¹²³ Robert Skidelsky, “The Decline of Keynesian Politics,” in *State and Economy in Contemporary Capitalism*, ed. Colin Crouch (London: Croom Helm, 1979), 55.

¹²⁴ Ibid.

¹²⁵ Hartley Dean, Welfare, *Law and Citizenship*, 5.

¹²⁶ Gregg Olsen and Julia O'Connor, “Introduction Understanding the Welfare State: Power Resources Theory and Its Critics,” in *Power Resources Theory and the Welfare State: A Critical Approach, Essays Collected in Honour of Walter Korpi*, ed. Julia O'Connor and Gregg Olsen (Toronto: University of Toronto Press, 1998), 3.

decommodification and low levels of stratification, based on shared citizenship. It is worth expanding on the notion of citizenship, as it is a foundational piece of social democratic thought. David Harris, a social democratic author, identified two elements of citizenship theory. Firstly, there is a rejection of the primacy of the market. Citizenship theorists accept the Keynesian critique of markets, agreeing there are numerous forms of market failure which necessitate state intervention. In particular, the market's inability to produce public goods, such as education and health care, is of primary concern.¹²⁷ More widely, citizenship theorists argue "left unsupplemented, markets lead to radical insecurity and generate systematic inequality which in turn underwrites morally unacceptable relations of dominance and subservience between groups and individuals in society."¹²⁸ This inequality stems from the unequal relations of power created by capitalism; workers are forced to sell their labour in order to survive, whereas capitalists are free to choose whether to accept the offer of labour from workers.¹²⁹

The solution to this "radical insecurity" lies in a conception of citizenship and community. Every citizen is entitled to "what it is to be a full member of a community."¹³⁰ That is, they are entitled to the resources which enable individuals to participate in society with their fellow citizens. The implication of this conception is that resources should be allocated not just to avoid absolute poverty and destitution, but on a relative basis; individuals must be guaranteed access "to a community way of life," which requires more resources than the bare minimum.¹³¹ This means the state must provide the social rights to which Marshall referred, including education, health, housing and social welfare policies. These rights would be delivered through the welfare state, which should provide "an extensive, elaborate and generous structure of social policies."¹³² Overall, David Harris put the argument most succinctly :

A developed and extensive welfare state is an integral element of a morally acceptable society. It is an essential means of promoting social community. It is an essential means of promoting social justice, enhancing individual self-

¹²⁷ David Harris, *Justifying State Welfare: The New Right Versus the Old Left* (New York: Basil Blackwell Ltd., 1987), 27-29.

¹²⁸ Ibid, 28-9.

¹²⁹ Ibid, 45.

¹³⁰ Ibid, 26.

¹³¹ Ibid, 29.

¹³² Ibid, 31.

development and fostering a sense of community. Without it market societies permit, indeed encourage, the exclusion of individuals.¹³³

1.5. Critique of Social Democracy and Neoliberalism: Neo-Marxism

Marxian political economy belongs to the heterodox tradition of economic thought.¹³⁴ Marxists have been consistent critics of Keynesianism, its close-ally social democracy, and neoliberalism.¹³⁵ Marxist accounts of the welfare state have grown since the 1970s, and there have been a remarkable variety of theories developed.¹³⁶ As with neoliberalism and social democracy, the basic views of Marxist economics will first be described.

Fundamentally, Marxists view capitalism as inherently exploitative and crisis prone. To understand why, one must begin with a description of the concept of class, which is at the core of all Marxist theories.¹³⁷ The class structure of society is created by the mode of production, which is the “economic foundation of society.”¹³⁸ Modern society is defined by the capitalist mode of production. Marx argues capitalism creates two distinct classes; the bourgeoisie and the proletariat. The bourgeoisie are the owners of the means of production; and the proletariat are those who must sell their labour capacity for income.¹³⁹

The driving force of economic growth is the necessity for business to accumulate profit.¹⁴⁰ To do so, businesses simply need to take in more profit than they expend in

¹³³ Ibid, 27.

¹³⁴ Marc Lavoie, *Introduction to Post-Keynesian Economics* (Hampshire: Palgrave Macmillan, 2007), 1.

¹³⁵ Brian Roper, *Prosperity for All?*, 14.

¹³⁶ Chris Harman, *Zombie Capitalism: Global Crisis and the Relevance of Marx* (Chicago: Bookmarks Publications, 2009), 15.

¹³⁷ Erik Olin Wright, “Foundations of a Neo-Marxist Class Analysis,” in *Approaches to Class Analysis*, ed. Erik Olin Wright (Cambridge: Cambridge University Press, 2005), 4.

¹³⁸ Jairus Banaji “Mode of Production,” in *Elgar Companion to Marxist Economics*, ed. Ben Fine and Alfredo Saad Filho (Cheltenham: Edward Elgar Publishing, 2012), 227.

¹³⁹ Rosemary Crompton, *Class and Stratification: An Introduction to Current Debates 2nd Edition* (Cambridge: Polity Press, 1998), 26-27.

¹⁴⁰ Angus Walker, *Marx, His Theory and its Context: Politics as Economics, an Introductory and Critical Essay on the Political Economy of Karl Marx* (London: Longman, 1978), 153.

costs.¹⁴¹ Put simply, this requires capitalists to receive more benefits from workers than they cost to employ. The difference between costs and profit is called surplus value.¹⁴² Because the bourgeoisie own the means of production, and therefore control the output of production, they can appropriate the surplus value for themselves. This surplus value becomes profit, which is the income of the bourgeoisie.¹⁴³

Marxists reject the neoclassical view that free markets tend towards equilibrium, where economic resources are fully utilised. Instead, they argue there is no equilibrium; rather capitalism goes through regular boom-and-bust cycles.¹⁴⁴ Unlike Keynesians, they do not believe these cycles can be managed, as the crises are part of the “laws of motion” of capitalism.¹⁴⁵ These recessions are caused by a decrease in the rate of profit.¹⁴⁶ In order to return to economic growth, capitalists must increase their profitability. This usually includes decreasing the power of the working class in order to increase surplus value.¹⁴⁷ However, Marxists argue there is a general tendency for the rate of profit to decline over time. Thus, crises will become more prevalent and extreme; attacks on the proletariat will increase, contributing to the long-term unsustainability of capitalism.¹⁴⁸

The Marxist Political Economy of Welfare

The first task of the neo-Marxist analysis of welfare is to place the welfare state in the wider context of capitalism and the state. Neo-Marxist Ian Gough’s theory of the state provides an excellent starting point for understanding how this is done. A fundamental feature of capitalism is the separation of the political sphere from the economic.¹⁴⁹ The economic sphere is dominated by exploitation and unequal power

¹⁴¹ Charles Barone, *Radical Political Economy: A Concise Introduction* (New York: M.E. Sharpe, 2004), 11.

¹⁴² Ibid, 18.

¹⁴³ James Caporaso and David Levine, *Theories of Political Economy*, 51.

¹⁴⁴ Jonathan Wolff, *Why Read Marx Today?* (Oxford: Oxford University Press, 2002), 77.

¹⁴⁵ Anwar Shaikh, “Falling Rate of Profit,” in *A Dictionary of Marxist Thought 2nd edition*, ed. Tom Bottomore et al. (Oxford: Blackwell Publishers, 1991), 161.

¹⁴⁶ Ibid, 185.

¹⁴⁷ Ibid, 164.

¹⁴⁸ Jonathan Wolff, *Why Read Marx Today?*, 81

¹⁴⁹ Ian Gough, *The Political Economy of the Welfare State* (London: MacMillan Press, 1979), 40.

relations.¹⁵⁰ The political sphere is marked by political freedom, equality of rights and nominal equality of power. Importantly, the political sphere has centralised the means of coercion: the courts; the army; police etc.¹⁵¹ This allows the state a degree of autonomy from the economic sphere. Importantly, this gives it the ability to make decisions that are not in the interests of the bourgeois. However, Gough argues the state still acts in the interest of capital. The most important reason is that the state must submit to the logic of capitalism.¹⁵² The logic of capitalism is profitability; in order for the economy to prosper, the state must ensure a conducive environment for the extraction of surplus value, and therefore of class exploitation.

A contemporary of Gough, James O'Connor, provides a theoretical framework which encapsulates Gough's views. O'Connor argues the state has two key functions: accumulation and legitimation.¹⁵³ The accumulation function was just mentioned, and requires surplus extraction. The second function is legitimation. The legitimation function requires the state to win the mass loyalty of the population to both the state and the capitalist system, thereby "integrat[ing] all elements of the population into a coherent system."¹⁵⁴ The separation of state and economy is crucial to achieving this purpose. The autonomy of the state allows it to assume "the name of a universal principle," whilst actually acting in the interests of the bourgeois class, and against the interests of the majority.¹⁵⁵ The state ensures the consent of the proletariat for its own exploitation.

O'Connor then identifies two types of state expenditure relating to these two functions: social capital and social expenses. Social capital increases the rate of profit, as it provides services which either increases the productivity of labour (e.g. education), or reduces the costs of reproducing labour (e.g. early childhood education or healthcare). Social expenses are projects which maintain social harmony, without increasing the rate of profit.¹⁵⁶ The welfare state plays a crucial role in achieving both legitimisation and accumulation. Welfare helps to shield people from the worst outcomes of capitalism, including poverty, and unequal access to health and

¹⁵⁰ Ibid, 39.

¹⁵¹ Ibid, 41.

¹⁵² Ibid, 40-2.

¹⁵³ James O'Connor, *Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), 6.

¹⁵⁴ Ibid, 69.

¹⁵⁵ Lucio Colletti in Gough, *The Political Economy of the Welfare State*, 43.

¹⁵⁶ James O'Connor, *Fiscal Crisis of the State*, 6-7.

education.¹⁵⁷ This type of spending is predominantly a social expense, though it does ensure the unemployed are ready for employment, and may be classed as social capital. Welfare can also be a more direct form of social capital. For example, welfare for families (e.g. direct payments, early childhood education) ensures parents return to the workforce (increasing productivity), and reduces the costs of childrearing, making it a form of social capital.

The welfare state, then, is an institution which assists the process of accumulation, and ensures public support for the system. Thus the welfare state represents a “contradictory unity.”¹⁵⁸ Provision of education, health and social welfare prevents absolute poverty within society, shielding people from the harshest elements of capitalism. However, these same institutions are seen as repressive mechanisms. The education system assists in the creation of inequality, the provision of family welfare entrenches gender inequality and unemployment benefits coerce individuals into work. Ian Gough concludes the welfare state “simultaneously embodies tendencies to enhance social welfare, to develop the powers of individuals ... and tendencies to repress and control people, to adapt them to the requirements of the capitalist economy.”¹⁵⁹ Gough argues the welfare state is a result of working-class activism and labour strength, but it “paradoxically ... aids the long-term accumulation of capital and strengthens capitalist social relations.”¹⁶⁰

Welfare also plays an important role in maintaining what Marx calls the “reserve army of labour.”¹⁶¹ The reserve army is the pool of unemployed and underemployed workers in society. When the economy grows, these workers are pulled into the economy. However, if the economy nears full employment, wages will increase rapidly, which decreases surplus value. This leads to a slowing, and possible reversing, of economic growth due to a lack of profitability. Workers are then pushed back into the reserve army, increasing profitability and economic growth.¹⁶² The reserve army plays a crucial role in the extraction of surplus value. They ensure workers cannot claim all of the surplus value, as employers can replace them with

¹⁵⁷ Ibid, 8.

¹⁵⁸ Christopher Pierson, *Beyond the Welfare State?*, 57.

¹⁵⁹ Ian Gough, *The Political Economy of the Welfare State*, 12.

¹⁶⁰ Ibid, 55.

¹⁶¹ Anwar Shaikh, “Reserve Army of Labour,” in *A Dictionary of Marxist Thought 2nd edition*, ed. Tom Bottomore et al. (Oxford: Blackwell Publishers, 1991), 474.

¹⁶² Ibid.

lower paid workers.¹⁶³ The reserve army also ensures greater productivity, as employers can pressure employees to work harder out of fear of losing their job.¹⁶⁴ Providing welfare for the reserve army is, then, beneficial to capitalism. It allows the unemployed to be prepared to work by coercing them into changing their behaviour to make them suitable for employment and mandating they take up job offers.¹⁶⁵ So, welfare is more than just a social expense to ensure social harmony. It is a form of social capital, which increases capital accumulation by keeping wages low, and workers productive.

Another neo-Marxist perspective is offered by the regulation approach. The core of this approach is an historical analysis of how capitalist societies ensure capital accumulation. The focus of the regulation school is not just economic; it seeks to examine how accumulation is regulated by “a range of economic and extra-economic mechanisms in seeking to explain the ‘regularities’ of economic behaviour.”¹⁶⁶ As with other Marxist schools, a key question is how capitalism is maintained in spite of the “inevitably generated antagonisms and crises.”¹⁶⁷ The answer to this question is found through the concept of modes of regulation, which is defined as “a set of mediations which ensure that the distortions created by the accumulation of capital are kept within limits which are compatible with social cohesion.”¹⁶⁸ Regulationists seek to describe how institutions, societal norms and patterns of conduct support and protect capital accumulation. These factors are not constant; and, driven by crises, evolve over time.¹⁶⁹

The welfare state is one of the mechanisms which support capital accumulation. As with other neo-Marxist theories, the welfare state is seen as having two key goals: to help create a productive work force; and to lessen the negative side-effects of

¹⁶³ James Caporaso and David Levine, *Theories of Political Economy*, 70.

¹⁶⁴ Mathew Forstater, “Unemployment,” in *The Elgar companion to Post Keynesian Economics*, ed. John Edward King (Cheltenham, UK: Edward Elgar Publishing, 2003), 377.

¹⁶⁵ Christopher Pierson, *Beyond the Welfare State?*, 52.

¹⁶⁶ Bob Jessop and Ngai-Ling Sum, *Beyond the Regulation Approach: Putting Capitalist Economies in Their Place* (Cheltenham: Edward Elgar Publishing, 2006), 15.

¹⁶⁷ Bob Jessop, *State Theory: Putting Capitalist State in Their Place* (Cambridge: Polity Press, 1990), 307-8.

¹⁶⁸ Michel Aglietta, “Capitalism at the Turn of the Century: Regulation Theory and the Challenge of Social Change,” *New Left Review* 1/232 (Nov-Dec 1998), 44.

¹⁶⁹ Bob Jessop, *State Theory*, 307-8.

economic crises, helping to maintain the legitimacy of capital accumulation.¹⁷⁰ The key insight of the regulation school is that the regime of accumulation must work in concert with social policies in order to function properly. This insight is developed through an analysis of the Keynesian Welfare State. Regulationists argue capital accumulation during this period was predicated on mass production of goods; thus, profitability was ensured through mass consumption of these goods.¹⁷¹ Social policy was designed to manipulate the demand-side of the economy in order to ensure high levels of consumption. This was achieved through full employment, which ensured the vast majority of people could economically participate in consumption. To ensure full employment, the state instituted a range of economic controls in order to achieve sufficiently high levels of demand.¹⁷²

However, the 1970s and 80s saw the breakdown of this form of accumulation through a series of economic crises.¹⁷³ These crises led to a transition between accumulation regimes - from one which required mass consumption, to one which requires flexibility and the liberalisation of the economy.¹⁷⁴ Under conditions of flexibility, full employment can no longer be achieved. Instead, social policy has to focus on ensuring a constant supply of labour. This was achieved by introducing stronger disincentives for remaining on a benefit, and ensuring beneficiaries were prepared to work.¹⁷⁵ The key point from this analysis is that social policy assists capital accumulation; and, as the demands of capital accumulation changes, so does social policy.

¹⁷⁰ Jill Quadagno, "Theories of the Welfare State," *Annual Review of Sociology* 13 (1987): 114-5.

¹⁷¹ David Neilson, "Remaking the Connections: Marxism and the French Regulation School," *Review of Radical Political Economics* 44 (2, 2011): 162.

¹⁷² Bob Jessop, "Changes in Welfare Regimes and the Search for Flexibility and Employability," in *The Political Economy of European Employment: European Integration and the Transnationalisation of the (Un)Employment Question*, ed. Henk Overbeek (London: Routledge, 2006), 38-39.

¹⁷³ David Neilson, "State Autonomy and the Mode of Political Regulation: Neo-Liberal Restructuring in New Zealand," *Studies in Political Economy* 57 (Autumn, 1998): 53-4.

¹⁷⁴ Bob Jessop, "Changes in Welfare Regimes and the Search for Flexibility and Employability," 38-9.

¹⁷⁵ David Neilson, "Formal and real subordination and the contemporary proletariat: re-coupling Marxist class theory and labour-process analysis," *Capital & Class* 91(2007): 107.

1.6. Theorising Neoliberal Welfare Reform

It is now possible to articulate my own theoretical framework in relation to this literature. My framework draws from the social democratic and neo-Marxist traditions. As outlined in the introduction to this thesis, the framework will be used to inform the description, analysis and evaluation of the welfare reforms of the two National Governments. Importantly, these tasks must be done within a set word limit. As such, it is necessary to maintain a tight empirical focus in order to maintain the quality of the thesis. Given these requirements, the theories of Esping-Andersen and Castles stand out as the most useful. Their work will help guide the descriptive and evaluative elements of the thesis. The key strength of their work is that they identify the main features of different welfare regimes, which is useful for the comparative analysis of welfare states. Each thinker outlines the key elements of welfare regimes, and identifies a set of empirical measures for identifying each regime. This will help guide the descriptive element of the thesis, as it identifies what reforms are most relevant to social security. Further, it provides analytical tools for evaluating the impact and importance of the welfare reforms. For example, if it is shown that National's reforms have dismantled the WEWS, then these reforms represent a fundamental change to the nature of New Zealand's social security provision. A final strength is derived from Esping-Andersen's focus on how the welfare state impacts on social stratification within society. This directs our attention to how welfare can foster a sense of solidarity, or can be used to create social stigma and feelings of exclusion amongst beneficiaries. Such a focus requires acknowledging the lived experiences of beneficiaries, as their experiences will test Esping-Andersen's contention that liberal welfare regimes exclude beneficiaries from society.

A more critical perspective is gained by incorporating several insights from the neo-Marxist perspective. In particular, neo-Marxist interpretations of the role the welfare state plays in capitalist economies is valuable. The key advance made by Castles is that he includes labour market and economic regulations in his conception of New Zealand's social security. Neo-Marxists go a step further than Castles and argue the welfare state plays an important role in maintaining capitalism. It does this by mitigating and legitimising the negative outcomes of capitalism, helps to maintain downwards pressure on wages, and ensuring the reserve army of labour are prepared for work. By incorporating these insights, our attention turns not just to the lived experiences of beneficiaries; but to the wider role welfare plays in capitalism. The key

weakness of the neo-Marxist approach is its wider empirical focus. A neo-Marxist analysis involves a close examination of the accumulation process, and if one adopts a regulationist approach, how accumulation changes over time. Given the need for a tight empirical focus, such an analysis is not possible. As such, the main insight to be incorporated is the role of the reserve army of labour. The reserve army concept directs our focus to the labour market, and the relationship between the unemployed, welfare and the economy. This complements the focus of Castles' concept of the WEWS, and provides a more critical insight than Castles' work. Thus, the theoretical framework which I adopt predominately relies on the typology of welfare states outlined by Esping-Andersen and Castles. This provides a heuristic guide for the description of the two National Governments, and the analytical tools required for evaluating the reforms. This will be complemented by the more critical perspective of neo-Marxism, though it will not include such a detailed analysis of accumulation.

1.7. Conclusion

This chapter has developed a theoretical framework that is drawn from the political economy of welfare. Sections 1.1 and 1.2 outlined the regimes debate between Gosta Esping-Andersen and Frank Castles. Esping-Andersen outlines a typology of welfare regimes, defined by his concepts of decommodification and stratification. Liberal welfare states, which he argues includes New Zealand, are defined by low levels of decommodification and the entrenchment of the stratification produced by the market. Social democratic countries, conversely, have high levels of decommodification and seek to foster solidarity within society. Castles rejects this view, arguing Australia and New Zealand represent a separate welfare regime, which he describes as the wage earners' welfare state, which historically ensured widespread social protection and equality through a managed market and targeted benefits. Sections 1.3, 1.4 and 1.5 provide an overview the three major traditions of political economy: neoliberalism; social democracy; and neo-Marxism. Each tradition provides a different characterisation of the relationship between the welfare state and capitalism. Neoliberals view the welfare state as a costly burden on the economy; social democrats view welfare as ameliorating inequality and extending social citizenship; and neo-Marxists view it as a crucial institution in ensuring the profitability and legitimacy of capitalism. Finally, I outlined my own theoretical framework which will be used throughout this thesis. It draws predominantly from the theories of Esping-Andersen and Castles, as they provide a tight empirical focus,

and the analytical tools to evaluate the two National Governments. Their theories are supplemented by the more critical insights derived from neo-Marxism, particularly regarding the role welfare and unemployment plays in maintaining capitalism.

CHAPTER TWO

THE INTELLECTUAL DEVELOPMENT OF PATERNALISM

This second chapter further develops the theoretical framework, begun in chapter one, by providing a conceptual basis for the critical analysis of the similarities and differences between the two Governments. This requires an analysis of the neo-conservative critique of welfare in order to identify the intellectual underpinnings of neoliberal welfare reform. As will be shown in the following chapters, this school of thought would significantly influence New Zealand's reforms. The neo-conservative critique originated in the United States and became known as 'new paternalism'. In order to properly understand paternalism, the context in which it arose must be described. Thus, section 2.1 describes the historical backdrop to the emergence of new paternalism. It is shown that paternalism draws on the older conservative ideas of the distinction between the deserving and underserving poor, and the related concept of a culture of poverty. Then, the broader conservative critique of American society in the 1970s and 1980s is described. They saw a breakdown of basic social order, which led to the rise of an "underclass." Section 2.2 outlines how conservatives applied this analysis to welfare, which provides a set of problems which welfare reform must target. Section 2.3 outlines the policy platform which is advocated in order to solve these problems, and to help dismantle the underclass. Finally, section 2.4 identifies the key elements of paternalism, which provides criteria to judge New Zealand's reforms against, in order to assess the similarities between new paternalism and the reforms.

2.1. Situating Paternalism

Before addressing the modern theory of paternalism, its historical antecedents must be identified. Paternalism grew from one of the most enduring concepts in welfare; the dichotomy between the "deserving" and "undeserving" poor.¹ The deserving poor are those who have fallen on hard times due to forces outside of their control. For

¹ David Beito, "Mutual Aid, State Welfare, and Organized Charity: Fraternal Societies and the "Deserving" and Undeserving" Poor, 1900-1930," *Journal of Policy History* 5, (no. 4, 1993): 419.

example, they have lost their job because their employer's business shut down. They have behaved responsibly, and are deemed to be deserving of welfare. The undeserving poor are those who have a low-income because they are unwilling to work hard enough to earn more, or refuse to work at all. In this case, whether the person should receive any form of welfare is contested.² This distinction is based on behaviour, and the moral culpability of a person who is poor; thus moving the focus of welfare to the actions of the individual.³ As I shall later describe, the focus on behaviour is fundamental to the paternalist argument.

Closely related to this position is the theory of a "culture of poverty."⁴ This theory gained prominence in the late 1950s with the publication of *Five Families: Mexican Case Studies in the Culture of Poverty*.⁵ Author Oscar Lewis argues "one can speak of the culture of the poor, for it has its own modalities and distinctive social and psychological consequences for its members."⁶ This culture is "a way of life handed on from generation to generation along family lines."⁷ It is a specifically Western and capitalist phenomenon, and is borne from the reaction of families to the "feelings of hopelessness and despair that arise from the realization by the members of the marginal communities in these societies of the improbability of their achieving success in terms of the prevailing values and goals."⁸ Lewis identifies several features of this culture: it is marked by fear, suspicion and hostility to the dominant institutions of society; they are less likely to marry; have a strong feeling of fatalism, helplessness, dependency and inferiority; and whilst there is a nominal

² Charles Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984), 197.

³ Mike O'Brien and Tapio Salonen, "Child Poverty and Child Rights Meet Active Citizenship: A New Zealand and Sweden Case Study," *Childhood* 18 (2, 2011): 222.

⁴ The connection between the culture of poverty and new paternalism was outlined in Nancy Fraser and Linda Gordon, "A Genealogy of Dependency: Tracing a Keyword of the U.S. Welfare State," *Signs* Vol. 19 (No. 2, Winter, 1994): 309–336.

⁵ David Dietrich, "Culture of Poverty," in *International Encyclopedia of the Social Sciences, Volume 2, 2nd Edition.*, ed. William A. Darity, Jr. (Detroit: Macmillan, 2008), 206.

⁶ Oscar Lewis, *Five Families: Mexican Case Studies in the Culture of Poverty* (New York: Basic Books, 1959), 2.

⁷ *Ibid*, 19.

⁸ *Ibid*, 21.

adherence to mainstream or middle-class morality, these values are not acted out in practice.⁹

The Breakdown of American Society

The 25 years following the end of World War II are known as America's "Postwar Golden Age."¹⁰ Dean Baker succinctly describes the economic context

The years from the end of World War II up to [1973] ... had been a period of a largely unbroken prosperity. The economy had grown rapidly through most of the period, with low rates of both unemployment and inflation. The periods of recession were relatively short and mild ... Also, the economic gains from this period were evenly shared, with workers at all points along the wage distribution enjoying the gains.¹¹

Underpinning this growth was the rise of Keynesianism as economic orthodoxy across the Western World.¹² As described in chapter one, Keynesianism provides the justification for state intervention in the economy. Though rejecting the more left-wing elements of Keynesianism, successive post-war United States Governments accepted the fundamental proposition that Governments could avoid or ameliorate recessions through manipulating aggregate demand.¹³

The 1970s brought the end to the Postwar Golden Age. A wide range of problems beset the US: two "Oil Shocks" rapidly increased oil prices; economic growth slowed, economic recessions were deeper and lasted longer; real wages decreased; expenditure on the welfare state increased; and tax avoidance became more prevalent, leading to high budget deficits for Government.¹⁴ The coincidence of low economic growth, high inflation and high unemployment became known as stagflation. The existence of stagflation provided a fundamental challenge to mainstream Keynesian economic theory, as Keynesian economic modelling did not

⁹ Ibid, 21-23.

¹⁰ Dean Baker, *The United States Since 1980* (Cambridge: Cambridge University Press, 2007), 44.

¹¹ Ibid, 44-5.

¹² Christopher Pierson, *Beyond the Welfare State? The New Political Economy of Welfare* (Cambridge: Polity Press, 2006), 131.

¹³ Joel Krieger, *Regan, Thatcher and the Politics of Decline* (New York: Oxford University Press, 1986), 118-9.

¹⁴ Dean Baker, *The United States Since 1980*, 44-8 and Christopher Pierson, *Beyond the Welfare State?*, 131.

predict such a scenario.¹⁵ Indeed, it is argued stagflation “constituted definite proof of fundamental flaws in Keynesian theory.”¹⁶ Not only was the Postwar Golden Age breaking down; so was the concomitant consensus on Keynesian economic management.

It was in this environment that neoliberal and neo-Marxist theories began to flourish as alternative explanations of the collapse of the postwar boom were sought.¹⁷ These theories sought to identify the key structural problems afflicting advanced capitalist societies and, as described in chapter one, came to a variety of conclusions. Neoliberals contend the social democratic Keynesian policy regime had caused the economic slowdown by impeding the natural functioning of the market, which undermined growth. In contrast, neo-Marxists argue that declining profitability had led to a contraction of investment resulting in economic stagnation and rising unemployment.

Conservatives take a fundamentally different approach to the problem. Rather than emphasising economic and political problems, US conservatives argue their society was experiencing a breakdown of basic morality and societal order. The evidence for this was seen in four areas: family structure; crime; education; and employment. Conservative analysis begins with the family, which is considered to be the fundamental building block of society.¹⁸ The connection between societal breakdown and families became a controversial topic in the 1960s, with the release of a government report called *The Negro Family*. Writing in the midst of the civil rights movement in the mid-1960s, author Daniel Moynihan argued that regardless of the success of the movement, African Americans would not be equal in “ability to win out in the competitions of American life.”¹⁹ The primary obstacle to equality was the trends in family structure amongst African Americans. In 1965, approximately 25% of

¹⁵ John Edward King, “The Post Keynesian Assault on Orthodoxy: Insights from the Weintraub Archive,” in *The Keynesian Tradition*, ed. Robert Leeson (Hampshire: Palgrave MacMillan, 2008), 138.

¹⁶ John Cornwall, “Stagflation,” in *The Elgar companion to Post Keynesian Economics*, ed. John Edward King (Cheltenham, UK: Edward Elgar Publishing, 2003), 323.

¹⁷ Christopher Pierson, *Beyond the Welfare State?*, 152.

¹⁸ Daniel Moynihan, *The Negro Family: The Case for National Action* (Washington, DC: U.S. Department of Labor, 1965), 5.

¹⁹ *Ibid*, ii.

all African American marriages had been dissolved, a number which had been increasing since the 1950s. Nearly 25% of African American children were born to unwed mothers, up from 16% in 1940. For whites, only 3 to 8% of marriages had dissolved, and only 3% of babies were born out of wedlock.²⁰ This argument was again brought to national attention in the 1980s by influential conservative commentator Charles Murray. He found that by 1980, only 54% of African American families consisted of both a husband and a wife, compared to 85%, of whites.²¹ The proportion of African American babies born to sole-parent households had increased to 48%, compared to only 11% for whites. This gap is mostly explained by the substantial income differences between African Americans and whites, as low-income families break-up at a higher rate.²² Murray emphasises the point that these statistics pointed to a fundamental change in the behaviour of low-income people. Individuals who became adults in the late 1970s and 1980s were far more likely to become divorced and raise a child out of wedlock than those of previous eras.²³

The second area of analysis was the increase in crime rates. Beginning in the 1960s, crime rates rose steeply. From 1960 to 1980, the total number of serious crimes reported in the US increased from approximately 3,384,000 to 13,295,000.²⁴ The increase in violent crimes was particularly alarming. Between 1963 and 1980, the incidence of murder increased by 122%, forcible rape by 287% and aggravated assault by 215%. Equally concerning was the increase in property crime, with burglary up 189%, larceny 159% and car theft 128%.²⁵ There was also increasing concern about illicit drug usage, particular because crack cocaine suddenly became widespread in the mid-1980s.²⁶ The use of illicit drugs was most severe amongst those who had: poor relations with their parents; psychological disturbances; have performed poorly

²⁰ Ibid, 8-9.

²¹ Charles Murray, "Two Wars Against Poverty: Economic Growth and the Great Society," *The Public Interest* (Fall, 1982): 14.

²² Charles Murray, *Losing Ground*, 125-7.

²³ Ibid, 128.

²⁴ Serious crimes defined as: murder; forcible rape; robbery; aggravated assault; burglary; larceny; theft; and motor vehicle theft. Lawrence Mead, *Beyond entitlement: The Social Obligations of Citizenship* (New York : Free Press, 1986), 7.

²⁵ Charles Murray, *Losing Ground*, 115.

²⁶ Erich Goode and Nachman Ben-Yehuda, *Moral Panics: The Social Construction of Deviance* (Oxford: Blackwell Publishers, 1994), 211-213.

at school, live in communities where drug-use is widespread, and are in poverty.²⁷ As with the breakdown of the family, African Americans were disproportionately represented in the statistics, being both more likely to commit and to be the victim of crime.²⁸ Conservatives saw the increase in crime as further evidence the current generation of adults were behaving differently from past generations; never before had people committed crime at such a high level.²⁹

The state of the education system was another area of concern. Public disquiet over the quality of education had grown throughout the 1970s, with the Department of Education responding with a national commission. The commission stated: “each generation of Americans has outstripped its parents in education, in literacy, and in economic attainment. For the first time in the history of our country, the educational skills of one generation will not surpass, will not equal, will not even approach, those of their parents.”³⁰ The commission compiled an impressive range of statistics to support its case. SAT (a test taken by school leavers) scores had consistently declined between 1960 and 1983, demonstrating a general fall in overall achievement in education.³¹ This trend occurred across mathematics, English, science and physical education. The percentage of students achieving high scores on SAT tests had declined dramatically. Of particular concern were the outcomes of the least successful. Approximately 13% of all 17 year olds were functionally illiterate. There was a 73% increase in remedial mathematics classes to bridge numerical illiteracy, constituting 25% of all mathematics classes.³² African Americans fared particularly poorly in education. Only 3.5% of white students scored less than 300 on their SAT (considered a low score), compared to 25% of African Americans.³³ Finally, the

²⁷ James Jekel and David Allen, “Trends in Drug Abuse in the Mid-1980s,” *The Yale Journal of Biology and Medicine* 60 (1987): 49-50.

²⁸ Charles Murray, *Losing Ground*, 115.

²⁹ James Wilson, “The Rediscovery of Character: Private Virtue and Public Policy,” *National Affairs* 81 (Fall, 1985): 12.

³⁰ The National Commission on Excellence in Education, *A Nation at Risk: The Imperative for Educational Reform* (Washington, DC: United States Department of Education, 1983), 11.

³¹ Lawrence Mead, *Beyond Entitlement*, 7.

³² The National Commission on Excellence in Education, *A Nation at Risk*, 8-10.

³³ Charles Murray, *Losing Ground*, 106.

national commission estimated up to 40% of African Americans were functionally illiterate.³⁴

Trends in unemployment were a particular concerning area for conservatives. Unemployment rates between 1960 and 1974 never rose higher than 6.7%, and dropped as low as 3.5%. In 1974, there was a sudden rise to 8.5%, which slowly decreased until 1980, when it again rose to a high of 9.7% in 1982.³⁵ Rise and falls in the unemployment rate are not, however, unusual. Conservatives contend, however, this form of unemployment was not due to structural factors and the onset of economic stagnation, but rather was voluntary in nature. The economy was producing enough jobs, but the unemployed did not want to take them. Conservatives argue proof of this trend could be seen across a variety of statistical measures. It appeared most prominently in the measure of male participation in the labour force (LFPR). To be included in the LFPR, individuals either had to be in work, or be actively looking for work. In 1948, participation rates for African American and white males were virtually identical at approximately 87%. This rate remained stable until the 1960s, when the overall LFPR began to decline, and a gap between African American and white participation began to appear. By 1980, 70.5% of African Americans participated in the labour force, compared to 78.6% of white males.³⁶ The downward trend in the LFPR demonstrated people had simply stopped looking for jobs. This change represents a “large-scale voluntary withdrawal from ... the labour market by able bodied males” which had never been seen in US history.³⁷ The gap in the LFPR was most severe amongst youths (aged 16-24), whereas older generations saw no gap arise between ethnic groups. This age difference was used to strengthen the conservative argument that younger generations were behaving differently; they were less likely to have jobs, and less likely to be even looking for work.

The LFPR leaves an important question unanswered: did people stop looking for work because there were no jobs to be found? Lawrence Mead argues jobs were

³⁴ The National Commission on Excellence in Education, *A Nation at Risk*, 8.

³⁵ “Labor Force Statistics from the Current Population Survey,” Bureau of Labor Statistics, accessed 1st December, 2013. http://data.bls.gov/timeseries/LNU04000000?years_option=all_years&periods_option=specific_periods&periods=Annual+Data.

³⁶ Charles Murray, “Two Wars Against Poverty,” 12-13.

³⁷ Charles Murray, *Losing Ground*, 77-79.

available, and therefore most unemployment was voluntary. Between 1970 and 1987, 47% of the jobless had been made redundant or were fired, 13% had left their jobs voluntarily, and 40% were people entering or re-entering the workforce. This means less than half of the unemployed had left their jobs involuntarily. Further evidence is found in a government survey of the unemployed conducted in 1976. It found the average unemployed person would only return to work if the job offered a 7% increase on their previous wage; 35% were willing to work for less money; and 30% of the jobless were willing to work a job more than 20 miles away. For Mead, this showed the unemployed were only willing to work in employment they found desirable, with a decent wage and with little travel. He also argued it was clear there were jobs available. Amongst the disadvantaged (women, teens, non-whites) long-periods out of work were rare, with most cycling in and out of different jobs.³⁸ This was confirmed by administrators of federal training programmes, who found clients had far more difficulty keeping their jobs rather than finding them. Jobs existed for disadvantaged individuals, but they were unable to keep them due to a sense of entitlement (believing they deserved a better job), or behavioural deficits (not showing up to work).³⁹ Further, many menial jobs were taken by illegal immigrants, who were more willing to work low-wage and low-skill jobs.⁴⁰

Mead saw this as evidence the jobless had become “*jobshopping*” for suitable employment, rather than “*jobseeking*,” and accepting any job they could find. This explains why the slight majority of jobless had not lost their previous job; they either left voluntarily or were not actively looking for work.⁴¹ Unlike the Keynesian, neoliberal and neo-Marxist analyses, which attribute unemployment to the onset of economic stagnation, driven by economic and political structural problems, conservatives argue the individual was at the centre of the problem. Unemployment was not caused by government intervention in the economy, or the needs of capital accumulation, but because individuals simply were not taking the jobs which were available.

³⁸ Lawrence Mead, *Beyond Entitlement*, 72-4.

³⁹ *Ibid*, 24.

⁴⁰ Lawrence Mead, *The New Politics of Poverty: The Nonworking Poor in America* (New York: Basic Books, 1992), 91.

⁴¹ Lawrence Mead, *Beyond Entitlement*, 72-4.

The New Problem: The Rise of the Underclass

Conservatives saw American society heading in a new direction, with the breakdown of the family, increasing crime, decreasing educational attainment, and increasing voluntary unemployment being its most egregious outcomes. These trends pointed to a new social problem; the rise of an 'underclass'. The concept of the underclass gained widespread exposure after the publication of Ken Auletta's book *Underclass* in 1982.⁴² Auletta defined the underclass as:

(a) the passive poor, usually long-term welfare recipients; (b) the hostile street criminals who terrorise most cities, and who are often school dropouts and drug addicts; (c) the hustlers, who, like street criminals, may not be poor and who earn their livelihood in an underground economy, but rarely commit violent crimes; (d) the traumatised drunks, drifters, homeless shopping-bag ladies and released mental patients.⁴³

The underclass was the culmination of the interaction of various individual social problems. Coming from a broken family is linked to increased drug usage and poor educational outcomes, which are linked to greater crime rates, and so on, which creates a cycle that was exceptionally difficult to prevent.⁴⁴ The underclass is usually poor, stemming from their tenuous relationship with the labour market, leading to dependence on welfare for financial security.⁴⁵ Hustlers and criminals, however, are not always poor. What unites these groups are their behavioural deficiencies; they are likely to be unemployed, lack respect for law and order, are unable to maintain marriages, and seem incapable of managing their own lives.⁴⁶ Here, the culture of poverty thesis re-emerges in a modern context. Being part of the underclass means being part of a certain culture, which inculcates behaviours which are incompatible with mainstream society, a culture which is passed from one generation of broken families to the next.

The exact size of the underclass was difficult to precisely measure, as the categories created by Auletta are difficult to operationalize. Auletta himself does not provide an exact number, though his statistics suggest around 9 million people were in the

⁴² Michael Katz, "The 'Underclass Debate,'" in *The "Underclass Debate" Views From History*, ed. Michael Katz (Princeton: Princeton University Press, 1993), 4.

⁴³ Ken Auletta, *The Underclass* (New York: Random House, 1983), xvi.

⁴⁴ Ibid, 31-43.

⁴⁵ Ibid, 25.

⁴⁶ Ibid, 26.

underclass, compared to 29.3 million who were in poverty.⁴⁷ This finding is reinforced by a study by conservative scholars Mary Bane and David Ellwood. They found a “hardcore” of long-term poverty amongst the poor. Over a single year, the majority of people who were in poverty were there for only a short period. But at a single point in time, approximately 60% of those in poverty would be in the midst of a spell of poverty which would last eight years or more.⁴⁸ This meant the majority of beneficiaries used welfare to quickly exit poverty. However, because of the existence of a hardcore of poverty, the majority of welfare funds were spent on this group.⁴⁹ They found the spells of poverty that lasted longest were associated with family events; either a break-up of a family which led to solo-motherhood, or the birth of a child to a sole-mother.⁵⁰ Thus, because poverty is associated with family break-up, which is more predominant amongst African Americans, the long-term impoverished are dominated by a particular demographic; they are predominantly non-white, live in female-headed households (i.e. sole-mothers), and 70% are under 18.⁵¹

2.2. The Challenge for Welfare

The rise of the underclass, and their associated problems, creates a fundamental challenge for the way governments should assist the poor. Conservative critiques were levelled at all public institutions: from education, to law and order, and most prominently, welfare.⁵² The welfare system was of particular importance because of a growing concern of welfare “dependency.” The existence of welfare was said to contribute to the rise of the underclass. Charles Murray, for example, argues the availability of a benefit for sole-mothers accelerated the break-down of the family, and increases voluntary unemployment, thereby increasing the size of the underclass. This creates a cycle where the people who most need help are put on welfare, which reinforces their poverty, creating the hardcore of poverty Bane and Ellwood had

⁴⁷ Ibid, 30.

⁴⁸ Mary Bane and David Ellwood, *Slipping Into and Out of Poverty: The Dynamics of Spells* (Cambridge, MA: National Bureau of Economic Research, 1983), 18.

⁴⁹ Ibid, 35.

⁵⁰ Ibid, 25.

⁵¹ Ken Auletta, *The Underclass*, 30.

⁵² For example, see James Wilson, “The Rediscovery of Character,” 3-16, James Wilson, “Crime and American culture,” *National Affairs* 70 (Winter, 1983): 22-48, Charles Murray, “No, Welfare Isn't Really the Problem,” *National Affairs* 84 (Summer, 1986): 3-11.

identified.⁵³ The underclass are unable to help themselves, and become dependent on welfare. Welfare reforms, then, are crucially important to reducing the underclass, because so many of the underclass were dependent on welfare.

The challenge the underclass posed to welfare originated from the newness of their problems. Already we have seen that family breakdown, crime, educational failure, and unemployment were more severe amongst the younger generations than previous ones, representing a fundamental change in behaviour. Mead outlined the challenge most articulately. He argues the existence of the underclass creates a paradigm shift from progressive to “dependency” welfare politics.⁵⁴ The key change between these paradigms is the assumption of competence. Under progressive politics, it is assumed welfare beneficiaries behave in accordance with the “axioms of individually self-interested rationality.”⁵⁵ That is, left to their own devices, beneficiaries behave in a way conducive to bettering their own lives. Thus, progressive welfare policies are designed to eliminate the barriers the poor face in achieving their goals. According to Mead, progressive policies succeeded in this regard; the poor no longer face any major external barriers to success.⁵⁶ However, poverty, unemployment, criminality and educational failure remain. Mead argues this is because the poor are not competent; rather, they suffer from behavioural deficits which make it unlikely they will escape poverty.⁵⁷ Thus, the problem lies not with the structure of society, but with the individual.

In Mead’s edited volume *The New Paternalism*, other scholars furthered the case for rejecting the competence assumption. George Vaillant found in his study of 456 under-educated white males, the best predictor of being in poverty was the existence of mental illness. Of the 52 who were officially in poverty, only 3 (7%) did not have

⁵³ See Charles Murray, “No, Welfare Isn’t Really the Problem,” 4.

⁵⁴ Lawrence Mead, *The New Politics of Poverty*, 211.

⁵⁵ Mark Kleiman, “Coerced Abstinence: A Neopaternalist Drug Policy Initiative,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 182.

⁵⁶ Lawrence Mead, “The Rise of Paternalism,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 20.

⁵⁷ Lawrence Mead, *The New Politics of Poverty*, 211.

psychiatric illnesses (including alcoholism, schizophrenia, mental retardation, etc.).⁵⁸ Further, he found those who are in poverty are unable to find work because of their behavioural deficits (depression, undersocialisation etc.), not because of structural deficits (economic conditions, bigotry etc.).⁵⁹ Psychologist Miles Shore found poverty is causally related to major mental illnesses, such as schizophrenia, anxiety disorders, severe depression and substance abuse, as well as several others.⁶⁰ In another study, he found behavioural disorders are clearly segregated by income; 27% of those below the poverty line suffer from a disorder, compared to 20.4% for low-income earners, 16.1% for middle-incomes, and 14.2% for high incomes.⁶¹ A key psychological outcome of poverty is a sense of pessimism, defined as “respond[ing] to adversity by giving up and adopting a helpless stance.”⁶² Pessimists are unable to exercise “choice and control and creat[e] opportunities for successful outcomes of individual actions.”⁶³ This leads to those in poverty adopting a sense of hopelessness, and an inability to improve their own position. Beneficiaries become dependent on the state for their own survival, which leads to a state of pessimism, which makes it more difficult to leave welfare.⁶⁴

Mead rejects the assumption of competence for the most vulnerable in society. Instead, he assumes incompetence. This rejection has immense implications for welfare. It means the long-term poor cannot, without additional help, get out of poverty themselves. This means the orthodox approach of policy makers, which was to change economic incentives to induce individuals to change their behaviour, is incapable of helping the poor.⁶⁵ This rejects the then dominant centre-left approach to welfare reform. More controversially, it also rejects the then emerging classical liberal approach to welfare, which is based on economic incentives. According to this

⁵⁸ George Vaillant, “Poverty and Paternalism: A Psychiatric Viewpoint,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 283.

⁵⁹ Ibid, 289.

⁶⁰ Miles Shore, “Psychological Factors in Poverty,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 307.

⁶¹ Ibid, 310.

⁶² Ibid, 319.

⁶³ Ibid, 317.

⁶⁴ Ibid, 320.

⁶⁵ James Wilson, “The Rediscovery of Character,” 5.

view, severely cutting welfare programs creates powerful incentives for the poor to better their lives. According to Mead this would further immiserate the poor, who lack the ability to be independent.⁶⁶ So, successful welfare reforms must move away from economic incentives, and focus on the behaviour of the poor. According to James Wilson, a supporter of Mead, the behavioural problems of the poor must be understood as a lack of basic “character.” If the dependent are to participate in mainstream society, welfare policy must instil this “character.”⁶⁷

2.3. Paternalistic Welfare Reform

Mead’s proposed approach to instilling character is to base welfare on “paternalism.” Paternalism is “the close supervision of the dependent,” aiming to “reduce poverty and other social problems by directive and supervisory means.”⁶⁸ To unpack this definition, three issues will be addressed. Firstly, the justification for paternalism will be described. Secondly, the broad principles that guide paternalistic welfare reform will be outlined. Finally, examples will be provided of how these principles are applied in practice. Paternalists justify their welfare reforms by an appeal to a ‘social contract’.⁶⁹ Society asserts the right to tell welfare recipients how to live, as it provides the assistance. These demands form certain obligations that the poor must fulfil in order to qualify for welfare. By fulfilling these obligations, the beneficiary becomes “deserving” of welfare. These obligations are also justified by appealing to the desires of the beneficiary. Mead states welfare recipients have the same values regarding work as the rest of the population, and they deeply desire employment.⁷⁰ But, because they lack basic competence, they are unable to achieve what they desire. Enforcing obligations, as will be discussed later, helps beneficiaries achieve their own goals, and become free from dependency. Thus, these obligations help beneficiaries achieve freedom, despite initially restricting it.⁷¹

⁶⁶ Lawrence Mead, *Beyond Entitlement*, 4.

⁶⁷ James Wilson, “The Rediscovery of Character,” 5.

⁶⁸ Lawrence Mead, “The Rise of Paternalism,” 1, 2.

⁶⁹ James Wilson, “Paternalism, Democracy, and Bureaucracy,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 341.

⁷⁰ Lawrence Mead, “The Rise of Paternalism,” 5.

⁷¹ Lawrence Mead, *Beyond Entitlement*, 88.

The question, then, must be: how will close supervision help the poor achieve their desire for work? Broadly, paternalistic welfare reform must follow two key principles in order to be effective. Firstly, it must emphasise the values the poor lack, most importantly a strong work ethic and obedience to the law.⁷² Secondly, it must create structure around the lives of beneficiaries in order to allow them to function. These two principles demand a system of individualised welfare delivery. This requires “case managers,” who can provide individual attention to beneficiaries, be at the heart of welfare reform.⁷³

Case managers can implement these principles in five key ways. Firstly, the primacy of work must be emphasised. Case managers must constantly reinforce the temporariness of welfare, and that getting work must be a beneficiary’s main priority.⁷⁴ Secondly, the welfare office must mimic as much as possible the working environment. This demands welfare policies focus on the obligations of beneficiaries, not on providing entitlements without any kind of work.⁷⁵ Focussing on obligations helps build structure for the beneficiary; they know they must achieve certain outcomes, and have a case manager to assist them. Thirdly, these obligations must be “directive.”⁷⁶ That is, beneficiaries must be required to fulfil their obligations. This allows case managers to “force” structure on beneficiaries, who may be reluctant to accept responsibility.⁷⁷ Fourthly, payment must be related to work. This means introducing the threat of sanctions for non-compliance. Fifthly, welfare programs must assume that everyone can work at some level, and try to fit each beneficiary with suitable employment.⁷⁸ Overall, the goal is to recreate the relationship between a parent and its child through public policy. Case managers perform the role of a parent by setting goals, and instilling the motivation and discipline required to achieve those

⁷² Lawrence Mead, “The Rise of Paternalism,” 4.

⁷³ Lawrence Mead, “Welfare Employment,” in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 63.

⁷⁴ Lawrence Mead, *Government Matters: Welfare Reform in Wisconsin* (Princeton: Princeton University Press, 2004), 71.

⁷⁵ Lawrence Mead, “The Rise of Paternalism,” 22.

⁷⁶ James Wilson, “Paternalism, Democracy, and Bureaucracy,” 339.

⁷⁷ Lawrence Mead, “Welfare Employment,” 59.

⁷⁸ Jean Rodgers, “The Wisconsin Approach: Innovation in Welfare Reform,” in *Conference Proceedings: Beyond Dependency Conference, Tu Mana Motuhake*, ed. Department of Social Welfare (Wellington: The Conference, 1997), 26-27.

goals. This helps instil the necessary values into the beneficiary to become self-reliant.⁷⁹

Paternalistic Welfare: A Practical Policy Programme

The principles of paternalism proved to be immensely influential in the United States. The state of Wisconsin was the leader of paternalistic welfare reform in the 1980s and 90s, and followed these principles closely.⁸⁰ The welfare reforms in Wisconsin began with a build-up of the welfare bureaucracy, increasing its funding and staff.⁸¹ For welfare recipients, the new set of reforms was noticeable immediately. A policy of “diversion” was introduced, where an employee would meet the potential beneficiary as they entered the welfare office. The employee attempted to “persuade them to get a job immediately or seek help from relatives instead” of going on a benefit, and “tell them the obligations they will face if they go on aid.”⁸² If the potential beneficiary did apply for welfare, mandatory stand down periods were implemented, during which the beneficiary received no money, and would be obligated to look for work. 55% of all people who entered welfare offices were successfully diverted by 1995.⁸³ Diversion ensures all beneficiaries know their obligations, and only the genuinely “deserving” received welfare, as those who found jobs or were supported by relatives were driven off welfare rolls.

Those who were not diverted were directed to case managers. Case managers provide “help and hassle” for the client.⁸⁴ Help is provided in a myriad of ways. This includes traditional welfare policies to eliminate barriers to employment, such as organising child care, transportation, training on how to budget, basic hygiene etc.⁸⁵ The key change in helping clients comes through the close attention of the case manager. This begins at the initial meeting, where the case manager works with clients to establish career goals. This is crucially important, as effective case management empowers individuals to achieve their own goals. The next step is to plan a path to that goal; the case manager can provide further assistance through setting up job interviews, or

⁷⁹ James Wilson, “Paternalism, Democracy, and Bureaucracy,” 339.

⁸⁰ Jean Rodgers, “The Wisconsin Approach: Innovation in Welfare Reform,” 25.

⁸¹ Lawrence Mead, *Government Matters*, 66-69.

⁸² Lawrence Mead, “Welfare Employment,” 53, 66.

⁸³ Lawrence Mead, *Government Matters*, 74.

⁸⁴ Lawrence Mead, “Welfare Employment,” 61.

⁸⁵ Jean Rodgers, “The Wisconsin Approach: Innovation in Welfare Reform,” 27.

recommending training courses.⁸⁶ Here, the case manager acts as a coach; they provide honest advice on the likelihood of the beneficiary's plan, and can advise against their proposed plan, for example recommending against entering a course that would be too difficult.⁸⁷ Crucial to this coaching is emphasising the importance of getting a job. Paternalists argue it is easier to find a job whilst participating in the job market, thus making it easier to get a better job.⁸⁸ More importantly, however, is its effect on self-respect and self-confidence. One of the barriers to employment is the lack of self-confidence amongst beneficiaries (or their pessimistic outlook). The first step into the labour force helps alleviate this problem, opening up more opportunities in the labour force. By providing the structure of goal-setting and planning, as well as giving encouragement, the case manager facilitates the building of self-confidence, an optimistic outlook, and helps break the cycle of dependency.⁸⁹

Case managers must also "hassle" clients to be effective. This is predominantly achieved by making the obligations of the clients compulsory.⁹⁰ Obligations can range from attending meetings with case managers, or completing training courses or job interviews. If beneficiaries do not show up, a case manager should "pursue them to find out what the problem is."⁹¹ This allows the case manager to assess whether there was a legitimate reason for not turning up. It also allows them a chance to help solve any issues that may be arising in their client's lives.⁹² If there is no legitimate excuse, then sanctions can be imposed on beneficiaries to ensure future compliance. The threat does not need to be severe; in one Wisconsin welfare office, only 2–12% of recipients were sanctioned, with the threat of sanctions ensuring far more complied with their case manager's demands.⁹³ This system of monitoring means the best case managers "know what most of their clients are doing every day."⁹⁴ Hassling also demands a certain tone be adopted by case managers; though they need to be

⁸⁶ Eugene Bardach, "Implementing a Paternalist Welfare-to-Work Program," in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 256.

⁸⁷ Ibid, 261-2.

⁸⁸ Ibid, 256.

⁸⁹ Ibid, 258.

⁹⁰ James Wilson, "Paternalism, Democracy, and Bureaucracy," 339.

⁹¹ Lawrence Mead, "Welfare Employment," 62

⁹² Ibid.

⁹³ Ibid, 59.

⁹⁴ Ibid, 62.

encouraging, they must also be able to “get in the face” of clients if necessary to force them to address the “real issues” that keep them on aid.”⁹⁵ It is the implementation of the “hassle” technique that makes paternalism unique in welfare. The “help and hassle” technique mimics the relationship between parent and child, by providing both encouragement and discipline. This role is particularly poignant given the likely background of long-term beneficiaries; Mead points out “many of them never had anybody come after them before. They often grew up in neglectful families where parents paid them little regard of any kind.”⁹⁶ Because of their own lack of structure, beneficiaries in Wisconsin “responded favourably to oversight,” because it “honor[ed] them with the assumption that their behaviour matters.”⁹⁷ So, paternalism works by setting, and enforcing, a structure on the lives of beneficiaries.

The case manager is at the heart of paternalistic welfare reform. Only they can provide the individualised attention that can produce a paternalistic relationship, which helps eliminate welfare dependency. However, case managers have a limited range of influence, as they only affect their individual clients. Politicians, on the other hand, have a far wider audience. Mead states “people learn social mores initially from their families, but public institutions have a lot to do with whether they are taken seriously ... Whether values are treated as obligatory ultimately depends for many – perhaps most – citizens on the presence of enforcement.”⁹⁸

Paternalism must, then, be a statement of public morality to be effective; it must reinforce the societal view that work is mandatory, the value of family, and being dependent on welfare is undesirable. Policy must reflect this statement of ethics; the requirement to work, to take care of your family, and a focus on obligations must be clearly evident. Thus paternalist policies include seemingly harsh requirements for beneficiaries. These have included: enforced maximum time limits for receiving welfare; strict work requirements, including requiring sole mothers to work up to 35 hours per week; the ability to deny unwed mothers and children welfare entitlements; a focus on getting beneficiaries into work, not education; and stricter child support

⁹⁵ Lawrence Mead, *Government Matters*, 165.

⁹⁶ *Ibid*, 158.

⁹⁷ Lawrence Mead, “Welfare Employment,” 65.

⁹⁸ Lawrence Mead, “The Rise of Paternalism,” 9.

laws.⁹⁹ In practice, a variety of waivers and special benefits have been created for those who cannot meet the requirements.¹⁰⁰ However, the public value of these policies is greater, as it reinforces the value of work. Strict rules assist case managers and beneficiaries. For case managers, it assists them to establish high expectations for beneficiaries. For beneficiaries it ensures a clear set of rules, decreasing the arbitrariness of the system.¹⁰¹

2.4. Identifying the Key Elements of New Paternalism

In the following chapters, the influence of new paternalism on New Zealand's welfare reform will be identified and assessed. It is necessary, then, to identify the key elements of the new paternalist argument. This will provide the analytical tools to assess the similarities and differences between the two National governments with regards to new paternalism. Broadly, three key elements can be identified. Conservatives argue the US was experiencing a breakdown of society; the then current generation got divorced more, had more children out of wedlock, did worse at school, committed more crime, and were voluntarily choosing to be unemployed. This led to the rise of an underclass, which is united by its behavioural deficiencies. Conservatives argue the existence of an underclass challenges the way governments should assist the poor. Previously, welfare reforms assumed beneficiaries were competent; that is, they would act in a way conducive to bettering their own lives. According to Mead, the rise of the underclass proved this to be untrue. These arguments form the first key element of paternalism; beneficiaries are assumed to be incompetent, which is linked to a dysfunctional culture (the underclass). The second key element is the practical policy programme of paternalism. This is based on extensive case management, utilising the "help and hassle" technique. This technique mimics the relationship between parent and child, with the case manager acting as a parent, and the beneficiary the child. Finally, welfare reform must be backed by

⁹⁹ Ronald Mincy and Hillard Pouncy, "Paternalism, Teenage Pregnancy Prevention, and Teenage Parent Services," in *The New Paternalism: Supervisory Approaches to Poverty*, ed. Lawrence Mead (Washington, DC: The Brookings Institution, 1997), 142.

¹⁰⁰ For example, see the variety of extra benefits allowed for those on unemployment insurance – Martin Schluldes, "Retrenchment in the American Welfare State: The Reagan and Clinton Administrations in Comparative Perspective," *Studies in North American History, Politics and Society* 30 (2011): 144-145.

¹⁰¹ Lawrence Mead, "The Rise of Paternalism," 8.

statements of morality which relate to the deficits of the underclass. This can be achieved through two means. Firstly, politicians can reinforce morality through their public statements. Secondly, policy itself can reinforce the societal view that work is mandatory, the value of family, and being dependent on welfare is undesirable.

2.5. Conclusion

Paternalism grew from wider conservative concerns about American society in the 1970s and 1980s. They saw the foundation of society, the family, breaking down, with high divorce rates and sole-parenthood rising rapidly. Crime rates were increasing, educational achievement was decreasing for the first time in their history, and most unemployment seemed to be voluntary in nature. These problems led to the rise of an underclass, reviving old conservative fears of a culture of poverty. Various reforms were proposed across all state institutions to help solve this growing problem. In welfare, a paternalistic policy programme was advocated. Conservatives, most prominently Lawrence Mead, argue the underclass is unable better their own lives, as their behavioural problems are too severe. Welfare reform was targeted as the ideal institution to help solve these problems. By recreating the relationship between parent and child through case managers, welfare could instil “character” into beneficiaries, which would allow them to participate in mainstream society. The “help and hassle” technique would be the foundation of this relationship; advice and support was given, but with strict discipline and a clear focus on obligations. This would provide a structure for beneficiaries which would allow them to prosper, and become free from a life of welfare dependency.

CHAPTER THREE

THE FOURTH NATIONAL GOVERNMENT'S WELFARE REFORMS

The first two chapters developed a theoretical framework for the description, analysis and evaluation of the two National Governments. Having completed this task, I can now move on to the first of the case studies, and describe the welfare reforms of the Fourth National Government. Conservatives in the United States launched a holistic attack on contemporary society, and a school of thought known as new paternalism emerged as a critique of welfare. The work of these conservatives was highly influential in the welfare reforms of the Fourth National Government from 1990 to 1999. To begin the discussion of these reforms, the economic and political history prior to National's election will be briefly described. This context is crucially important to understand why National reformed welfare. Then, the welfare reforms of the National Government will be described. This will proceed chronologically, and will be broken down into National's three electoral terms. Next, the influence of paternalism will be outlined, concluding it had a significant effect on the reforms. Finally, the broad trend of National's welfare reforms is identified, showing a clear shift from the liberal to conservative tradition within neoliberalism.

3.1. New Zealand's Long Boom and Economic Crisis: 1945-84

The broad trends of New Zealand's post-World War II economic history will be described in order to provide the backdrop and context of the National Government's welfare reforms. For 30 years following the end of World War II, New Zealand experienced a remarkable level of economic prosperity and political stability.¹ The economy relied significantly on New Zealand's role as "Britain's little farm," with the vast majority of exports coming from the agricultural sector.² Keynesianism provided the intellectual paradigm Governments used to manage and regulate the economy,

¹ Brian Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935* (Southbank: Thomson Dunmore Press, 2005), 4.

² Patrick Massey, *New Zealand: Market Liberalization in a Developed Economy* (Basingstoke: St. Martin's Press, 1995), 2.

with New Zealand amongst the most regulated economies the in world.³ New Zealand experienced strong economic growth during 1945-1975, with real GDP growth averaging 3.56% annually.⁴ This growth rate was below average for the OECD.⁵ Perhaps New Zealand's most prominent economic success of this period was the record low levels of unemployment. In total numbers, approximately 56 people were unemployed in 1956; 463 in 1966; and 5,356 in 1975.⁶ Between 1945 and 1971, the unemployment rate was never higher than 1.3%.⁷ Unlike GDP, New Zealand's rate of employment was higher than the OECD average, though by 1973 employment had fallen below the average.⁸

New Zealand's post-war economic boom was to end in the 1970s. GDP growth suddenly plummeted as a variety of internal and external economic conditions worsened.⁹ Several external shocks hit the economy during the decade, which severely damaged New Zealand's exporting position. The two oil shocks in the 1970s increased the costs of importing goods, and decreased the competitiveness of New Zealand's exports. This was particularly severe given New Zealand's geographic isolation from major markets.¹⁰ This was exacerbated in 1973 when Britain entered the European Economic Community, which restricted New Zealand's ability to export agricultural goods to Britain.¹¹ This, along with several other factors, led to a deteriorating balance of payments position; that is, more money was leaving New Zealand shores (through the purchase of imports, investing overseas etc.) than was coming in from overseas (through purchasing exports, foreign investment in New

³ Ibid, 7.

⁴ See Appendix A for calculations. Statistics had to include two data sets, as neither had a full set of growth figures from 1945-75. The period 1945 – 55 sourced from David Briggs, *Looking at the Numbers: A View of New Zealand's Economic History* (Wellington: NZIER, 2003), 37. The period 1946 – 75 sourced from David Thorns and Charles Sedgwick, *Understanding Aotearoa/New Zealand: Historical Statistics* (Palmerston North: The Dunmore Press, 1997), 81. Other data sets have come up with different growth rates, though all fall within the 3.5-4.5% range.

⁵ Brian Easton, *In Stormy Seas: The Post-War New Zealand Economy* (Dunedin: University of Otago Press, 1997), 24.

⁶ Statistics New Zealand, *2001 Census: Work (2001) - Reference Reports* (Wellington: Statistics New Zealand, 2003), 29.

⁷ David Thorns and Charles Sedgwick, *Understanding Aotearoa/New Zealand*, 74.

⁸ Patrick Massey, *New Zealand: Market Liberalization in a Developed Economy*, 17.

⁹ David Thorns and Charles Sedgwick, *Understanding Aotearoa/New Zealand*, 51-4.

¹⁰ Ibid, 14.

¹¹ Brian Roper, *Prosperity for All?*, 7.

Zealand etc.).¹² This led to a worsening debt position for both the public and private sector.¹³ High levels of unemployment emerged, with unemployment increasing from 2.1 to 7.9% from 1976 to 1986. In gross numbers, only 5,356 people were unemployed in 1976; increasing to 64,912 in 1984. The 1976 number was high by New Zealand standards. For the first time since the great depression New Zealand was experiencing mass unemployment. Inflation also became a major problem. These trends were a microcosm of the wider Western world, as the global economy suffered from similarly high rates of unemployment and inflation, combined with low growth rates.¹⁴

3.2. Fiscal Crisis of the Welfare State

The economic crisis had dire ramifications for the state as public debt increased rapidly. The increase was driven in part by the state's reliance on Keynesian economic thought to guide its management of the economy. As discussed in chapter one, Keynesians argue the state should intervene in the economy to produce a level of aggregate demand which is conducive to full employment and steady economy growth. In order to maintain demand in an economic downturn, Keynesians advocate the state increase its debt to boost demand, thereby returning the economy to economic growth.¹⁵ This interventionist approach was accepted by Robert Muldoon's National Government, elected in 1975.¹⁶ The effect of Muldoon's policies was a massive increase in debt. Upon taking office in 1975, public debt stood at \$4,200,000. By the time the Labour Party was elected in 1984, debt stood at \$21,879,000, averaging an increase of 20.7% in debt every year Muldoon was in office.¹⁷

The welfare state accounted for an increasing proportion of total government spending. In 1972 welfare accounted for 17.9% of total expenditure; by 1980 it had

¹² Paul Dalziel and Ralph Lattimore, *The New Zealand Macroeconomy: A Briefing on the Reforms 3rd Ed.* (Oxford: Oxford University Press, 1999), 17.

¹³ 35

¹⁴ Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (Hampshire: MacMillan Education Ltd, 1988), 7.

¹⁵ Brian Roper, *Prosperity For All?*, 131.

¹⁶ Patrick Massey, *New Zealand: Market Liberalization*, 40-2.

¹⁷ See Appendix A, data sourced from David Thorns and Charles Sedgwick, *Understanding Aotearoa/New Zealand*, 104.

increased to 25.4%.¹⁸ This increase was caused by two factors. Firstly, two new benefits were created which became increasingly expensive to maintain. The first was the Domestic Purposes Benefit (DPB), introduced in 1973 to provide a better safety net for sole-parents.¹⁹ In 1975, total expenditure on the DPB was \$30,156,000. By 1984, that number had risen to \$380,836,000.²⁰ The second new benefit was the generous superannuation scheme. It was initially implemented by the Third Labour Government (1972-75), before being redesigned and expanded by National in 1977.²¹ In 1970, prior to superannuation's implementation, New Zealand spent \$155,822,000 on old-age pensions. By 1984, expenditure had risen to \$2,526,031,000.²² The second reason for the rise in welfare spending was the increased expenditure on existing benefits. The increase in unemployment saw expenditure for the unemployment, sickness and invalid benefits rise from \$34,707,000 in 1975, to \$464,471,000 in 1984.²³ Whilst the state was experiencing a fiscal crisis, welfare spending was substantially increasing, contributing to the rapidly increasing public debt. This situation was exacerbated by businesses beginning to aggressively pursue ways to avoid taxation, decreasing state revenue at the same time expenditure was increasing.²⁴

3.3. Fourth Labour Government: Radical Neoliberal Reforms

In 1984, a David Lange led Labour Government was elected. Over the next six years, the Labour Government would implement a series of radical economic reforms which fundamentally changed New Zealand's economy. There is a consensus across the political spectrum this period amounted to a fundamental shift from Keynesian to

¹⁸ Robert Stephens, "The Changing Social Security System," in *New Zealand New Welfare*, ed. Neil Lunt et al. (South Melbourne: Cengage Learning, 2008), 29.

¹⁹ Kay Goodger, "Maintaining Sole Parent Families in New Zealand: An Historical Review," *Social Policy Journal of New Zealand Te Puna Whakaaro* 10 (June 1998): 12-13.

²⁰ Statistics New Zealand, *New Zealand Official Year Book 2002* (Wellington: Statistics New Zealand, 2002), see Chapter 7: Social Welfare, Subheading: Family Assistance.

²¹ Toni Ashton and Susan St John, *Superannuation in New Zealand: Averting the Crisis* (Wellington: Victoria University of Wellington for the Institute of Policy Studies, 1988), 22-24

²² Statistics New Zealand, *New Zealand Official Year Book 2002*, see Chapter 7: Social Welfare, Subheading: Family Assistance.

²³ Ibid.

²⁴ Brian Roper, *Prosperity for All?*, 142.

neoliberal economic, social and employment relations policy.²⁵ The scope and speed of the reforms was remarkable; over six years the Labour Government transformed how the state managed the economy, demolishing the Keynesian economic controls with an economic policy based on a “model of pure neo-liberal economic theory.”²⁶ Broadly, the Government pursued a policy agenda driven by neoliberal theory. Labour sought to reduce inflation to improve the clarity of price signals;²⁷ reduce the fiscal deficit;²⁸ remove state intervention in the economy;²⁹ liberalise foreign trade;³⁰ reform the public sector;³¹ the corporatisation and privatisation of state assets;³² and substantially reduce the progressive nature of the tax system.³³ Overall, the key goal was to allow “greater freedom to market forces” in order to create economic growth.³⁴

3.4. Fourth National Government: Completing the reforms

In 1990, the National Party was elected to government in a landslide victory. Upon entering office National “moved very rapidly to finish implementing Labour’s neoliberal program.”³⁵ In particular, new Finance minister Ruth Richardson stated there were three areas National would reform: the on-going indebtedness of the state; the labour market; and the welfare state.³⁶ Each of these areas will now be addressed in turn.

²⁵ Patrick Massey, *New Zealand: Market Liberalisation*, 55.

²⁶ Jane Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment?* (Auckland: Auckland University Press, 1997), 1.

²⁷ Treasury, *Economic Management* (Wellington: Treasury, 1984), 141.

²⁸ Roger Douglas, *1984 Budget* (Wellington: Treasury, 1984), 2.

²⁹ Patrick Massey, *New Zealand: Market Liberalisation*, 7.

³⁰ Brian Roper, *Prosperity for All?*, 182-3.

³¹ Jonathan Boston, *Public Management: The New Zealand Model* (Auckland: Oxford University Press, 1996).

³² Brian Easton, *The Commercialisation of New Zealand* (Auckland: Auckland University Press, 1997).

³³ Brian Roper, *Prosperity for All?*, 186.

³⁴ *Ibid*, 106.

³⁵ *Ibid*, 196.

³⁶ Malcolm McKinnon, *Treasury: The New Zealand Treasury* (Auckland: Auckland University Press, 2003), 346.

The Continuing Fiscal Crisis of the State

The Fourth Labour Government adopted the goal of reducing the fiscal deficit as part of its wider neoliberal reforms.³⁷ By 1990 it had succeeded in doing so.³⁸ However, Government expenditure had continued to rise throughout Labour's reign; from 35.9% of total GDP in 1984/5 to 39.2% in 1989/90.³⁹ The close of the 1980s saw growing concern about "government overspending," and in particular expenditure on social policy.⁴⁰ To reduce expenditure, eligibility and benefit levels would have to be restricted.⁴¹ However, Labour did not have the political will to cut government expenditure, as this would mean "recanting the party's historical commitment to the welfare state."⁴² National were not restricted by the same political considerations as Labour. However, making severe cuts to government expenditure would likely be politically unpopular without a strong justification. No such justification existed prior to the election.⁴³ However, upon taking office, National was presented with an urgent fiscal crisis, as the Bank of New Zealand (which the state partially owned) required a bail-out.⁴⁴ In response to this crisis, Treasury re-estimated the fiscal deficit the Government would face post-election. The new estimates showed an impending crisis; with anticipated deficits being nearly three times higher than expected.⁴⁵ This sudden discovery of a fiscal crisis provided the justification Treasury and the National Party needed to go ahead with its radical reforms.⁴⁶

In December 1990, National released *The Economic and Social Initiative* (ESI), outlining its proposed changes to social and employment relations policy. The document was authored by Prime Minister Jim Bolger, Finance Minister Ruth Richardson, and Minister of Labour and Social Services Bill Birch. Bolger and Richardson emphasised the necessity of achieving fiscal surplus, particularly given

³⁷ Roger Douglas, *1984 Budget*, 2.

³⁸ Patrick Massey, *New Zealand: Market Liberalization*, 93.

³⁹ Jane Kelsey, *The New Zealand Experiment*, 227.

⁴⁰ Conrad Blyth, "The Economists' Perspective of Economic Liberalisation," in *Economic Liberalisation in New Zealand*, ed. Allan Bollard and Robert Buckle (Wellington: Allen & Unwin/Port Nicholson Press, 1987), 9-10.

⁴¹ Jane Kelsey, *The New Zealand Experiment*, 227.

⁴² *Ibid*, 207.

⁴³ Malcolm McKinnon, *Treasury*, 347.

⁴⁴ Jim Bolger, *Bolger: A View From the Top* (Auckland: Penguin Books, 1998), 37.

⁴⁵ Malcolm McKinnon, *Treasury*, 348.

⁴⁶ *Ibid*, 347.

the newly discovered fiscal crisis.⁴⁷ Bolger stated “short-term sacrifices and some major longer-term adjustments are both necessary if we are to succeed in the battle for economic growth and a return to full employment.”⁴⁸

Reforming the Labour Market: Employment Contracts Act

Labour market regulation was one of the key structural adjustments which National argued needed to be reformed. According to neoclassical economics, which had now established itself as economic orthodoxy, the labour market is considered no different from other markets. Any form of government intervention or regulation is seen as creating inefficiency and inequity through the distortion of price signals, which leads to suboptimal market outcomes (i.e. unemployment).⁴⁹ Neoliberals advocate a “flexible” labour market, with little regulation, where individuals negotiate contracts based on their own needs. Historically, New Zealand’s maintained an extensively managed labour market, which formed part of the core of the wage earners’ welfare state.⁵⁰

Birch announced labour market reforms which represented “the most fundamental change to industrial relations in New Zealand since ... 1894.”⁵¹ This would be achieved with the passage of the Employment Contracts Act in 1991, which was based on neoliberal assumptions regarding the labour market. The Act consisted of two parts. The first provided for “freedom of association,” which ended compulsory unionism.⁵² As Roper points out, this “entrenched the ‘free-riding’ of non-union employees,” effectively discouraging individuals from registering with a union.⁵³ This had a profound impact on union membership, as they experienced a 69% decrease

⁴⁷ Jim Bolger et al., *Economic and Social Initiative, December 1990: Statements to the House of Representatives* (Wellington: Government Printer, 1990), 7.

⁴⁸ Ibid, 8.

⁴⁹ Pat Walsh and Rose Ryan, “The Making of the Employment Contracts Act,” in *Employment Contracts: New Zealand Experiences*, ed. Raymond Harbridge (Wellington: Victoria University Press, 1993), 13.

⁵⁰ Frank Castles “Needs-Based Strategies of Social Protection in Australia and New Zealand,” in *Welfare States in Transition*, ed. Gosta Esping-Andersen (London: Sage, 1996), 111.

⁵¹ Jim Bolger et al., *Economic and Social Initiative*, 40.

⁵² Raymond Harbridge, “Bargaining and the Employment Contracts Act,” in *Employment Contracts: New Zealand Experiences*, ed. Raymond Harbridge (Wellington: Victoria University Press, 1993), 42.

⁵³ Brian Roper, *Prosperity for All?*, 210.

within 18 months.⁵⁴ Part two of the act dealt with representation and bargaining arrangements, which further diluted the importance of unions, including restricting the right to strike. The ECA was designed to reduce collective agreements, increase individual contracts, thereby ensuring a “flexible” labour market.⁵⁵

Redesigning the Welfare State: 1990-93

Table 1: Economic Data, 1990-93				
	1990	1991	1992	1993
Real GDP Growth ⁵⁶	0.85%	-0.59%	-1.22%	1.17%
Total Unemployment (%) ⁵⁷	10.5%	11.7%	13.8%	14.6%
Total Unemployment (Gross) ⁵⁸	159,448	193,438	215,562	211,423

In the *ESI*, Bolger and Richardson announced a fundamental redesign of the welfare state. Bolger argued the welfare state was “unsustainable for one of the worst performing economies in the developed world,” and was responsible for a “drift from work to welfare.”⁵⁹ The redesign of the welfare state would ensure “those in genuine need receive appropriate help, and those who can afford to fend for themselves do not have assistance they could do without.”⁶⁰ Welfare reform would be guided by two objectives: to make an immediate impact on the economy; and to make changes that “will bring benefits over the longer haul.”⁶¹ The immediate impact would be to reduce Government debt by decreasing social spending.⁶² Under the title of “bring[ing]

⁵⁴ Pat Walsh and Peter Brosnan, “Redesigning Industrial Relations: The Employment Contracts Act and its Consequences,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 126.

⁵⁵ Brian Roper, *Prosperity for All?*, 209-12.

⁵⁶ Statistics New Zealand, *INFOS 3.0* (Wellington: Statistics New Zealand, 2003).

⁵⁷ Paul Dalziel and Ralph Lattimore, *The New Zealand Macroeconomy - A Briefing on the Reforms 4th Edition* (Melbourne: Oxford University Press, 2001), 136.

⁵⁸ Statistics New Zealand, *INFOS 3.0*.

⁵⁹ Jim Bolger et al., *Economic and Social Initiative*, 10, 9.

⁶⁰ Ibid, 11.

⁶¹ Ibid, 18.

⁶² Ibid, 20.

benefits over the long haul,” National began to develop an argument for welfare reform that was not related to the economy. Richardson argued welfare had created a “pattern of permanent dependency on the State,” which was caused by the absence of work incentives.⁶³ She stated “many beneficiaries receive an income close to or even higher than what they could receive in paid work.”⁶⁴ This created an incentive for beneficiaries to remain on benefits, rather than entering employment. Overall, Richardson aimed to “remove the assumption that all the needs of members of society can be addressed by state action,” and aim welfare at “those in real need.”⁶⁵

The rest of the *ESI* outlined “what came to be seen as perhaps the most drastic example of welfare state retrenchment in ... the OECD.”⁶⁶ Payment rates were slashed across nearly all benefits. Table 2: April 1991 Benefit Cuts illustrates the extent of the cuts, which were unevenly spread across benefit type, age, and family structure. Peter Starke argues there seemed to be little systematic pattern driving the differences, and “cuts were not based on sound research on benefit adequacy or the likely consequences of the cutbacks.”⁶⁷ The cuts were compounded by the cancelling of the annual benefit adjustment for inflation, which would have seen benefit rates increase.⁶⁸ The cuts would help solve the incentive problem by increasing the “rewards for moving from welfare to work by creating a greater margin between benefit rates and workforce earnings.”⁶⁹

⁶³ Ibid, 24.

⁶⁴ Ibid, 19.

⁶⁵ Ibid.

⁶⁶ Peter Starke, *Radical Welfare State Retrenchment: A Comparative Analysis* (Basingstoke: Palgrave Macmillan, 2008), 94.

⁶⁷ Ibid, 96.

⁶⁸ Ibid.

⁶⁹ Jim Bolger et al., *Economic and Social Initiative*, 27.

Table 2: April 1991 Benefit Cuts⁷⁰

Category	% Change	Category	% Change
Unemployment & Training		Single (1 child)	-10.7
Single 16-17 years	0.0	Single (2 children)	-8.9
Single 18-19 Years	-5.8	Married couple (1 child)	-3.1
Single 20 – 24 years	-24.7	Married couple (2 child)	-2.9
Single Adult	-9.6	Widows and Domestic Purposes	
Married couple with children	-3.1	Domiciliary care	
Single (1 child)	-10.7	Single 15-17 years	0.0
Single (2 children)	-8.9	Single adult (over 17 years)	0.0
Married couple (1 child)	-8.5	Women Alone single adult	-16.7
Married couple (2 child)	-7.9	With Children	-10.7
Independent Youth		Single (1 child)	-10.7
Single 16-17 years	-5.8	Single (2 children)	-8.9
Sickness		Invalids	
Single 15-17 years	-17.6	Only cuts to:	
Single 18-24 years	-20.0	Married Couple (1 child)	-5.2
Single adult	-16.7	Married Couple (2 children)	-4.8
Married couple with children	-9.1		

⁷⁰ Peter Starke, *Radical Welfare State Retrenchment*, 217.

Eligibility for benefits was also restricted. This included lengthy stand-down periods for people applying for benefits. If an individual had voluntarily left their job, they would be denied a benefit for 26 weeks. The qualifying age for the DPB and other benefits was raised, restricting under 18s from receiving a benefit.⁷¹ Eligibility for youth rates for benefits was increased by 5 years to 25, effectively reducing benefit rates for young people.⁷² A work test was introduced, including “a new obligation that all adults capable of working actively seek employment.”⁷³ Michael O'Brien pointed out this statement is disingenuous, as the unemployment benefit has included a work test since its introduction in 1936.⁷⁴ A work test for lone parents whose youngest child was at least seven years old was proposed, though this was eventually dumped due to opposition from within the National Party.⁷⁵ Finally, the universal Family Benefit payment, given to all individuals with children, was replaced by a means-tested benefit called the Family Support payment.⁷⁶ However, the Family Support payment was not as large as the Family Benefit, and represented a benefit cut for low-income earners.⁷⁷

Six months later, Minister of Social Welfare Jenny Shipley further developed National's ideological justification for welfare reform. She stated economic and social policy were fundamentally linked, reiterating that the current welfare system was restricting economic growth by increasing public debt.⁷⁸ Shipley launched a stinging attack on the welfare system. New Zealand had been guided by the 1972 Royal Commission on Social Security, which stated: “The community is responsible for giving dependent people a standard of living consistent with human dignity and approaching that enjoyed by the majority, irrespective of the cause of dependency,” which would enable beneficiaries “to feel a sense of participation in and belonging to

⁷¹ Jonathan Boston, “Welfare State in Transition,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 13.

⁷² Jim Bolger et al., *Economic and Social Initiative*, 26.

⁷³ Mike O'Brien, “Work-First and Active Labour Markets,” in *New Zealand New Welfare*, ed. Neil Lunt et al. (South Melbourne: Cengage Learning, 2008), 53.

⁷⁴ Ibid.

⁷⁵ Peter Starke, *Radical Welfare State Retrenchment*, 97.

⁷⁶ Susan St John and Keith Rankin, “Quantifying the Welfare Mess,” *Policy Discussion Paper 22* (1998), 6.

⁷⁷ Mike O'Brien, *Poverty, Policy and the State: The Changing Face of Social Security* (Bristol: The Policy Press, 2008), 23.

⁷⁸ Jenny Shipley, *Social Assistance*, 1, 26.

the community.”⁷⁹ According to Shipley, this approach to welfare had created a “culture of dependency,” and the lack of work incentives meant the “benefit system ha[d] become a poverty trap.”⁸⁰ National’s reforms would create a welfare system that provided “a safety net – a modest standard below which people will not be allowed to fall provided they demonstrate they are prepared to help themselves.”⁸¹ The new welfare system would “encourage ... personal and family self-reliance.”⁸² This represented a fundamental change in focus for the welfare state. Welfare was now conditional on the behaviour of beneficiaries (those who are prepared to help themselves), and would provide nothing more than a safety net, rather than enable participation in wider society.

Over this period the Department of Social Welfare (DSW) was substantially restructured and broken down into separate business units in order to deal with the problems of “inefficiency, lack of accountability, customer dissatisfaction and poor public image.”⁸³ This was part of a wider neoliberal public sector reform process. Although these reforms are of some relevance to the welfare reforms, they will not be discussed. The other policy changes which will be discussed are more significant, and given the space limitations of this chapter, it will be more advantageous to focus on them.⁸⁴ National continued to reform the wider welfare state throughout its first term of office. These reforms occurred in areas beyond the scope of this thesis such as housing, accident compensation and superannuation.

⁷⁹ Royal Commission on Social Security, *Social Security in New Zealand: Report of the Royal Commission of Inquiry* (Wellington: Government Printer, 1972), 65-6.

⁸⁰ Jenny Shipley, *Social Assistance: Welfare that Works* (Wellington: Government Printer, 1991), 10, 12.

⁸¹ Ibid, 13.

⁸² Ibid, 17.

⁸³ Ross Mackay, “Work-Orientated Reforms: New Directions in New Zealand,” in *Activating the Unemployed: A Comparative Appraisal of Work-Orientated Policies*, ed. Neil Gilbert and Rebecca Van Voorhis (New Brunswick: Transaction Publishers, 2001), 84.

⁸⁴ For a good discussion of the public sector reform process, and the ideology underpinning it, see Graham Scott et al., “New Zealand's Public Sector Management Reform: Implications for the United States,” *Journal of Policy Analysis and Management* 16 (no. 3, Summer 1997): 357–381 and Jonathan Boston, *Public Management: The New Zealand Model*, especially chapters 1 and 2.

Key Themes: 1990-93

Having described National's welfare reforms in its first term, the broad direction can now be analysed. The reforms were driven by neoclassical economic theories. Their primary goal was to cut public debt. This led the Government to reduce benefit rates and restrict eligibility in order to reduce welfare expenditure. The government based their welfare reforms on a neoclassical analysis of the labour market and work incentives. The analysis of the labour market refers to the belief that state intervention had created inefficiencies which caused unemployment. The concept of work incentives was founded on the neoclassical idea of price signals. Individuals rationally react to price signals, and because the difference between wages and welfare was so low, individuals were rationally choosing to stay on benefits.⁸⁵ To solve the welfare problem, the labour market had to be reformed, and welfare payments needed to be reduced. Compared to future years, as will be shown, this is a remarkably shallow level of analysis. It simply extends economic concepts to beneficiaries without any reference to their actual lived experiences.

Ideologically, there were three justifications used to support National's reforms. The first was based on "fairness," with National arguing those who were wealthy should not receive welfare, particularly in times of economic crisis. This justified the targeting of benefits and the restricting of eligibility, as these reforms would supposedly not hurt those in "genuine need." The second justification was based around the negative effects of welfare "dependency." Dependency would later become a pervasive concept in New Zealand's welfare discourse. At this stage, however, the notion was only beginning to take shape. Dependency was never defined or thoroughly analysed. Presumably, it referred to the result of the welfare "poverty trap" which was created by poor work incentives. Whilst dependency had entered the public discourse, it was neither properly defined nor commonly used. The final ideological justification used during this term was behaviour. Previously, welfare had been provided "irrespective of the cause of dependency," whereas now beneficiaries had to show "they are prepared to help themselves." As with dependency, this

⁸⁵ Nancy Fraser and Linda Gordon, "A Genealogy of Dependency: Tracing a Keyword of the U.S. Welfare State," *Signs* Vol. 19 (No. 2, Winter, 1994): 328.

justification was only just taking shape. At this stage it was simply used to justify the implementation of work tests.

Continued Reforms: 1993-96

Table 3: Economic Data, 1993-96			
	1994	1995	1996
Real GDP Growth ⁸⁶	6.31%	5.38%	3.78%
Total Unemployment (%) ⁸⁷	13.4%	11.2%	9.5%
Total Unemployment (Gross) ⁸⁸	185,445	156,818	153,362

With the re-election of the National Party in 1993, the welfare debate began to take a new direction. This direction was heavily influenced by two documents: The DSW's *Brief to the Incoming Minister*, published in 1993; and the 1994 *Prime Ministerial Task Force on Employment*. The Brief began to develop a new analysis of welfare which was separate from concerns over public debt and labour market regulation. Two key issues were highlighted. The first was the increase in the number of sole parents, with approximately 25% of children being in sole parent families.⁸⁹ The paper argued sole parents "stand out as the disadvantaged of the disadvantaged" in terms of employment, income, education and housing tenure.⁹⁰ This had a significant impact on welfare, as the breakdown of the family reduced "the capacity of the family to deliver social services and economic support ... and the responsibility is transferred to the state."⁹¹ The second issue was the changing nature of the labour market after the passage of the ECA. There was an increase in long-term unemployment, with half of those on a benefit having been without a job for more than 27 weeks. In 1988, the

⁸⁶ Statistics New Zealand, *INFOS 3.0*.

⁸⁷ Paul Dalziel and Ralph Lattimore, *The New Zealand Macroeconomy*, 136.

⁸⁸ Statistics New Zealand, *INFOS 3.0*.

⁸⁹ Department of Social Welfare, *Social Environment Scan* (Wellington: Department of Social Welfare, 1993), 4.

⁹⁰ Ibid.

⁹¹ Ibid, 5.

number was only 22%.⁹² Youth (15-24) unemployment continued to be considerably higher than the average rate; standing at 18%.⁹³

The second important document was the *Prime Ministerial Task Force on Employment*. It proposed several reforms to welfare, including: that youth unemployment be a priority; income support should reinforce education and training; adults should continue upskilling; beneficiaries should receive individualised support; and welfare should encourage the take-up of full and part-time work.⁹⁴

The Government's response to these reports proceeded in two stages, which began in 1994 with the release of *From Welfare to Well-Being*. The document identified nine major areas of concern, of which four are relevant: multi-problem families; benefit fraud; general income support; and transition to work for beneficiaries.⁹⁵ The Department implemented a range of policies to solve the multi-problem family's issue, with few directly relating to income support, so they are not relevant here. However, it is important that families had become an area of concern. Reducing benefit fraud was the next major area of focus, with increased funding directed to preventing fraud.⁹⁶

Further initiatives were announced to encourage beneficiaries into work. As with the reforms of 1990/91, the concern over incentives was paramount. Reforms would help beneficiaries "transition to work" by increasing abatement rates for beneficiaries, so they could earn more money before having their benefit reduced.⁹⁷ Importantly, the notion of incentives had grown to accommodate more than the difference between wages and benefit rates. Incentives now included "human resource development."⁹⁸ New initiatives would thus help "the enhancement of skills, knowledge and personal

⁹² Ibid, 9.

⁹³ Ibid, 10-11.

⁹⁴ Ibid, 3-4.

⁹⁵ Department of Social Welfare, *From Welfare to Well-Being* (Wellington: Department of Social Welfare, 1994), 1, and Michael Player, "'From Welfare to Well-Being' – Communicating a Vision," *Social Policy Journal of New Zealand Te Puna Whakaaro* 3 (December 1994): 5.

⁹⁶ Department of Social Welfare, *New Zealand Income Support Service: Brief to the Incoming Minister* (Wellington: Department of Social Welfare, 1993), 20.

⁹⁷ Michael Player, "'From Welfare to Well-Being' – Communicating a Vision," 3.

⁹⁸ Department of Social Welfare, *New Zealand Income Support Service*, 10.

attributes" through offers of educational and training programmes."⁹⁹ Here, the concept of reciprocal obligations begins to appear. In the 1993 Brief, the DSW committed to "continue to develop the notion of contract responsibilities for customers where they are made aware of their obligations in exchange for their income support."¹⁰⁰ Increased obligations would be placed on beneficiaries in order to "balance incentive [i.e. training programmes] with obligation."¹⁰¹

One of the most important initiatives to come from this period was the sole parent pilot scheme. The scheme would provide "special liaison officers ... to help them find work, job training, or educational opportunities."¹⁰² The officers would assist in "achieving a closer integration between sole parent beneficiaries and the labour market," and focus on removing barriers to full integration, such as child care, length away from the work force, a lack of confidence and a lack of access to information.¹⁰³ This represents a major step in the development of welfare policy. The DSW was acknowledging individuals on benefits face particular issues that were unrelated to the labour market or work incentives. To combat these issues the DSW was proposing a case manager take an active role in the beneficiary's life in order to overcome these problems.

By the beginning of 1996, New Zealand was facing a much brighter economic outlook. As Table 3: Economic Data, 1993-96 shows, real GDP was growing and unemployment was decreasing. During this period, the Government announced the second major step in response to the Employment Task Force. The Government announced it would "increase spending on education and health, and make a major new investment in the future of low- and middle-income families."¹⁰⁴ The first policy initiative was a tax cut for the lowest tax brackets.¹⁰⁵ Despite the rhetoric, the

⁹⁹ Ibid.

¹⁰⁰ Department of Social Welfare, *From Welfare to Well-Being*, 8.

¹⁰¹ Marianne Bray and Justin Strang, "Tackling Unemployment: The Government's Response to the Recommendations of the Employment Task Force," *Social Policy Journal of New Zealand Te Puna Whakaaro* 6 (July 1996): 4.

¹⁰² Department of Social Welfare, *Social Policy Agency: Brief to the Incoming Minister* (Wellington: Department of Social Welfare, 1993), 12.

¹⁰³ Department of Social Welfare, *New Zealand Income Support Service*, 16.

¹⁰⁴ Bill Birch, *Tax Reduction and Social Policy Programme* (Wellington: Department of Social Welfare, 1996), 8.

¹⁰⁵ Ibid, 12.

majority of the tax cuts went to those on higher incomes.¹⁰⁶ Further initiatives targeted two groups: families and beneficiaries. Families were the target of two major changes. Firstly, two family benefits, which assisted low-income earners, were increased. Secondly, a new Independent Family Tax Credit was created, which provided a benefit for families on low incomes who were not receiving a benefit.¹⁰⁷

Beneficiaries were the second major target of the reforms. Sole parents, youth and the long-term unemployment were targeted, as the DSW had identified them as problem groups. A “dual abatement” system was set-up. Single-parents, widows, and those with disabilities had their abatement rates reduced.¹⁰⁸ This was designed to encourage part-time work, as these groups were often unable to work full-time, and there were more part-time jobs available due to the introduction of the ECA.¹⁰⁹ Young people (16 to 20), and the long-term unemployed (unemployed for more than 2 years), would also receive greater individualised assistance from employment advisors, similar to the sole parent pilot scheme.¹¹⁰ Finally, sole parents would receive more funding for early childhood care and a supplementary benefit for those entering some form of education.¹¹¹

The overall effect of these reforms was to increase the amount of after-tax income individuals and families received from working, and provided greater funding for beneficiaries. In exchange for these reforms, beneficiaries would have to accept “some increased responsibilities.”¹¹² This meant the programmes for the youth and long-term unemployed would be mandatory. Those on the DPB with children over 14 would be required to look for part-time work or be in training. Those with a child between 7 and 14, and had been on the benefit for more than 12 months, would be

¹⁰⁶ Paul Dalziel, “Macroeconomic Constraints,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston et al. (Oxford: Oxford University Press, 1999), 71-73.

¹⁰⁷ The benefits were called Family Support and the Guaranteed Minimum Income. Bill Birch, *Tax Reduction and Social Policy Programme*, 13-14.

¹⁰⁸ Ross Mackay, “The New Zealand Model: Targeting in an Income-Tested System,” in *Targeting Social Benefits: International Perspectives and Trends*, ed. Neil Gilbert (New Brunswick: Transaction Publishers, 2001), 17-18.

¹⁰⁹ Ibid, 42.

¹¹⁰ Ibid, 46-47.

¹¹¹ Ibid, 48, and Department of Social Welfare, *Strategic Directions: Post-Election Briefing Paper* (Wellington: Department of Social Welfare, 1996), 86.

¹¹² Ibid.

required to attend an annual interview with Income Support. This interview would “signal to beneficiaries that they should be taking steps towards independence and employment.”¹¹³

Substantial changes were made to stand-down periods and the system of sanctions for beneficiaries. All stand-down periods were cut from two to one week, and the stand-down for voluntary unemployment was reduced from 26 to 13 weeks.¹¹⁴ Sanctions were now to be graduated; beginning with a loss of some benefit income, with the final punishment being loss of benefit. Previously, beneficiaries faced a complete loss of benefit for 26 weeks for a single infringement.¹¹⁵ Further, the work test was expanded to the partners of those on the unemployment benefit.¹¹⁶ Although work tests had been an important part of National's rhetoric since 1990, there had been little practical change for beneficiaries. The changes in sanctions and greater focus on individualised assistance represented a fundamental change in the way beneficiaries were treated.¹¹⁷

Key Themes: 1993-96

Having described the reforms, the key themes of National's second term can now be identified. This term was marked by the development of a specific form of welfare analysis, which formed the basis for new policy initiatives. Rather than simply focussing on the labour market and work incentives, the Government began to recognise the importance of the breakdown of families and the barriers facing beneficiaries in their return to work.¹¹⁸ The breakdown of families was mainly addressed in other policy areas. However, the emphasis on sole parents, who were the “disadvantaged of the disadvantaged,” belies National's concerns. The emphasis on the barriers to work led to the implementation of in-depth case management for particular at-risk groups. As well as increased opportunities, the Government

¹¹³ Ibid.

¹¹⁴ Ibid, 50.

¹¹⁵ Ibid, 51.

¹¹⁶ Department of Social Welfare, *Strategic Directions*, 20.

¹¹⁷ Peter Starke, *Radical Welfare State Retrenchment*, 118.

¹¹⁸ Robert Stephens, “Poverty, Family Finances and Social Security,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 239.

introduced more responsibilities for beneficiaries through an enhanced work testing scheme and greater use of financial sanctions.

Ideologically, the focus shifted away from dependence and onto reciprocal obligations. This was a development on the “behaviour” justification that had been used in the previous term. Reciprocal obligations demand certain behaviours from beneficiaries in exchange for welfare. As previously stated, this meant greater opportunities were implemented in exchange for greater responsibilities. The shift towards identifying specific groups helped to reintroduce “familiar deserving/undeserving distinctions ... around the spectre of beneficiaries,” which identified these groups as “the feckless and the work-shy,” which “had frequent racialised undertones.”¹¹⁹ There was further consistency with the previous term with the on-going emphasis on financial incentives. Rather than cutting benefits, National focussed on changing abatement rates, decreasing taxes and using financial sanctions in order to encourage employment.

National's Final Term: 1996-99

Table 4: Economic Data, 1996-99				
	1997	1998	1999	
Real GDP Growth ¹²⁰	2.65%	1.93%	0.02%	
Total Unemployment (%) ¹²¹	9.3%	10.1%	n/a	
Total Unemployment (Gross) ¹²²	159,448	193,438	n/a	

National faced a substantially different political environment after the 1996 election, as New Zealand had voted to move to a proportional representation electoral system. This meant the 1996 election produced a coalition government, with National supported by the minor party New Zealand First.¹²³ This new political environment

¹¹⁹ Neil Lunt, “From Welfare State to Social Development: Winning the War of Words in New Zealand,” *Social Policy and Society* 7 (4, October 2008): 412.

¹²⁰ Statistics New Zealand, *INFOS* 3.0.

¹²¹ Paul Dalziel and Ralph Lattimore, *The New Zealand Macroeconomy*, 136.

¹²² Statistics New Zealand, *INFOS* 3.0.

¹²³ Jonathan Boston and Elizabeth McLeay, “Forming the First MMP Government: Theory, Practice and Prospects,” in *From Campaign to Coalition: The 1996 MMP*

would have important consequences for welfare policy. It was, however, the *Strategic Directions* paper, authored by the DSW, which first signals a major change in welfare policy. The paper began with a dire warning: "New Zealand faces a number of critical social policy problems. These problems may become endemic Resolution of these problems will require re-examination of the issues and may necessitate the adoption of radical shifts of approach."¹²⁴ The broad problem facing New Zealand was termed "the welfare conundrum."¹²⁵ Three major problems were identified within the welfare conundrum: welfare dependency; crises in families; and an ageing population (this final issue will not be discussed, as it relates to superannuation).

Welfare dependency was defined as "the negative effects which long-term reliance on benefits can have for working-age people and their families," adding "the Department does not consider that there are harmful effects from short-term access to the benefit safety net."¹²⁶ The dependency problem had arisen as more individuals were reliant on the benefit. Overall, 21% of the working age population (400,000 people) were dependent on a benefit, compared to 8% in 1985. Worryingly, the recent economic growth was accompanied by an *increase* in the numbers receiving a benefit. This was said to be a new problem, as previously economic growth had reduced the amount of people on benefits to virtually zero. The DSW argued this meant "there was a wider issue of welfare dependency."¹²⁷

The second major problem identified lay within families. Arrests of teenagers and school suspensions had approximate doubled; young people were committing suicide at a higher rate than anywhere in the OECD; teenage pregnancies was at a relatively high rate; and domestic violence was leading to a substantial number of deaths. This was evidence families were not "meeting their care, control and support responsibilities."¹²⁸ This problem was exacerbated by welfare dependency, as "Long-term and multi-generational dependency adds stresses to people's lives and exacerbates social problems such as child abuse, domestic violence, youth offending,

Election, ed. Jonathan Boston et al. (Palmerston North: The Dunmore Press, 1997), 207.

¹²⁴ Department of Social Welfare, *Strategic Directions*, 4.

¹²⁵ *Ibid*, 5.

¹²⁶ *Ibid*, 7.

¹²⁷ Ross Mackay, "Work-Orientated Reforms: New Directions in New Zealand," 77.

¹²⁸ Department of Social Welfare, *Strategic Directions*, 33.

poor health and education attainment. The continued existence of high levels of dependency may result in the development of an “underclass.”¹²⁹

In response to these problems, the Department proposed a series of “strategic directions” for future welfare policy. To achieve this new direction the benefit system would be transformed from a passive to an active welfare system. A passive benefit system was defined as one that provides benefits for those who are eligible, and does little to ensure that beneficiaries are actively seeking work. Active assistance “is the processing of an application for a benefit in a way which establishes expectations ... about their responsibilities and the assistance available to become more self-reliant.”¹³⁰ This assistance would be based on the notion of reciprocal obligations. This change was reflected in the youth and long-term unemployed programs established earlier in 1996.¹³¹ This would ensure the reduction of “welfare dependence by ensuring that they are better placed to take up opportunities in employment when they arise.”¹³² Here, the connection to Lawrence Mead becomes apparent. The Department cites Mead in order to support the notion of “helping” and “hassling.” The Department would help beneficiaries by “invest[ing] in human capital.”¹³³ Hassling would be “largely verbal,” and consist of emphasising the beneficiary’s reciprocal obligations.¹³⁴

The major policy reform in the early years of National’s third term was the creation of the ‘Community Wage’. This policy was included as part of its coalition agreement with New Zealand First, which had championed the policy as part of their election campaign.¹³⁵ The Community Wage was a work-for-the-dole program, and replaced the unemployment, sickness and training benefits.¹³⁶ At its core was the concept of reciprocal obligations, symbolised by a contract. Beneficiaries were required to sign a Job Seeker Agreement, which committed beneficiaries to be being available for

¹²⁹ Ibid.

¹³⁰ Ibid, 25.

¹³¹ Ibid.

¹³² Ibid.

¹³³ Ibid, 26.

¹³⁴ Ibid, 29.

¹³⁵ Wendy Larner, “Post-Welfare State Governance: Towards a Code of Social and Family Responsibility,” *Social Politics: International Studies in Gender, State & Society* 7, (no. 2, 2000): 249.

¹³⁶ Peter Starke, *Radical Welfare State Retrenchment*, 121.

community work, training or other activities for up to 20 hours per week.¹³⁷ Those who were sick, injured or disabled were required to sign the agreement, though they could receive a deferral to void the work requirements.¹³⁸ Beneficiaries would be treated as much like members of the work force as possible in order to maintain their “work skills and self esteem.”¹³⁹ The community wage was designed “to reduce long-term unemployment and benefit dependency by encouraging ... [beneficiaries] to take opportunities to move into paid work.”¹⁴⁰

Welfare reform would take a turn in late 1997, when Jenny Shipley took over the Prime Ministership in a coup. With Shipley's rise, welfare cuts returned to National's agenda.¹⁴¹ This occurred for two reasons. Firstly, Shipley had a firm ideological commitment to welfare cuts.¹⁴² Secondly, New Zealand's economic situation was worsening. This was largely caused by the East Asian Financial Crisis, which began in 1997, and severely affected New Zealand due to the loss of trade.¹⁴³ The impact of the East Asian Financial Crisis was clearly seen in the 1998 budget. Treasurer Winston Peters committed Government to “controlling spending, reducing debt and enabling continued operating surpluses,” and to reducing the cost of welfare.¹⁴⁴ It was announced savings would be found in the implementation of the Community Wage program. This was achieved by reducing sickness benefits to the same level as the unemployment benefit, with cuts ranging from 4 to 17%.¹⁴⁵

Further savings were found later in 1998, with reforms focussing on extending the obligations created in previous years. Those on the DPB were again targeted, with recipients with children between 6 and 13 required to look for part-time work. Full-time work was expected for those with children over 14. Work tests were extended to the spouses of sickness and invalid beneficiaries. A benefit category was created for

¹³⁷ Ross Mackay, “Work-Orientated Reforms: New Directions in New Zealand,” 91, 90.

¹³⁸ Ibid, 90-1.

¹³⁹ The Jobs Letter, “No Work - No Wage: How the Community Wage will be implemented,” *The Jobs Letter* 77 (27th April 1998): no page.

¹⁴⁰ Social Security (Work Test) Amendment Bill 1998 (New Zealand) No. 94.

¹⁴¹ Peter Starke, *Radical Welfare State Retrenchment*, 120-1.

¹⁴² Ruth Richardson, *Making a Difference* (Christchurch: Shoal Bay Press, 1995), 207-8.

¹⁴³ Brian Easton, *In Stormy Seas*, 142.

¹⁴⁴ Winston Peters, *1998 Budget* (Wellington: Government Printer, 1988), 6, 13.

¹⁴⁵ Peter Starke, *Radical Welfare Retrenchment*, 122.

18 and 19 year olds living with their parents, which effectively reduced their benefit.¹⁴⁶ There was also an important restructuring of the way benefit services were delivered. In 1998, the Income Support Service and the Employment Services were merged to form Work and Income New Zealand (WINZ).¹⁴⁷ This meant employment advice and eligibility for benefits were to be delivered simultaneously, rather than by separate departments. This ensured beneficiaries were aware of their work requirements, and reflected the “growing emphasis on welfare-to-work programs.”¹⁴⁸

The final policy worth noting was the 1998 release of a public discussion document called *Towards a Code of Social Responsibility*. Though some consider it to be “an abject failure as a policy initiative,” it remains relevant as a public statement of National’s conservative values.¹⁴⁹ It included a statement of expectations for parenting, health, money management and finding employment, and was sent to every household in the country.¹⁵⁰ By circulating the document, the Government hoped parents would understand what was expected to “meet their responsibilities.”¹⁵¹ It was hoped the responses to the document would form a consensus on appropriate responsibilities, and write them into law.¹⁵² Nominally the code applied to every citizen, but Deputy Prime Minister Winston Peters stated that the main target of the code was beneficiaries.¹⁵³ After receiving responses, the Government quietly abandoned the code.¹⁵⁴

¹⁴⁶ Ibid, 123.

¹⁴⁷ “Historical Timeline,” Ministry of Social Development, accessed 19th July, 2014 <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/index.html>.

¹⁴⁸ Ross Mackay, “Work-Orientated Reforms: New Directions in New Zealand,” 102.

¹⁴⁹ Wendy Larner, “Post-Welfare State Governance: Towards a Code of Social and Family Responsibility,” 254.

¹⁵⁰ For a list of the 11 issues see, The Response Analysis Team, *Towards a Code of Social and Family Responsibility: The Response Report* (Wellington: Government Printer, 1998), 9-14.

¹⁵¹ The Jobs Letter, “Social Responsibility – Whose Agenda?,” *The Jobs Letter* 74 (6th March 1998): no page.

¹⁵² Ibid.

¹⁵³ Wendy Larner, “Post-Welfare State Governance: Towards a Code of Social and Family Responsibility,” 254.

¹⁵⁴ Maureen Baker, “Family welfare - Family policy, 1980–1999,” *Te Ara - the Encyclopedia of New Zealand*, last modified 15th November 2012, <http://www.TeAra.govt.nz/en/photograph/26095/the-code-of-social-and-family-responsibility>.

3.5. Welfare Reform and Paternalism

There is a clear connection between New Zealand's welfare reform and new paternalism. The influence of paternalism became prominent in the mid-1990s. During this time, the DSW had become interested in the "Wisconsin Model," which was a real-world implementation of new paternalism. Ross Mackay, who worked for the DSW during the 1990s, states "if one were to construct a plot of all overseas visits made by officials from the New Zealand Department of Social Welfare, it would show a heavy line ... between Wellington ... and California and Wisconsin."¹⁵⁵ Mackay argues New Zealand's reforms "bear the traces of a genetic link to their American progenitors," and in particular Wisconsin.¹⁵⁶ He believes New Zealand officials saw "[in Wisconsin] a reflection of their own values, and a realisation of their own vision. This reinforced the view that the reshaping of the New Zealand system was on the right track and gave additional impetus" to reforms¹⁵⁷ Peter Starke wrote the impact of Wisconsin could "hardly be overstated," and pointed to the regular contact as evidence.¹⁵⁸

The impact of the Wisconsin Model becomes clear in 1996. The *Strategic Directions* paper contained several references to Lawrence Mead and Wisconsin.¹⁵⁹ Most tellingly, the Department's support of the "help and hassle" approach was based on Mead's research, and was a term used by Mead himself. In 1997, the Journal published by the DSW would contain a paper by Mead, and others analysing Wisconsin.¹⁶⁰ Later in 1997, the Department hosted a conference titled *Beyond Dependency*, which aimed to encourage solutions to welfare dependency.¹⁶¹ The

¹⁵⁵ Ross Mackay, "Work-Orientated Reforms: New Directions in New Zealand," 83.

¹⁵⁶ Ibid, 69.

¹⁵⁷ Ibid, 84.

¹⁵⁸ Peter Starke, *Radical Welfare Retrenchment*, 227.

¹⁵⁹ Department of Social Welfare, *Strategic Directions*, 26-27, 30.

¹⁶⁰ See Lawrence Mead, "Raising Work Levels Among the Poor," Jean Rogers, "Designing Work-Focused Welfare Replacement Programmes," and Alex McKenzie, "Workfare: The New Zealand Experience and Future Directions," which all appear in *Social Policy Journal of New Zealand Te Puna Whakaaro* 8 (March 1997), as well as Ross Mackay, "A Coat of Many Colours: Welfare Reform Around the World," *Social Policy Journal of New Zealand Te Puna Whakaaro* 11 (December 1998).

¹⁶¹ Margaret Bazley, "Opening Address," in *Beyond Dependency Conference: Conference Proceedings*, ed. Department of Social Welfare (Wellington: Department of Social Welfare, 1997), 2.

emphasis of the conference was on the Wisconsin Model.¹⁶² In a presentation from Jean Rogers, an official from the Wisconsin Government, she stated her Government “followed [New Zealand’s] reforms and feel you’re very much on target ... In fact, we’ve referred to New Zealand as our mirror image in the Southern Hemisphere.”¹⁶³ Mead gave a talk at the conference, though was less complimentary about New Zealand’s reforms. He supported the broad direction, but argues that a “change [to] the economics of welfare is not enough to reform well ... the reason is that you simply cannot motivate work effectively simply by changing the economics.”¹⁶⁴ He went on to state “[c]utting benefits does surprisingly little actually to move people towards employment ... you have to do something else ... enforcement.”¹⁶⁵ He went on to argue for greater paternalism in New Zealand’s welfare reforms. This would require greater supervision through case managers who “help and hassle.”¹⁶⁶ Mead’s desire would be fulfilled in 1998 with the implementation of the Community wage and the reform of WINZ, which increased the demands on beneficiaries, and entrenched the role of the case manager, representing a more paternalistic approach to welfare.

Mackay’s assessment of paternalism’s influence is supported by a closer analysis of the similarities between the paternalist case and the DSW’s own analysis of welfare. In chapter two, the three key elements of paternalism were outlined: beneficiaries are assumed to be incompetent, which is linked to a dysfunctional culture; extensive case management, utilising the “help and hassle” technique; and a statement of morality which relate to the deficits of the underclass.

The first element is seen in New Zealand’s own analysis of the welfare problem. During the early 1990s, similarities began to develop with New Zealand’s emphasis on reciprocal obligations and the use of case management, though there is no evidence this was related to developments in the US. However, in 1996 the DSW’s analysis began to show significant similarities with paternalism, at the same time that

¹⁶² Mike O’Brien, *Poverty, Policy and the State*, 182.

¹⁶³ Jean Rogers, “The Wisconsin Approach: Innovation in Welfare Reform,” in *Beyond Dependency Conference: Conference Proceedings*, ed. Department of Social Welfare (Wellington: Department of Social Welfare, 1997), 25.

¹⁶⁴ Lawrence Mead, “Welfare Reform: The Need for Obligation,” in *Beyond Dependency Conference: Conference Proceedings*, ed. Department of Social Welfare (Wellington, Government Printer, 1997), 251.

¹⁶⁵ Ibid.

¹⁶⁶ Ibid, 257.

their attention turned to Wisconsin. Where paternalists spoke of a breakdown of society, the DSW discussed dependency and family breakdown. The family breakdown problem included a list of problems analogous to America's societal breakdown: increased crime amongst youth, ill-discipline at school, family violence and so on. According to the DSW, these problems were threatening to create an "underclass." This underclass was not affected by the economy, as benefit dependency remained high even after years of economic growth. This was because some families were stuck in a cycle of disadvantage. So, New Zealand had adopted the first element of paternalism; welfare dependency was creating an underclass, whose behavioural deficiencies prevented them from leaving welfare.

Further similarities are seen in National's policy initiatives. Throughout the early 1990s, National experimented with increased case management based on reciprocal obligations. In 1996, emboldened by Mead's research and the success of its pilot programs, the DSW advocated an extension of reciprocal obligations and case management. The result was the Community Wage, underpinned by a case management system based on help and hassle. This fulfils the second key element of paternalism.

Finally, the requirement for a statement of morality was fulfilled by the dependency discourse. The final three years of the National Government saw the full development of the "predatory conceptual framework" of dependency.¹⁶⁷ Dependency "individualised, blamed and moralised" beneficiaries for their failings, and became "pseudo-explanatory ... and served as shorthand for intergenerational cycles of reliance amongst promiscuous and work-shy populations."¹⁶⁸ In response, National attempted to destroy this culture through both policy and statements from politicians. Policies included the introduction of work tests, the extension of work tests to new groups, and sanctions. There were also multiple public campaigns, as National thought eliminating dependency required "a broader cultural project in shifting how welfare, responsibility and citizenship were conceptualised."¹⁶⁹ These campaigns reached their full development with the Code of Social Responsibility,

¹⁶⁷ Neil Lunt, "From Welfare State to Social Development: Winning the War of Words in New Zealand," 412.

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

which outlined the moral expectations for society, and beneficiaries in particular. It assumed the main problem facing at-risk families was that they simply did not know how to parent, and having their expectations outlined would help solve the issue. The issue was not incentives; it was their basic level of competence. This reinforced the view that beneficiaries were incompetent. It was also a literal statement of public morality, with the government producing a document outlining expectations of how its citizens should live.

New Zealand did not adopt paternalism in its entirety. For example, there was no implementation of time limits, and there was more of an emphasis on voluntary, rather than mandatory, programs.¹⁷⁰ Further, the DSW noted that there were major differences between the welfare programs in the US, which mainly focussed on sole parents, and New Zealand, which covered the entire working age population.¹⁷¹ However, it is clear Paternalism was a significant influence on New Zealand, as the Government's analysis of the welfare problem and proposed solutions bore significant similarities. Overall, the influence of paternalism was not to bring in a radically new direction to welfare policy. Instead, as Mackay argues, it confirmed to the DSW it "was on the right track," and helped to sharpen the analysis of the welfare conundrum, which provided the Government "additional impetus" for its reforms.¹⁷²

From the Liberal to Conservative Tradition

A clear pattern exists within National's welfare reforms. Broadly, the reforms should be conceptualised as representing a shift within neoliberalism; from one influenced by the classical liberal tradition and its concomitant neoclassical economic concepts, to one influenced by conservatism. National's first term was dominated by classical liberalism and economic concerns. Although Jenny Shipley argued economic and social policies should be connected, in practice this simply meant social policy became subservient to economic concerns. The analysis of welfare was dominated by neoclassical economic theories. The Government argued a mixture of labour market inefficiencies and incorrect price signals stemming from benefit rates was creating

¹⁷⁰ Simon Kilroy, "Welfare Revamp Leans on US Model," *The Dominion*, 14 May 1998.

¹⁷¹ Alex McKenzie, "Workfare: The New Zealand Experience and Future Directions," 5.

¹⁷² Ross Mackay, "Work-Orientated Reforms: New Directions in New Zealand," 84.

unemployment. This meant welfare reform had two goals: to reduce public debt and to increase the difference between income from work and benefit rates. The focus on financial incentives would remain throughout National's reign. Dependency, behaviour and fairness became important ideological justifications for these reforms. However, they were more influential in rhetoric than practice.

By National's second term, the public had turned against the hard-line neoliberal reforms, and National took a more moderate turn.¹⁷³ The DSW also began to develop an analysis of welfare which emphasised the break-down of families and the barriers facing beneficiaries trying to enter the labour market. This analysis of beneficiaries is crucial, as it was pushing National away from its narrow economic focus. This led to pilot programmes which sought to increase work, educational and training opportunities through the use of case managers. Reciprocal obligations became an important justification for National. These trends moved away from the liberal approach, and laid the basis for a more conservative approach to welfare reform. However, financial incentives still remained the favoured policy tool, with tax cuts and abatement rates being adjusted to improve financial incentives.

National's third term saw the full realisation of the conservative elements of its second term. The DSW's *Strategic Directions* emphasised that problem families were unable to respond to economic growth. These families had a unique set of problems which prevented them from maintaining a place in the labour market. These problems contributed to a rise of an underclass, who were contributing to problems of: family violence; crime; low educational achievement; teenage pregnancy and so on. Reciprocal obligations and case managers who "help" and "hassle" their clients were advocated as the most effective policy response to these problems. Dependency and work tests, unlike in National's first term, became central to its reforms. Dependency was defined as the behavioural problems which could result from being on a benefit long term, and related to the increasing numbers of beneficiaries despite strong economic growth. The Community Wage program would help overcome these problems by ensuring beneficiaries contributed to their community, helping to maintain their work skills and self-esteem through community work. Over nine years, there was a reversal in importance; financial incentives were only part of the policy

¹⁷³ Brian Roper, *Prosperity for All?*, 201.

response, whereas dependency and work tests were at the core of National's reforms. This change was heavily influenced by the conservative ideas imported from the US. National's reforms were now predominantly driven by conservatism, not, as was the case earlier in the 1990s, neoclassical economic theories.

3.6. Conclusion

From 1990 to 1999, National radically reformed the welfare state. National arrived in Government after nearly two decades of economic turbulence and six years of neoliberal economic reforms. National continued these reforms upon gaining office. Welfare in National's first term was subservient to economic concerns. The main reform of this period was to slash benefit rates and restrict eligibility for benefits. The second term saw a softening of National's approach; with greater emphasis placed on case managers and assisting beneficiaries. Financial incentives remained a central concern, though a better economic environment allowed National to increase wages through tax cuts and benefit increases. The third term saw a more conservative approach, as the Department of Social Welfare began to focus on the Wisconsin Model. The Community Wage was introduced and some minor cut backs were made to benefits. The influence of paternalism was clear and had a significant impact on the Department's analysis of welfare, and National's reforms of welfare.

CHAPTER FOUR

THE FIFTH NATIONAL GOVERNMENT'S WELFARE REFORMS

The 1999 election saw the end of the Fourth National Government. The National Party received 30% of the total vote, its worst election result in history up to that point.¹ The Labour Party formed a coalition government, and would successfully navigate three terms in office.² In 2008, the National Party returned to Government with the support of several minor parties. During the 2008 election campaign, National leader John Key promised welfare reforms which would have “an unrelenting focus on work,” a theme that would guide the following six years of the Fifth National Government.³ This chapter describes these reforms, and proceeds in five sections. Section 4.1 provides a brief description of the previous Labour Government’s welfare reforms, which provides context for how welfare changed under Labour. Section 4.2 outlines the economic conditions National faced upon entering Government, which impacted on the timing of National’s welfare reforms. Sections 4.3 and 4.4 describe the welfare reforms during National’s terms in office from 2008-11, and 2011-14. Two major events dominated its first term. Firstly, a local recession and the Global Financial Crisis combined to delay National’s proposed reforms. Secondly, it set up the Welfare Working Group, whose advice would guide the next term’s reforms. The second term was characterised by the extension of a wide array of obligations, and the restructuring of benefit categories. Finally, section 4.5 identifies the key trends in welfare reform over National’s two terms in office.

¹ “General Elections 1980-1993,” Electoral Commission Te Kaitiaki Take Kowhiri, accessed 7th November, 2011, <http://www.elections.org.nz/events/past-events/general-elections-1890-1993>.

² Brian Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935* (Southbank: Thomson Dunmore Press, 2005), 222.

³ John Key, “National focuses on work in Benefits Policy,” (last modified 11th August, 2008), <https://www.national.org.nz/news/news/media-releases/detail/2008/08/11/national-focuses-on-work-in-benefits-policy>.

4.1. Welfare Reform Under the Fifth Labour Government

The run up to the 1999 election was poor for National, with a series of political blunders and poor economic results blighting its election campaign.⁴ Over a decade of neoliberal reforms had created “bitterness, hostility and resistance amongst the working-class,” which created a large voter base for anti-neoliberal political parties.⁵ To secure these voters, Labour had to show it provided a legitimate alternative to neoliberalism, an ideology it pursued with such zealous enthusiasm in the 1980s.⁶ Labour achieved this perception through the adoption of the “Third Way.”⁷ According to its most prominent advocate, Anthony Giddens, the Third Way is an intellectual project which seeks to reinvigorate social democracy in a globalised world. He argues globalisation means the traditional strategies of the left, such as greater state involvement in the economy, are no longer possible, and its traditional constituency, the working-class, has diminished in size and importance.⁸ As a policy agenda, the Third Way purports to be a middle ground between Keynesian and neoliberal approaches to policy making.⁹ Put concisely, it attempts to create “market economies with a heart” by “softening” the harsher elements of neoliberalism.¹⁰ The adoption of the Third Way proved to be a successful electoral strategy, with Labour entering a coalition with the Alliance party, with the support of the Green party.¹¹

⁴ Keith Sinclair and Raewyn Dalziel, *A History of New Zealand* (Auckland: Penguin Books, 2000), 356.

⁵ Brian Roper, *Prosperity for All?*, 221, and Colin James, “Assessing the Issues,” in *Left Turn: The New Zealand General Election*, ed. Jonathan Boston et al. (Wellington: Victoria University Press, 2000), 69.

⁶ Tom Brooking, *The History of New Zealand* (Connecticut: Greenwood Press, 2004), 173.

⁷ For more on the Third Way ideology in New Zealand, see Srikanta Chatterjee et al., ed., *The New Politics: A Third Way for New Zealand* (Palmerston North: Dunmore Press, 1999).

⁸ Brian Roper, *Prosperity for All?*, 227-9.

⁹ Chris Eichbaum, “The Politics and Economics of the Third Way,” in *The New Politics: A Third Way For New Zealand*, ed. Srikanta Chatterjee et al. (Palmerston North: Dunmore Press, 1999), 38.

¹⁰ Keith Sinclair and Raewyn Dalziel, *A History of New Zealand*, 356, and Brian Roper, *Prosperity for All?*, 234-5.

¹¹ Brian Roper, *Prosperity for All?*, 222.

Reforming welfare was crucial for the “softening” of neoliberalism. The concept guiding reforms was “Social Development.”¹² The goal of social development is to “assist people to gain the skills that lead to a sustainable job, provide effective support to keep them in work, and make sure that taking a job always leaves them and their families better off.” This approach accepts those on benefits “are not there because of adverse labour market conditions or traditional caring responsibilities, but because they have a raft of other social difficulties, ranging from health ... to substance abuse, domestic violence, lack of self-esteem and absence of labour market skills.”¹³ Given the nature of social disadvantage, social policy would be seen holistically, and target “individuals and families at the source of disadvantage,” which requires intervention across different policy areas.¹⁴

Two policy developments are central to the social development approach. The first is the adoption of a work-first approach to welfare.¹⁵ This means the goal of welfare is for beneficiaries to gain paid employment. Labour argued welfare was insufficiently “active,” and though the previous National Government had aimed to create work-first welfare, it had failed to do so.¹⁶ As seen in the previous chapter, this is an identical criticism to the one both the Department of Social Welfare and National made of welfare in the late 1990s. Key to this approach is case managers; who were able to identify individual barriers facing beneficiaries, and provide support and resources to help overcome these barriers.¹⁷ At the core of the relationship between the case manager and client was the Job Seekers Agreement. This contract set out the reciprocal obligations beneficiaries faced, and the assistance Work and Income New

¹² Mike O'Brien, *Poverty, Policy and the State: The Changing Face of Social Security* (Bristol: Policy Press, 2008), 204.

¹³ Neil Lunt et al., “New Welfare, New Zealand?,” in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 4.

¹⁴ Ibid.

¹⁵ Mike O'Brien, “Work-First and Active Labour Markets,” in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 54.

¹⁶ Helen Clark and Steve Maharey, *Pathways to Opportunity: From Social Welfare to Social Development* (Wellington: Government Printer, 2001), 2.

¹⁷ Neil Lunt, “New Measures to Reduce Sickness and Invalids Benefit Rolls,” in *New Zealand New Welfare* ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 97-98.

Zealand (WINZ) could provide in return.¹⁸ Importantly, the Third Way's approach to "active" welfare is strongly influenced by paternalist welfare reforms in the US.¹⁹

The second policy development, which shows a clear change from the Fourth National Government, was an emphasis on "making work pay."²⁰ Labour argued beneficiaries often "find that going to work simply does not pay. This may be because they are in a low paid or unstable job."²¹ This problem was exacerbated by poor financial incentives arising from benefits.²² Labour argued the solution to this problem lay in increasing the gains received from working. Two policies were introduced to increase incomes. Firstly, the minimum wage was increased progressively from \$7 per hour in 1999, to \$11.25 in 2007.²³ The Youth Wage was abolished, which was a separate minimum wage for young people.²⁴ Secondly, Labour introduced Working for Families (WFF), which was designed to achieve Labour's goal of eradicating child poverty.²⁵ WFF included a raft of policy changes which increased financial assistance for working families.²⁶ The specific details of WFF will not be discussed here, as this has been done elsewhere.²⁷ However, one element must be described. WFF targeted families in paid work, thereby encouraging people off welfare by increasing wages. Thus there was little income change for beneficiaries (though families did receive a small amount), with benefit levels staying below 1990

¹⁸ David Green, *Poverty and Benefit Dependency* (Wellington: New Zealand Business Round Table, 2001), 52.

¹⁹ See Andreas Cebulla et al., *Welfare-to-Work: New Labour and the US Experience* (Aldershot: Ashgate Publishing Limited, 2005), Chapter 2.

²⁰ Mike O'Brien and Tapio Salonen, "Child Poverty and Child Rights Meet Active Citizenship: A New Zealand and Sweden Case Study," *Childhood* 18 (2, 2011): 218.

²¹ Helen Clark and Steve Maharey, *Pathways to Opportunity*, 10.

²² *Ibid*, 10.

²³ "Previous Minimum Wage Rates," Ministry of Business, Innovation and Employment, accessed 27th October, 2014, <http://www.dol.govt.nz/er/pay/minimumwage/previousminimum.asp>.

²⁴ Neil Lunt, "Unemployment and Youth Unemployment," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 64-5.

²⁵ Steve Maharey et al., *New Zealand's An Agenda for Children* (Wellington: Ministry of Social Development, 2002), 6.

²⁶ Susan St John, "Working for Families: Work, Families and Poverty," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 84-5.

²⁷ For example, see Susan St John, "Working for Families: Work, Families and Poverty," and Mike O'Brien, *Poverty, Policy and the State*, 215-218.

levels.²⁸ Official advice argued WFF would reduce child poverty by 30%, leaving 70% still in poverty, with the vast majority being on a benefit.²⁹ This fell well short of eradicating child poverty. However, it is important given that it reduced poverty, and has been the only major policy change since 1984 which has decreased income inequality.³⁰

Though an extensive analysis of the similarities and differences between Labour and National's welfare reforms is outside the scope of this thesis, it is worth noting three key differences. Firstly, Labour made reducing poverty an explicit policy goal. Labour introduced a variety of policies to combat poverty, and pioneered innovative ways of measuring it. This stands in stark contrast with National, who banned the word poverty from Government documents, and did not monitor its impact.³¹ However, by the end of Labour's term 18% of the population was in poverty.³² Secondly, the language surrounding beneficiaries changed. Louise Humpage and David Craig noted that welfare debates in the 1990s were characterised by "an emotive language of morality and blame" which emphasised "the individual character of beneficiaries."³³ After 1999, the language shifted to a focus on "social inclusion," and how "social investment could lift individual capacity."³⁴ Finally, Labour shunned the strong emphasis on sanctions which National had introduced. Mike O'Brien summarised the shift: "work remains the central focus, but the process for moving people from benefit to work shifts from a punitive, obligation-based, sanction-reinforced process to an emphasis on ... a 'work development and employment plan' ... rather than the emphasis being on sanctions, the focus here is on developing an individual plan."³⁵ Thus under Labour the Community Wage was abolished,³⁶ work testing for sole

²⁸ Robert Stephens, "The Changing Social Security System," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 30.

²⁹ Mike O'Brien, *Poverty, Policy and the State*, 216-7.

³⁰ Bryan Perry, *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013* (Wellington: Ministry of Social Development, 2014), 13.

³¹ Robert Stephens, "The Changing Social Security System," 33, and Vasantha Krishnan et al., *New Zealand Social Living Standards 2000* (Wellington: Centre for Social Research and Evaluation, Ministry of Social Development, 2002).

³² Bryan Perry, *Household Incomes in New Zealand*, 132.

³³ Louise Humpage and David Craig, "From Welfare to Welfare-to-Work," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 45.

³⁴ Ibid, 47.

³⁵ Mike O'Brien, "Work-First and Active Labour Markets," 53.

³⁶ Neil Lunt, Mike O'Brien and Robert Stephens, "New Welfare, New Zealand?," 5.

parents was more flexible,³⁷ and greater incentives for those on sickness and invalid beneficiaries to return to work were created.³⁸ Though the emphasis on paid work remained, the use of obligations and sanctions was weakened.

4.2. Economic Conditions and Policy Response of the National Government

Table 5: Economic Data, 2008-11

	2008	2009	2010
Real GDP Growth ³⁹	1.1%	-1.9%	1.3%
Total Unemployment (%) ⁴⁰	4.1%	6.1%	6.5%
Total Government Debt (\$million) ⁴¹	10,258	17,119	26,738

The economic context National faced upon entering Government in 2008 had a major impact on the timing of the welfare reforms. According to Treasury “the period from the early 1990s to the beginnings of the Global Financial Crisis in 2007 was a period of exceptional macroeconomic stability in the advanced world ... Fiscal outcomes in New Zealand throughout the period were correspondingly favourable.”⁴² Labour’s term in office was characterised by economic growth, consistent surpluses and the reduction of government debt.⁴³ Real GDP growth averaged approximately 3.5% and unemployment reached a low of 3.5%.⁴⁴ However, this sustained period of

³⁷ Maureen Baker, “Low-income Mothers, Employment and Welfare Structuring,” in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 72.

³⁸ Neil Lunt, “Unemployment and Youth Unemployment,” 96.

³⁹ See Figure 2, “All key graph data,” Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls

⁴⁰ See Figure 9 – Employment and Unemployment, “All key graph data,” Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls.

⁴¹ Treasury, *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2014* (Wellington: Treasury, 2014), 25.

⁴² Bruce White, *Macroeconomic Policy in New Zealand: From the Great Inflation to the Global Financial Crisis* (Wellington: Economic Performance Group, Treasury, 2013), 19.

⁴³ Ibid

⁴⁴ Organisation for Economic Co-operation and Development, *OECD Economic Surveys: New Zealand 2009* (Paris: OECD, 2009) 20-1.

growth would come to an end in early 2008, as New Zealand entered a recession, driven by a variety of factors.⁴⁵ Treasury predicted real GDP would fall to virtually 0%, unemployment would increase, and state debt would increase from \$19 million to \$29 billion by 2013.⁴⁶ Despite this gloomy outlook, Treasury forecast the economy would return to approximately 3% growth by 2010/11.⁴⁷

The onset of New Zealand's recession was overshadowed by an emerging crisis originating from the United States. In August 2007, troubles in the US banking system led to the "near collapse of the global financial system in late 2008."⁴⁸ A summary of the global financial crisis (GFC) is not possible here, but it is important to note the severity of the crisis. It has been described as the "worst recession since the 1930s," which had "affected all financial institutions and national economies ... with a devastating effect on the real economy."⁴⁹ In response, Treasury's 2008 forecasts put New Zealand in a "much weaker" position than it had anticipated, predicting a "smaller nominal economy than past forecasts ... leading to an increase in the size of fiscal deficits and large increases in debt."⁵⁰

National's response to the economic crisis was to institute a short-term fiscal stimulus which was designed to "maintain economic activity, support jobs, and buffer the economy during the recession."⁵¹ This approach is broadly in line with economic orthodoxy, which accepts that a stimulus can have positive effects in the short term.⁵² Indeed, virtually all OECD countries implemented some form of stimulus.⁵³ These stimuli were designed to rescue the financial sector and ensure economic growth (or mitigate the economic slowdown). The sheer size of these stimuli was immense. In

⁴⁵ Treasury, *Pre-Election Economic and Fiscal Update 2008* (Wellington: Treasury, 2008), 5.

⁴⁶ Ibid, 6, 37.

⁴⁷ Ibid, 6.

⁴⁸ Bruce White, *Macroeconomic Policy in New Zealand*, 27.

⁴⁹ United Nations, *Conference on the World Financial and Its Impact on Development* (New York: United Nations, 2009), 2, 4.

⁵⁰ Treasury, *Economic and Fiscal Forecasts December 2008* (Wellington: Treasury, 2008), 19.

⁵¹ Bill English, *Budget Policy Statement 2009* (Wellington: Government Printer, 2009), 2.

⁵² Brian Roper, "The Fifth (Key) National Government's Neoliberal Policy Agenda: Description, Analysis and Critical Evaluation," *New Zealand Sociology* 26 (Issue 1, 2011): 22.

⁵³ Organisation for Economic Co-operation and Development, *OECD Economic Outlook, Interim Report March 2009* (Paris: OECD, 2009), 105.

Britain, the Government invested \$875 billion in the banking sector, and the US implemented a stimulus worth \$831 billion.⁵⁴ These stimuli were funded by Government debt. The OECD warned the adoption of this debt “entails risks regarding the long-term sustainability of public finances,” meaning the debt created by the stimulus would become a burden in the future.⁵⁵ According to British think tank, the payment of this debt would entail “A decade of pain,” as Governments must seek to reduce expenditure in order to decrease their debt levels.⁵⁶

This problem is applicable to New Zealand's experience. National's stimulus package was relatively large by global standards, ranking as the fourth highest in the OECD.⁵⁷ After the implementation of the stimulus, Treasury advocated a focus on cutting debt and restricting spending, advice which National readily accepted.⁵⁸ As Byron Richards points out, the focus on decreasing debt has led to “significant pressure to curtail and ultimately reduce government expenditure in key areas such as health, education, and social welfare.”⁵⁹ Thus the fiscal incentive to reduce the cost of welfare had been increased by the GFC. As will be described in the following section, this situation was readily accepted by National, who had planned to reduce the size of the welfare state prior to the GFC.

4.3. National's Reforms of Welfare: 2008-11

National's plans for reforming welfare were signalled during the 2008 election campaign in *National's Benefits Policy Backgrounder*. National began the document by reiterating its commitment to a welfare state which provides “a genuine safety net in times of need.”⁶⁰ Welfare would have an “unrelenting focus on work,” which would

⁵⁴ David McNally, *Global Slump: The Economics and Politics of Crisis and Resistance* (Nova Scotia: Fernwood Publishing, 2011), 20, and Congressional Budget Office, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2011 Through December 2011* (Washington: Congressional Budget Office, 2012), 1.

⁵⁵ Organisation for Economic Co-operation and Development, *OECD Economic Outlook, Interim Report March 2009*, 105, 144.

⁵⁶ David McNally, *Global Slump*, 22.

⁵⁷ Organisation for Economic Co-operation and Development, *OECD Economic Outlook, Interim Report March 2009*, 108.

⁵⁸ Treasury, *Brief to the Incoming Minister of Finance*.

⁵⁹ Byron Richards, “The Dollar-Wall Street Regime and New Zealand,” *New Zealand Sociology* 25 (no.1, 2010): 45.

⁶⁰ “National's Benefits Policy Backgrounder,” National Party, accessed 15th October, 2014, www.nzdoctor.co.nz/media/137374/benefits_backgrounder.pdf, 3.

“provide support that reflects an individual’s needs and circumstances.”⁶¹ The focus on work was justified as “paid work is the route to independence and well-being for most people,” and “is the best way to reduce child poverty.”⁶²

National adopted the same language which the Department of Social Welfare, the Fourth National Government and the Fifth Labour Government used to criticise welfare. The current system was too “passive,” and did not emphasise the importance of work enough.⁶³ Three main problems were identified. The first was the long-term unemployed. Labour had successfully reduced unemployment benefit (UEB) recipients from 169,203 in 1999, to 17,871 in 2008.⁶⁴ The amount of long-term unemployed (defined as being on the UEB for longer than 1 year) had also decreased. Despite this, National argued the existence of the long term unemployed was a significant problem.⁶⁵ The second problem was the growth in sickness and invalid beneficiaries. Despite consistent economic growth, total numbers on these benefits had risen from 83,195 in 1999, to 131,907 in 2008.⁶⁶ The third issue identified was the debt owed by beneficiaries to the state, which stood at \$780 million, up from \$450 million in 1999.⁶⁷

National proposed a range of policies to address these issues. They can be sorted into four categories. The first relates to the income of beneficiaries. National would legislate to link benefit rates to the Consumer Price Index (a measure of inflation), which, although already done by convention, would increase “certainty” for beneficiaries.⁶⁸ The abatement rate for beneficiaries would increase from \$80 to \$100.⁶⁹ Secondly, there were a range of policies to tighten eligibility for benefits.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Ministry of Social Development, *The Statistical Report: For the Year Ending June 2002* (Wellington: Ministry of Social Development, 2002), 39.

⁶⁵ “National’s Benefits Policy Backgrounder,” 5-6.

⁶⁶ For 1999 figures, see Ministry of Social Development, *The Statistical Report: For the Year Ending June 2002*, 40 (Sickness numbers), 42 (Invalids). For 2009 figures, see Ministry of Social Development, *The Statistical Report: For the Year Ending June 2008* (Wellington: Ministry of Social Development, 2008), 42 (sickness), 49 (Invalids).

⁶⁷ “National’s Benefits Policy Backgrounder,” 5.

⁶⁸ Ibid, 3.

⁶⁹ Ibid, 10.

National would ensure those on the UEB would have to re-apply every 12 months.⁷⁰ For sickness beneficiaries, more medical certificates would be required to continue receiving the benefit, and a compulsory second opinion would be sought after 12 months.⁷¹ Thirdly, National would increase obligations on beneficiaries. The long-term unemployed would be required to “do what it takes to secure employment. This may include practical training, attending a basic skills course, or attending drug and alcohol rehabilitation.”⁷² DPB recipients would be subject to a “part-time work obligation of 15 hours per week of employment, training, or job-seeking activities ... once their youngest dependent child turns six,” though WINZ case managers would have discretion over whether to apply this to their clients.⁷³ For sickness and invalid recipients, there would be an obligation to work part-time for those assessed as being able to do so.⁷⁴ The debt problem would be addressed by a requirement to attend budget advice programs for those who repeatedly seek emergency financial assistance.⁷⁵

Finally, National would reform the system of sanctions. Labour had removed the graduated levels of sanctions, which National had set up in the 1990s. Under Labour, beneficiaries faced a full suspension of their benefit after they failed to comply with their obligations on three or more occasions. The severity of the sanction made their usage a rare occurrence. Thus, National would introduce graduated sanctions. This would encourage their usage, as a smaller sanction would be less severe than a full loss of benefit.⁷⁶

Ministry of Social Development's Advice to the Incoming National Government

Upon entering government, the Ministry of Social Development's (MSD, formerly known as the Department of Social Welfare) official briefing painted a different picture of welfare. MSD emphasised two major achievements. Firstly, outcomes for

⁷⁰ Ibid, 6.

⁷¹ Ibid, 8.

⁷² Ibid, 6.

⁷³ Ibid, 6, 7.

⁷⁴ Ibid, 9.

⁷⁵ Ibid, 5.

⁷⁶ Ibid, 10.

children and youth had improved substantially over the previous nine years.⁷⁷ Secondly, they heralded improvements for adults. Labour's reforms had meant "incomes have risen, benefit numbers and poverty have fallen."⁷⁸ They argued WINZ had a "significant positive impact in driving additional reductions in job seeker benefit numbers during the economic upswing," which they credited to the active nature of policy interventions.⁷⁹ MSD advocated a work-first approach, arguing it helped the most vulnerable and provided a route out of poverty.⁸⁰ Finally, MSD noted two problem groups: sole parents, due to the high rates of child poverty; and those on the sickness and invalid beneficiaries, who made up an increasing proportion of the total benefit population.⁸¹

MSD argued for a variety of reforms to improve social outcomes. Broadly, MSD argued for a continuation of the work first approach, backed with higher levels of investment, particularly at the early stages of life.⁸² Importantly, MSD argued this approach had to be backed by adequate income assistance.⁸³ Despite improvements made through WFF, there still existed substantial pockets of hardship. This hardship was not conducive to people who are "searching for work, or who are building their capacity to work."⁸⁴ MSD recommended reform and investment in the areas of tax credits, housing assistance and hardship assistance to reduce poverty.⁸⁵

National's Policies After the Election: Response to the Recession

Upon entering government, Prime Minister John Key appointed Paula Bennett to lead MSD, a role she would remain in until 2014.⁸⁶ Due to the GFC, the Government had to modify its policies to cater for the new economic environment. This was particularly problematic for welfare as National had implemented a fiscal stimulus. Welfare spending is an important part of government spending, and any cut to

⁷⁷ Ministry of Social Development, *Brief to the Incoming Minister* (Wellington: Ministry of Social Development, 2008), 4.

⁷⁸ Ibid, 15.

⁷⁹ Ibid.

⁸⁰ Ibid, 16.

⁸¹ Ibid.

⁸² Ibid, 2, 36. There are also a range of other policies, see pages 4-13.

⁸³ Ibid, 20.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ Ministry of Social Development, "Introducing the Minister for Social Development and Employment, Paula Bennett," *Rise*, March 2009, 13.

welfare would work against the stimulus package it had enacted.⁸⁷ It was no surprise, therefore, to see National delay the introduction of the reforms promised during the election, which was designed to reduce welfare spending.⁸⁸

National's new welfare policies sought to "lessen the impact of the recession on the labour market," through the creation of temporary welfare programs.⁸⁹ Policies can be split into those targeting the adult population and those targeting youth. Policies targeting the adult population were relative small. National improved WINZ's assistance to jobseekers by increasing funding to the Job Search Service.⁹⁰ Two temporary benefits were created. The first was the ReStart programme, which provided assistance for those made redundant due to the recession.⁹¹ The second benefit was the Job Support Scheme Allowance, which subsidised employee wages in order to discourage redundancies.⁹² A greater emphasis was placed on youth programmes.⁹³ Three new programmes were created. Firstly, Youth Opportunities was established, which included wage subsidies for at-risk youths and military-style training;⁹⁴ Community Max, which increased skills through community work;⁹⁵ and

⁸⁷ Julia Darby and Jacques Melitz, "Social Spending and Automatic Stabilizers in the OECD," *Economic Policy* 23 (Issue 56, 2008): 747.

⁸⁸ NZPA, "Govt seeks to reduce invalid benefit claimants," *Otago Daily Times*, 3rd November, 2009, accessed 4th November, 2014, <http://www.odt.co.nz/news/politics/80529/govt-seeks-reduce-invalid-benefit-claimants>.

⁸⁹ Ministry of Social Development, *Statement of Intent 2009-2012* (Wellington: Ministry of Social Development, 2009), 7.

⁹⁰ This included a Job Search Service and a Seasonal Work Marketplace. See "Job Search Service," Ministry of Social Development, accessed 20th October, 2014, <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/statistical-report/statistical-report-2008/employment-services/job-search.html>, and "Seasonal Work Marketplace," Ministry of Social Development, accessed 20th October, 2014, <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/regional-plans/2010-12/southern/work/seasonal-work-marketplace.html>.

⁹¹ Ministry of Social Development, *The Statistical Report: For the Year Ending June 2010* (Wellington: Ministry of Social Development, 2010), 184.

⁹² "Job Support Scheme Allowance," Inland Revenue Department, accessed 15th October, 2014, <http://www.ird.govt.nz/payroll-employers/make-deductions/staff-benefits/jss-allowance/>.

⁹³ Ministry of Social Development, *Statement of Intent 2010-2013* (Wellington: Ministry of Social Development, 2010), 20.

⁹⁴ Wage subsidies were provided by the Job Ops program, see "Employing Young People," Work and Income New Zealand, accessed 25th October, 2014, <http://www.workandincome.govt.nz/about-work-and-income/news/2011/employing-young-people.html>. Military training was provided

the Straight 2 Work programme, which included partnerships with industry to develop skills.⁹⁶

The final point worth noting is the justifications used for policy reforms. Paula Bennett argued “the Ministry’s [MSD] most important responsibility is to lessen the impact of the economic downturn on families and individuals.” To do so, it would have an “unrelenting focus on paid work, because we believe keeping people in some form of employment is critical,” as “paid work is the route to independence and well-being for most people, and ... is the best way to reduce child poverty.”⁹⁷ There was a commitment to supporting beneficiaries by setting high expectations, as welfare could “condemn [beneficiaries] to low expectations of themselves - sparking the viciousness of a self-fulfilling prophecy.”⁹⁸ This broadly sets out the argument made for welfare reforms: the economy was in poor shape; welfare could help cushion the effects of the recession; work brings positive results for beneficiaries; and beneficiaries need active help to become independent.

Future Focus: A Return to National's Pledged Reforms

In 2010, National began to implement its welfare election promises, which were repackaged as the Future Focus reforms. The policies were virtually identical to those in the policy backgrounder. Benefits would be linked to the CPI: abatement levels would be increased; beneficiaries would have to reapply for the UEB after 12 months; sickness beneficiaries would be required to produce more medical certificates; there would be a graduated system of sanctions, with a single intermediate step; budget

through the Limited Service Volunteer program, see “Limited Service Volunteer Program,” Ministry of Social Development, accessed 25th October, 2014, <https://www.msd.govt.nz/what-we-can-do/children-young-people/lsv/>.

⁹⁵ “Community Max,” City of Napier, accessed 25th October, 2014, <http://www.napier.govt.nz/napier/projects/completed-projects/2011/community-max/>

⁹⁶ “More People Get into Work and Stay in Work,” Ministry of Social Development, accessed 25th October, 2014, <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/regional-plans/2010-12/bay-of-plenty/work/index.html#Straight2Work6>.

⁹⁷ Ministry of Social Development, *Statement of Intent 2009-2012*, 1, Anand Satyanand, “Speech from the Throne,” (last modified 9th December, 2008), <http://www.beehive.govt.nz/speech/speech-throne>.

⁹⁸ Paula Bennett, “Speech to Presbyterian Support Northern,” (last modified 13th November, 2009), <https://www.national.org.nz/news/news/media-releases/detail/2009/11/13/presbyterian-support-northern-125-years>.

advice would be required for repeated use of hardship grants; sole parents would have to look for part-time work when their youngest child was six; and sickness beneficiaries would be required to look for work if assessed as being able to do so. A new policy was created requiring young people on the benefit to be in education, work or training.⁹⁹

Two key developments occurred in this period. The first was the formation of the Welfare Working Group (WWG), whose purpose would be to “advise the Government on ways to reduce long-term welfare dependency.”¹⁰⁰ This purpose is related to the second key development. The language used to justify welfare reforms changed. This shift was clearly seen in Paula Bennett’s speech to Parliament during the first reading of the bill to implement the Future Focus reforms. She argued the status quo of welfare was “quite frankly, dangerous,” which “failed to do anything about long-term welfare dependency.”¹⁰¹ National would address this by finding “the right balance of obligations and incentives to address an unreasonable sense of entitlement, and to introduce a set of expectations.”¹⁰²

Welfare reform, rather than being justified with reference to the recession, was now deemed a moral issue. Welfare was a statement of what values society deemed valuable: “Do we want a society that teaches its children by example that the path to a better, more prosperous, and fulfilling life is through work, not welfare? I believe that the answer is yes ... there is a higher purpose to this. It comes back to the question of what kind of society we want to live in.”¹⁰³ This moral argument also extended to the importance of work, with Bennett arguing reforms would see “a shift in aspiration that lifts people’s sights up beyond a simple existence on welfare to a meaningful, rewarding life as a working member of society.”¹⁰⁴ Overall, the goal of the reforms was to “discourage[e] long-term dependency.”¹⁰⁵

⁹⁹ John Key and Paula Bennett. “Future Focus,” (last modified 23rd March, 2010), <http://www.beehive.govt.nz/sites/all/files/FutureFocus.pdf>, 1.

¹⁰⁰ Ibid.

¹⁰¹ New Zealand, Social Assistance (Future Focus) Bill — First Reading, House of Representatives, vol. 661, 30 March, 2010, http://www.parliament.nz/en-nz/pb/debates/debates/49HansD_20100330_00000865/social-assistance-future-focus-bill-%E2%80%94-first-reading.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

Welfare Working Group

The Welfare Working Group was set up in April 2010, and was to become a “landmark document” in National’s welfare reforms.¹⁰⁶ The Government narrowly prescribed its focus; restricting it to seeking to reduce welfare dependency, whilst excluding benefit adequacy, and the tax/benefit interface. This meant poverty could not be addressed by the group.¹⁰⁷ It produced two key reports: the first outlining the issues in welfare reform; and the second proposing solutions to welfare dependency.

The “Issues” report identified an increase in welfare dependency

The overall extent of benefit use increased significantly in New Zealand over the last 50 years. In 1960, approximately 2 percent of the working age population were receiving a benefit. By 2008 ... roughly 10 percent of the working age population were receiving a benefit.

Of greater concern was the proportion of long-term recipients. In 2010, there were 170,000 people who spent over half of the past decade on welfare, and 100,000 of those had spent nine or more years on a benefit.¹⁰⁸ The WWG identified three problem groups. Firstly, there were sickness and invalid beneficiaries, whose numbers continued to grow despite years of economic growth, with no evidence this was “caused by the population getting sicker or more disabled.”¹⁰⁹ Secondly, there were those on the DPB, with the WWG noting New Zealand has the second lowest sole parent employment rate in the OECD.¹¹⁰ The WWG argued these groups are the most likely to benefit from paid employment.¹¹¹ Finally, young people were a problem group, as those who went on the benefit as teenagers were more likely to become dependent.¹¹²

The WWG argued welfare contributed to the growth of welfare recipients, as it was insufficiently active. The growth in DPB, sickness and invalid beneficiaries were significant as those benefits had a weaker work-focus and fewer obligations, with the

¹⁰⁶ Jonathan Boston, “Editorial Note,” *Policy Quarterly: Welfare Working Group* 7 (Issue 2, May 2011): 2.

¹⁰⁷ Mike O’Brien, “Reforming Welfare: A Look Backwards,” *Policy Quarterly: Welfare Working Group* 7 (Issue 2, May 2011): 24.

¹⁰⁸ Welfare Working Group, *Long-Term Benefit Dependency: The Issues, Detailed Paper* (Wellington: Institute of Policy Studies, 2010), 11.

¹⁰⁹ Ibid, 16.

¹¹⁰ Ibid, 16 and 34.

¹¹¹ Ibid, 18.

¹¹² Ibid, 50.

WWG concluding “a lack of consistent work focus makes it difficult for the most vulnerable groups to secure employment.”¹¹³ The WWG set out the broad solution to welfare dependency: “a mix of incentives, support, and expectations which reinforce personal responsibility.” They further emphasised the necessity of obligations and sanctions, which ensured the “the wrong sorts of behaviours are not encouraged by the benefit system.”¹¹⁴

The second report provided 43 recommendations designed to reduce dependency. Over-arching these recommendations were two reforms. The first was the creation of a “single work-focused welfare payment to replace all existing categories of benefit, to be called Jobseeker Support.”¹¹⁵ This reform has been proposed by every Government dating back to 1989, but was never implemented due to the complexity of the scheme.¹¹⁶ The reform would see every beneficiary receive the Jobseeker Support benefit. Beneficiaries would then be sorted into one of three streams. The first was the ‘jobseeker’ stream, which would include those who are capable of work. The second was a ‘transition to work’ stream, which would encompass those who face significant barriers to work, such as young children or health problems. Finally, there would be the ‘long-term support’ stream, similar to the invalid’s benefit.¹¹⁷ The second reform would be the “establishment of a delivery agency, Employment and Support New Zealand (ESNZ)” which would replace WINZ.¹¹⁸

The creation of the Jobseeker Support would be accompanied by a range of changes to the way welfare was administered. The proposed reforms included three aspects: a strong work focus; increased reciprocal obligations; and overcoming barriers to employment. To ensure a strong work focus, all beneficiaries would be presumed to be in the ‘jobseeker’ stream, unless otherwise determined. The first ‘stream’ of jobseeker support functioned like the UEB, and included those with a work obligation (including the old unemployment, DPB with older children, and sickness

¹¹³ Ibid, 12, 40.

¹¹⁴ Italics in original, Ibid, 5.

¹¹⁵ Welfare Working Group, *Reducing Long-Term Benefit Dependency: Recommendations* (Wellington: Institute of Policy Studies, 2011), 3.

¹¹⁶ Mike O’Brien, “Welfare Reform in Aotearoa/New Zealand: From Citizen to Managed Worker,” *Social Policy and Administration* 47 (Issue 6, December 2013): 735-6.

¹¹⁷ Welfare Working Group, *Reducing Long-Term Benefit Dependency: Recommendations*, 3-4.

¹¹⁸ Ibid, 3.

beneficiaries deemed able to work). There would be three key obligations for this group. Firstly, they would be required to actively seek work and accept any reasonable job offer.¹¹⁹ Secondly, they would not be allowed to move to areas with low employment rates.¹²⁰ Finally, beneficiaries would be required to apply for jobs requiring drug tests, meaning they would have to abstain from drugs whilst on a benefit. Failure to comply with these obligations would be punished with a heavily graduated system of sanctions.¹²¹ Beneficiaries would also receive extra support, including: greater access to alcohol and drug treatment programs; a more generous abatement rate; case management; and increased funding to move to high employment areas.¹²²

The second stream would be called 'transition to work', and would likely include sole parents with young children and some sickness beneficiaries. Case managers would tailor expectations and obligations to the individual's problems, with the goal of either increasing capacity to work, or entering part-time work.¹²³ A range of services would be provided to assist these goals.¹²⁴ Finally, though the base benefit rate would be identical to those in other streams, disabled people could be eligible for income supplements.¹²⁵

Sole parents would face a range of new obligations, and would be placed in different streams depending on the age of their children. They would be required to seek work involving at least 20 hours of work per week once their youngest child was 3, increasing to 30 hours once their child had reached six.¹²⁶ Those with children under three would have to participate in activities designed to prepare them for a return to work. If a sole parent had another child whilst receiving a benefit, the work expectations would begin when the child is 14 weeks old.¹²⁷ Parenting obligations would be created. Sole parents on a benefit would be required to ensure their child

¹¹⁹ Ibid, 3.

¹²⁰ This was a policy brought in under the previous Labour Government. See The Jobs Letter, "Mayors Respond to "No-Go" Zones," *The Jobs Letter* 199 (23rd January 2004): no page.

¹²¹ Ibid.

¹²² Ibid, 3.

¹²³ Ibid, 21.

¹²⁴ Ibid, 29.

¹²⁵ Ibid, 4.

¹²⁶ Ibid, 21.

¹²⁷ Ibid, 23.

attends school, attends early childhood at the age of three, and is participating in health programs.¹²⁸ 16 and 17 year old parents would be required to attend parenting and budgeting programs, and their welfare payments would be managed by a third party until these have been completed.¹²⁹ Finally, parents who have “shown they have a clear need for budgeting support” would have their income managed by a third party.¹³⁰ Additional support for this group would be provided by increasing early childhood and out-of-school care funding and services, the provision of long-term contraception as well as increasing incentives to undertake tertiary study.¹³¹ As with individuals with health issues, sole parents would be eligible for income supplements.¹³²

The final set of targets for reforms was children, youth and families. Only a few of the recommendations relate to welfare. 16 or 17 year olds receiving a benefit would be required to be in education or paid work: would have to live with an adult; have their benefits managed by a third party; and would be ineligible for Jobseeker Support.¹³³ Finally, the WWG recommended that youth should be a “major focus of the Government-wide plan to reduce long-term welfare dependence.”¹³⁴

¹²⁸ Ibid, 27.

¹²⁹ Ibid, 30.

¹³⁰ Ibid, 31.

¹³¹ Ibid, 26.

¹³² Ibid, 4.

¹³³ Ibid, 22.

¹³⁴ Ibid, 34.

4.4. National's Continued Neoliberal Reforms: 2011-14

Table 6: Economic Data, 2011-14				
	2011	2012	2013	2014
Real GDP Growth ¹³⁵	1.5%	2.6%	2.5%	3.4% ¹³⁶
Total Unemployment ¹³⁷	6.5%	6.9%	6.2%	5.8%
Total Government Debt (\$million) ¹³⁸	40,128	50,671	55,835	59,931

National was re-elected in 2011, increasing their proportion of the vote from 45 to 47.4%.¹³⁹ National again entered government with the support of ACT, United Future and the Maori Party. The coalition agreement with ACT stipulated that “Both parties ... agree with the broad thrust of the recommendations of the Welfare Working Group (WWG), and support their implementation.”¹⁴⁰ The agreement stated that National must implement the recommendations regarding parenting obligations (attending school and health checks), support for at-risk families, and income and budgeting support.¹⁴¹ Though it appears ACT was having an influence over welfare reforms, there is little evidence this is the case. ACT won a single seat in parliament, which they won due to an electoral deal with the National Party.¹⁴² As such, they had little negotiating power. Further, National had already stated their support for the broad

¹³⁵ See Figure 2, “All key graph data,” Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls

¹³⁶ Data only available for the first two quarters of 2014.

¹³⁷ See Figure 9 – Employment and Unemployment, “All key graph data,” Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls.

¹³⁸ Treasury, *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2014*, 25.

¹³⁹ For 2008, see “Official Count Results – Overall Status,” *Electoral Commission Te Kaitiaki Take Kowhiri*, last modified 22nd November, 2008, http://www.electionresults.govt.nz/electionresults_2008/partystatus.html. For 2011, see “Official Count Results – Overall Status,” *Electoral Commission Te Kaitiaki Take Kowhiri*, (last modified 17th December, 2011), http://www.electionresults.govt.nz/electionresults_2011/partystatus.html.

¹⁴⁰ National Party and ACT Party, *Confidence and Supply Agreement with ACT New Zealand* (Wellington: Government Printer, 2011), 4.

¹⁴¹ Ibid.

¹⁴² Tim Watkin, “Epsom: ACT Dependent on Political Welfare,” *Pundit*, 10th November, 2011, accessed 5th November 2014, <http://pundit.co.nz/content/epsom-act-dependent-on-political-welfare>.

thrust of the WWG prior to the election.¹⁴³ Whilst the coalition agreement did commit National to some specific measures, there is little evidence this was due to the influence of ACT.

Prior to the election, National announced it would enact two phases of welfare reforms.¹⁴⁴ The key principle underlying the reforms was the adoption of an “approach that invests in people who have the highest risk of remaining on ... benefit for the long term,” an approach which had been recommended by the WWG.¹⁴⁵ This approach was formalised through the commissioning of the *Actuarial Valuation of the Benefit System for Working-Age Adults* report. It attempts to measure the “future liability” of welfare by estimating “all future lifetime costs of benefit payments and associated expenses for working-age clients who received a benefit” in the previous 12 months.¹⁴⁶ The authors state there were three main groups contributing to future liability: young people; sole parents; and sickness and invalid beneficiaries. Thus they argue welfare reform should target these groups to get the greatest value for money.¹⁴⁷

The first phase of welfare reforms in National's second term targeted youth and parents.¹⁴⁸ There were four key reforms related to youth. Firstly, young people (including parents) receiving benefits are required to be in education and training. This is incentivised by an extra \$20 per week for participation in such programmes. Secondly, a third party would now manage their incomes. Their rent and utility bills are paid directly, and most of the remainder of their income is placed on a “payment

¹⁴³ Ministry of Social Development, *Regulatory Impact Statement: Welfare Reform: Phase One – Social Security Amendment Bill (no. 1)* (Wellington, Ministry of Social Development, 2012), i.

¹⁴⁴ Ministry of Social Development, *Regulatory Impact Statement: Welfare Reform: Phase One*, i.

¹⁴⁵ Office of the Minister of Finance and Office of the Minister for Social Development and Employment, *Paper 1: Reforming the Benefit System 2* (Wellington: Government Printer, 2011), 2.

¹⁴⁶ Taylor Fry, *Actuarial Valuation of the Benefit System for Working-age Adults as at 30 June 2011* (Sydney: Taylor Fry, 2011), 3.

¹⁴⁷ “Baseline Valuation: Key Findings and Background Facts,” Ministry of Social Development, (last modified 12 September, 2012), <https://www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/news/2012/key-findings-and-background-facts-120912.pdf>.

¹⁴⁸ Office of the Minister of Finance and Office of the Minister for Social Development and Employment, *Paper 1: Reforming the Benefit System – An Investment Approach* (Wellington: Government Printer), 1.

card,” which restricts purchases to “essential” goods.¹⁴⁹ Thirdly, young parents receive additional childcare funding.¹⁵⁰ Finally, the Job Ops and Straight 2 Work programs were merged into “Job Streams,” which provided more targeted job training for at-risk individuals.¹⁵¹

Reforms aimed at sole parents extended work obligations. Sole parents would now be required to look for part-time work when their youngest child was age five, and full-time work at age 14. If a sole parent has a further child whilst on a benefit the work obligations begin at age one.¹⁵² Work obligations were extended to the smaller Widows' and Women Alone benefits.¹⁵³ Sole parents with children below the age thresholds now face “stronger and broader pre-employment preparation and activation expectations,” which may require “work preparation, training, parenting, budgeting, or other activities,” with the threat of sanctions for non-compliance.¹⁵⁴ These obligations were targeted at the most at-risk parents, and would not be required for all sole parents.¹⁵⁵

Phase two of the welfare reforms involved restructuring benefit categories. The government accepted the WWG's advice that benefit categories had to be changed. Rather than creating a unitary benefit, the government merged the existing categories into four.

¹⁴⁹ “Youth Service Payment Card,” Work and Income New Zealand, accessed 2nd November, 2014, <http://www.workandincome.govt.nz/individuals/payment-card/youth-service-payment-card.html>.

¹⁵⁰ “Guaranteed Childcare Assistance Payment,” Work and Income New Zealand, accessed 2nd November, 2014, <http://www.workandincome.govt.nz/individuals/a-z-benefits/guaranteed-childcare-assistance-payment.html>

¹⁵¹ Paula Bennett, “Government Announces Job Streams,” (last modified 14th June, 2012), <http://www.beehive.govt.nz/release/government-announces-job-streams>.

¹⁵² Paula Bennett, “Welfare Reform Legislation to be Introduced (last modified 27th February, 2012), <http://www.beehive.govt.nz/release/welfare-reform-legislation-be-introduced>.

¹⁵³ Ibid, 3.

¹⁵⁴ Ibid, 4.

¹⁵⁵ Ibid, 11.

Table 7: New Benefit Structures ¹⁵⁶			
Current Benefit	Recipients	New Benefit	Recipients
Unemployment Benefit	62,000	Job Seeker Support	135,100
Sickness Benefit	60,000		
DPB Parents, children over 14	11,000		
Widows, children over 14	5,200		
DPB Women Alone	3,900		
DPB parents, children 5-13	40,2000	Sole Parent Support	93,250
Widows, children 5-13	900		
DPB parents, children under 5	52,000		
Widows, children under 5	150		
Invalid's Benefit	83,000	Supported Living payment	92,500
DPB care of sick and infirm	7,500		
Independent Youth Benefit	1,200	Youth Payment	1,700
Emergency Maintenance Allowance	500	Young Parent Payment	1,065
DPB Emergency Maintenance Allowance	1000		
	165		

Each new category is accompanied by a set of work obligations and support. Jobseeker Support is a work focused benefit, which includes part and full-time work expectations, and includes sole parents and those with health problems. Sole Parent Support is accompanied by a part-time work or planning obligation. The Supported

¹⁵⁶ Paula Bennett, "Welfare Reform Factsheet and Q & A," (last modified 1st November, 2011), http://www.beehive.govt.nz/sites/all/files/27_Feb_Welfare_Reform_QandA.pdf, 1.

Living Payment has no work obligations. The Youth Payment includes the obligations created in the first phase of welfare reforms.¹⁵⁷

The second phase also included new non-work obligations. Beneficiaries would now be required to apply for jobs which require a drug test. If the beneficiary fails the test, they face a benefit reduction through the use of sanctions.¹⁵⁸ The National Government also accepted the WWG's recommendation of social obligations for parents. These included: attending early childhood education from age three; attend primary school; enrol with a GP; and complete free health checks.¹⁵⁹ The final reform of phase two was to increase funding to reduce welfare fraud.¹⁶⁰

4.5. Key Themes of National's Welfare Reforms: 2008-14

The two terms of National's reign will be analysed together. The similarities and differences between the two Governments will not be addressed here, as they form part of the following chapter. The Fifth National Government's welfare reforms have been based on an approach which emphasises the importance of obligations and sanctions. This was signalled prior to their election, with National promising to increase obligations and restrict eligibility for welfare. National further expanded obligations after the recommendations of the WWG, which argued for an increased focus on work, more reciprocal obligations, and greater support for beneficiaries. By 2015, the unemployed, sole parents, people with health issues, and youth are subject to a wider array of obligations, backed by the threat of sanctions. These obligations now extend beyond ensuring beneficiaries look for work. Now, the state demands a certain set of behaviours in order to ensure good parenting and a drug-free lifestyle. The reforms saw National entrenching the punitive nature of welfare.

Ideologically, there were three dominant themes. Firstly, 'work-first' is constantly reaffirmed as the prime driver of reforms. It is argued work benefits the individual

¹⁵⁷ Ibid, 2.

¹⁵⁸ Paula Bennett, "Pre-employment Drug Testing for Jobseekers," (last modified 28th August, 2012), <http://beehive.govt.nz/release/pre-employment-drug-testing-jobseekers>.

¹⁵⁹ Paula Bennett, "Social Obligations Mean Better Outcomes for Children," (last modified 11th September, 2012), <http://beehive.govt.nz/release/social-obligations-mean-better-outcomes-children>.

¹⁶⁰ Chester Burrows, "New Tools to Combat Welfare Fraud Announced," (last modified 20th February, 2013), <http://www.beehive.govt.nz/release/new-tools-combat-welfare-fraud-announced>.

through increased finances, well-being, and a reliable path out of poverty. It has a positive impact on the economy, as increased employment helps economic growth. It is considered the morally correct action, and contributes to a just society. Secondly, dependency is identified as the key problem to combat. This was best seen in the terms of reference of the WWG, whose primary goal was to “examine ways to reduce long-term benefit dependency.”¹⁶¹ The third key justification was the investment approach. Though this was not utilised in the first term, it became the key driver in the second term of National's reforms, along with the work-first emphasis.

Alongside these three concepts is a particular form of rhetoric justifying welfare reforms. The work of academic Louise Humpage is useful in explaining this rhetoric. She argues National is driven by a “desire to avoid the kind of public resistance provoked by radical, previously unannounced reforms in the early 1990s.”¹⁶² Though there has been a shift back to emphasising obligations and dependency, beneficiaries have not been “pilloried in public discourse” to the extent they were in the 1990s.¹⁶³ The emphasis on work is a continuation from the previous Labour government, who had placed significant focus on their work-first policies, which was itself a development on the earlier National Government's reforms.¹⁶⁴ The Labour Government had found “adopting both incentives *and* obligations helped avoid a significant negative public reaction.”¹⁶⁵ National has learnt this lesson, with policy announcements always including both the obligations and support beneficiaries are subject to.¹⁶⁶

¹⁶¹ Welfare Working Group, *Reducing Long-Term Benefit Dependency: Recommendations*, 1.

¹⁶² Louise Humpage, “Do New Zealanders Really Support Welfare Reform?,” in *The New Electoral Politics in New Zealand: The Significance of the 2011 Election*, ed. Jack Vowles (Wellington: Institute for Governance and Policy Studies, 2014), 77-8.

¹⁶³ Neil Lunt, “Panacea, Problem or Perish: Social Policy Language in New Zealand,” in *Analysing social policy concepts and language*, ed. Daniel Beland and Klaus Petersen (Bristol: Policy Press, 2014), 258.

¹⁶⁴ Ibid, 77, and Neil Lunt, From Welfare State to Social Development: Winning the War of Words in New Zealand, *Social Policy and Society* 7 (4, October 2008): 414.

¹⁶⁵ Ibid, 78.

¹⁶⁶ A few examples help illustrate this trend. National's policy backgrounder, despite predominantly advocating for additional obligations, began by stating its plan to ensure increases in benefits by linking them to inflation, and increase abatement rates. The document announcing Future Focus was split into new obligations and new support, and the factsheet announcing the two phases of welfare first acknowledged that beneficiaries could receive “intensive support” before outlining

4.6. Conclusion

From 2008 to 2014, National implemented a series of significant reforms to welfare. Upon entering office, it sought to create a more active welfare system, with the aim of reducing welfare dependency. Its plans were put on hold, as a local recession combined with the Global Financial Crisis to change the economic conditions facing the Government. By 2010, National were able to proceed with the Future Focus reforms, which increased obligations and restricted eligibility for welfare. The Welfare Work Group was established, and the report it produced would prove to be immensely influential. In its second term, National restructured benefit categories, extended work obligations even further, and non-work related obligations were established. Overall, National moved towards a welfare system based on obligations and sanctions, with obligations extending further into the lives of beneficiaries.

the new obligations. See “National’s Benefits Policy Backgrounder,” 3, John Key and Paula Bennett, “Future Focus,” and “Welfare Reform,” Ministry of Social Development, (last modified 1st November, 2011), <http://www.msd.govt.nz/about-msd-and-our-work/newsroom/media-releases/2011/welfare-reform.html>.

CHAPTER FIVE

ANALYSING AND EVALUATING THE WELFARE REFORMS

The overarching goal of this thesis is to describe, critically analyse and evaluate the welfare reforms of the two National Governments. This chapter proceeds in three sections. The first section analyses the similarities and differences between the two National Governments, and identifies the theoretical underpinning of welfare reforms. I show that the welfare reforms of the two National Governments should be characterised as paternalistic. The section begins by recapping the new paternalist ideology identified in chapter two; and then comparing the reforms of the two National Governments against the key features of new paternalism. The next two sections evaluate the impact these reforms have had on how New Zealand delivers social security. Section 5.2 shows the reforms have entrenched New Zealand in Esping-Andersen's 'liberal' category, as decommodification has decreased and stigmatisation has increased. In section 5.3 I describe the reforms made to the institutions which constituted the Wage Earners' Welfare State (WEWS). Here, I argue National's reforms have turned the WEWS into a Trojan horse for beneficiaries; it maintains the valorisation of work, without any means of ensuring full employment, leading to an increase in poverty, inequality and the impoverishment and exclusion of beneficiaries. Finally, I utilise the insights from Neo-Marxism to argue that underlying the welfare reforms is the development of a fundamentally different relationship between the state and the reserve army of labour, and that welfare reform has assisted the growth of low quality and low wage work.

5.1. New Paternalism

The first task of this chapter is to critically analyse the major similarities and differences between the two National Government's approaches to welfare. This requires describing the key welfare reforms of the governments, and identifying the theoretical underpinnings of the reforms. As previously stated, the Fourth National Government's reforms are characterised by a move towards a neoliberalism influenced by conservatism, and in particular by the new paternalism. The Fifth

National Government has continued to implement this conservative approach to welfare. To show this, the key elements of new paternalism will be restated, which provides criteria to analyse National's reforms. In the second chapter three key elements of new paternalism were identified. Firstly, Conservatives argue the USA was experiencing a breakdown of basic morality. The then current generation got divorced more, had more children out of wedlock, did worse at school, committed more crime, and were voluntarily choosing to be unemployed. This led to the rise of an underclass, which was united by their behavioural deficiencies. This underclass created a challenge for the way governments should assist the poor. Welfare reform up until the 1980s had assumed beneficiaries would behave in a way conducive to bettering their own lives. However, conservatives argue the rise of the underclass demonstrated this to be untrue. Lawrence Mead argues this is because the poor are not competent. Instead, they suffer from behavioural deficiencies which make it unlikely they will escape poverty. The problem lay not with the structure of society, but with the individual. The assumption of incompetence, which is linked to a dysfunctional culture (i.e. the underclass) is the first key element of paternalism.

The key goal of paternalism is therefore to make beneficiaries competent, which is achieved by basing welfare on paternalism. This approach demands welfare is delivered through case managers, who provide a mix of help and hassle for their clients. Help includes providing support to overcome barriers to employment, for example through the creation of employment plans or organising child care. Hassle is predominantly achieved by creating compulsory obligations. It also demands a certain tone be adopted by case managers; they must be able to "get in the face" of their clients.¹ The help and hassle technique mimics the relationship between parent and child, with the case manager acting as a parent, and the beneficiary the child. This is the second key element of paternalism; it relies on case management based on help and hassle. The role of the case manager must be backed by public statements of morality which reinforce the societal view that work is mandatory, the value of family, and that being dependent on welfare is undesirable. These statements should be reflected in welfare policy. This is the final element of new paternalism; it must involve public statements of morality which relate to the deficits of the underclass.

¹ Lawrence Mead, *Government Matters: Welfare Reform in Wisconsin* (Princeton: Princeton University Press, 2004), 165.

The Fourth National Government: Emerging New Paternalism

The third chapter established that the Fourth National Government was strongly influenced by new paternalism. The key points of this chapter will be summarised. Overall, New paternalism provided the Government “a reflection of their own values, and a realisation of their own vision.”² Paternalism did not, however, have a consistent influence over the Government. Its first term was dominated by an emphasis on economic concerns. The overall goal of the reforms was to cut public debt. The secondary goal was to improve work incentives for beneficiaries. These goals were based on an analysis drawn from supply-side economics. Advocates from this branch of neoliberalism argue that individuals rationally react to price signals, and because the difference between wages and welfare were so low, individuals were rationally choosing to stay on benefits.³

National’s second term was marked by the development of a specific form of welfare analysis. Rather than simply focussing on work incentives, the Government began to recognise the importance of the breakdown of families, and the barriers facing beneficiaries on their return to work. The emphasis on the barriers to work led to the implementation of case management for particular at-risk groups. The Government began to emphasise reciprocal obligations, which required both additional support and obligations for beneficiaries. Despite these developments, the dominant emphasis was on financial incentives. Rather than cutting benefits, National focussed on changing abatement rates, decreasing taxes and using financial sanctions in order to encourage employment.

National’s welfare policies in its third term were clearly influenced by new paternalism. This can be seen in the light of the three key elements of new paternalism. The assumption of incompetence, which is linked to a dysfunctional culture, and the public statements of morality worked closely together through the adoption of the dependency discourse. The argument for a dysfunctional culture was not as wide-ranging as in the USA. However, a cultural problem was identified; the

² Ross Mackay, “Work-Orientated Reforms: New Directions in New Zealand,” in *Activating the Unemployed: A Comparative Appraisal of Work-Orientated Policies*, ed. Neil Gilbert and Rebecca Van Voorhis (New Brunswick: Transaction Publishers, 2001), 84.

³ Nancy Fraser and Linda Gordon, “A Genealogy of Dependency: Tracing a Keyword of the U.S. Welfare State,” *Signs* 19 (No. 2, Winter, 1994): 328.

“culture of dependency,” which Jenny Shipley railed against in 1991.⁴ The political emphasis on dependency grew throughout National’s nine years in office. Initially it was undefined, and presumably referred to the poverty trap created by inefficient monetary incentives. By the third term, dependency “individualised, blamed and moralised” beneficiaries for their failings, and became “pseudo-explanatory ... and served as shorthand for intergenerational cycles of reliance amongst promiscuous and work-shy populations.”⁵ National attempted to destroy this culture in part through the introduction of work tests and sanctions. Increasingly, National relied on public statements to prevent dependency through public campaigns. This trend reached its full development with the *Code of Social Responsibility*, which outlined the moral expectations for society, and beneficiaries in particular.

This discourse revolved around the assumption of incompetence. Following the 1991 cuts, dependency presumably (as it was undefined) relied on neoclassical economics, and implied that beneficiaries were simply “work shy.”⁶ Beneficiaries were not, per se, incompetent; they just needed appropriate monetary incentives. Beginning in 1993, it increasingly came to include human resource development and the problem of families. The problems of young people were placed at the feet of parents, who were not meeting the basic expectations for parenting. This trend again reached its peak with the release of the Code. It assumed the main problem facing at-risk families was that they simply did not know how to parent, and having their expectations outlined would help solve the issue. The issue was not incentives; it was their basic level of competence. The final element of paternalism was the role of case management using help and hassle. New Zealand began introducing case management from 1993, as the Department of Social Welfare implemented a pilot program for sole parents. In 1996, the DSW used Lawrence Mead’s work to justify the use of the help and hassle technique, and proceeded to extend the use of case managers.⁷

⁴ Jenny Shipley, *Social Assistance: Welfare that Works* (Wellington: Government Printer, 1991), 12.

⁵ Neil Lunt, “From Welfare State to Social Development: Winning the War of Words in New Zealand,” *Social Policy and Society* 7 (4, October 2008): 412.

⁶ Ibid

⁷ Lawrence Mead, “Welfare Reform: The Need for Obligation,” in *Beyond Dependency Conference: Conference Proceedings*, ed. Department of Social Welfare (Wellington, Government Printer, 1997), 251.

The Fifth National Government: Entrenching New Paternalism

The Fifth National Government's welfare reforms show clear continuities with the paternalist reforms of the late 1990s. In 1997, Mead presented a talk at the *Beyond Dependency* conference. Mead was supportive of New Zealand's direction, but argued "[c]utting benefits does surprisingly little actually to move people towards employment ... you have to do something else ... enforcement."⁸ This is exactly the trend the Fifth National Government took up. Over the six years in office, relatively little emphasis was placed on financial incentives, with increased enforceable obligations taking prominence. This included rehashing several policies from the 1990s. Extensive work testing for sole parents was introduced, which had been undone by the Labour Government. The work focus of the Jobseeker Support is broadly comparable to the Community Wage. Under both schemes beneficiaries are assumed to be eligible for obligations, and those who cannot participate have to opt out. However the Jobseeker support does not include a community work obligation. Sanctions were reformed, with graduated sanctions introduced to encourage greater usage. There were also new policies. Prominent among them is the extension of work obligations to those with health problems. Restricting eligibility became a focus, with beneficiaries now facing yearly reapplications for their benefit, those with health issues now require more medical certificates, and young people are expected to rely on their parents, not the state, except under extreme circumstances.

These policies, however, fit broadly within the global trend to increase work obligations on beneficiaries, and though they are consistent with paternalist policy, they are not necessarily paternalist.⁹ To see how they are uniquely paternalist, the reforms will be placed in the context of the three elements of new paternalism. Firstly, case management has become a fundamental and unquestioned part of social security, with the increase in support and sanctions helping fulfil the "help and hassle" requirement. Secondly, the assumption of incompetence is clearly seen in the parenting obligations that were introduced to ensure participation in education and health, as well as the mandatory parenting and budgeting programs. Until these programs have been completed, a third party controls how the beneficiary's income is

⁸ Ibid.

⁹ Mike O'Brien does a good job of summarising the move to an "active" welfare state, see Mike O'Brien, *Poverty, Policy and the State: The Changing Face of Social Security* (Bristol: The Policy Press, 2008).

spent. Further, the state can intervene and manage the incomes of any beneficiary parent deemed at-risk. These policies reflect the influence of concerns over the breakdown of families, as the state is now directly intervening in the family to ensure good parenting. Finally, obligations were extended to prevent beneficiaries from using recreational drugs. These policies should be seen in light of the *Code of Social Responsibility*, which attempted to improve the behaviour of society (particularly beneficiaries and parents) through a public statement of morality. The Fourth National Government had intended to write these responsibilities into legislation for beneficiaries, but did not do so. The Fifth National Government succeeded in this task. Beneficiaries are no longer seen as having the competence to manage their own drug usage, or fulfil their parenting duties. This incompetence on the part of beneficiaries means the state has to intervene through help (parenting courses, drug treatment) and hassle (making them mandatory obligations).

This trend is linked to statements of public morality. Paula Bennett stated welfare reforms have a “higher purpose ... It comes back to the question of what kind of society we want to live in.”¹⁰ Bennett wants to see a wider cultural shift that “lifts people’s sights up beyond a simple existence on welfare to a meaningful, rewarding life as a working member of society.”¹¹ The core of this new society is the “unrelenting focus on work,” which provides a path to a better life, and a better society.¹² The dependency discourse has returned, though beneficiaries are not “pilloried in public discourse” to the extent they were in the 1990s.¹³ There is not, however, a strong emphasis placed on linking welfare reforms with a wider dysfunctional culture, as there was in the new paternalism discourse and the 1990s reforms. Overall, viewing the Fifth National Government in the light of paternalism shows important

¹⁰ New Zealand, Social Assistance (Future Focus) Bill — First Reading, House of Representatives.

¹¹ Ibid.

¹² This argument is seen a wide variety of documents, see “National’s Benefits Policy Backgrounder,” National Party, accessed 15th October, 2014, www.nzdoctor.co.nz/media/137374/benefits_backgrounder.pdf, and Welfare Working Group, *Long-Term Benefit Dependency: The Issues, Detailed Paper* (Wellington: Institute of Policy Studies, 2010), and Welfare Working Group, *Reducing Long-Term Benefit Dependency: Recommendations* (Wellington: Institute of Policy Studies, 2011).

¹³ Neil Lunt, “Panacea, Problem or Perish: Social Policy Language in New Zealand,” in *Analysing social policy concepts and language*, ed. Daniel Beland and Klaus Petersen (Bristol: Policy Press, 2014), 258.

continuities with the reforms in the 1990s. There has been a clear development in increasing obligations, with the non-work obligations firmly based on the assumption of incompetence for beneficiaries.

5.2. The Regimes Debate: Esping-Andersen's Three Worlds of Welfare

The second task of this chapter is to evaluate whether National's reforms have changed how New Zealand delivers its social security. In chapter one, the theories of Gosta Esping-Andersen and Frank Castles were identified as useful in achieving this goal. In this section, National's welfare reforms will be reconceptualised according to Esping-Andersen's concepts of decommodification and stratification. I argue National's reforms have entrenched New Zealand in the liberal category of Esping-Andersen's typology of welfare regimes. As with paternalism, this trend emerged in the 1990s, and has been entrenched from 2008. Section 5.3 will carry out a similar analysis utilising Castles' concepts. This task is important, as Shaun Wilson et al. pointed out, as there has been little academic work on the political economy of welfare focussing on New Zealand since the 1990s. Consequently, the evolution of New Zealand's social security is poorly understood.¹⁴

The Fourth National Government: Decommodification

Esping-Andersen's work is situated in the social democratic tradition of political economy. He founds his analysis on the concept of social citizenship, and evaluates welfare regimes according to two concepts: decommodification and stratification. Underlying National's reforms is a fundamental shift in the content of social citizenship. As noted in chapter three, New Zealand's welfare state had been guided by the 1972 Royal Commission on Social Security, which states: "The community is responsible for giving dependent people a standard of living consistent with human dignity and approaching that enjoyed by the majority, irrespective of the cause of dependency," which would enable beneficiaries "to feel a sense of participation in and belonging to the community."¹⁵ The Royal Commission represents the social democratic view of social security; it ensures people a sense of belonging in their

¹⁴ Shaun Wilson et al., "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?" *Social Policy and Administration* 47 (no. 6, December 2013): 625.

¹⁵ Royal Commission on Social Security, *Social Security in New Zealand: Report of the Royal Commission of Inquiry* (Wellington: Government Printer, 1972), 65-6.

society based on their citizenship, not on their status in the market. The Fourth National Government rejected this view. Instead, they stated welfare should provide “a safety net – a modest standard below which people will not be allowed to fall provided they demonstrate they are prepared to help themselves.”¹⁶ This view rejects the concept of unconditional citizenship rights; welfare would only be provided for those who “are prepared to help themselves.” The change in the content of social citizenship would have substantial impacts on decommodification and stratification.

Decommodification “refers to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation.”¹⁷ In order to measure decommodification, Esping-Andersen identifies three empirical features. Firstly, he includes access to benefits. This takes into account: the eligibility rules and restrictions on entitlements; whether it guarantees a standard of living regardless of previous employment or financial contribution; whether the benefit is time-limited; and if it includes a needs-test. Secondly, he includes the level of income replacement, which measures the level of benefit income as a percentage of previous market income. Finally, he measures how extensive the range of benefits is. A limited range would only apply to the elderly, sick and unemployed, and a wide range would include a social wage for all citizens.¹⁸

The Fourth National Government decreased decommodification throughout its nine years in office. This was most prominently seen in two areas: the goal of reducing benefit dependency; and the increase in poverty rates. National sought to reduce benefit dependency from the beginning of its reign, with the reforms aiming to “encourage ... personal and family self-reliance.”¹⁹ Virtually all welfare reforms aimed to decrease welfare dependency: the 1991 benefit cuts sought to improve work incentives; the introduction of work tests and sanctions would stop people remaining on welfare; the 1996 tax cuts would make work more desirable; and the Community Wage would help maintain people’s work ethic. More broadly, the dependency discourse publicly affirmed the moral worth of paid employment, and demonised beneficiaries, thereby encouraging participation in paid employment. Other reforms

¹⁶ Jenny Shipley, *Social Assistance*, 13.

¹⁷ Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990), 35.

¹⁸ *Ibid*, 47.

¹⁹ Jenny Shipley, *Social Assistance: Welfare that Works*, 17.

sought to ensure that if individuals did require welfare, they would first have to look to their family for support: increased stand-down periods meant individuals could not rely on welfare; teenagers were excluded from eligibility for the main benefits; and work and income tests were extended to spouses. Overall, the thrust of the welfare reforms was to ensure people were reliant on the market or their family for well-being; a clear move away from decommodification.

What remained of welfare would be targeted to ensure only those in “genuine need” received assistance.²⁰ The first major step to achieving the “limited safety net” was the 1991 reduction in benefit rates. These cuts led to a substantial reduction in the level of decommodification. The immediate consequence of these cuts was a substantial rise in poverty. According to data gathered by the New Zealand Poverty Measurement Project, poverty increased from 4.3% in 1984, to 10.8% in 1993. For sole parents, poverty increased from 11.8 to 46.2%. In a study which attempted to more closely monitor the effects of the cuts, Brian Easton found poverty increased by 40% between 1989/90 and 1991/92.²¹ The increase in poverty rates represents a direct reduction in the decommodifying nature of social security, as benefits did not ensure “a socially acceptable standard of living independently of market participation,” which is the key goal of decommodification.²² Instead, benefits only provide enough income for basic sustenance. The effects of this are described in more detail later in the chapter.

Decommodification also decreased across Esping-Andersen’s other empirical measures. Access to benefits was restricted. Lengthy stand-down periods were introduced, eligibility was restricted, and various work tests extended to sole parents and the partners of beneficiaries.²³ Further reforms introduced a wide range of obligations, and sanctions were reformed to ensure compliance. Overall, eligibility was made conditional on certain behaviours, representing a restriction of access to benefits. However, no attempts were made to create a time-limit for beneficiaries or to link benefit rates to previous employment record.

²⁰ Jim Bolger et al., *Economic and Social Initiative, December 1990: Statements to the House of Representatives* (Wellington: Government Printer, 1990), 11.

²¹ Brian Easton, “Poverty and Families: Priority or Piety?,” (Paper to “Issues for Families” workshop, October 1993, Working Paper 93/62 Economic and Social Trust on New Zealand), 11.

²² Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 35

²³ Jim Bolger et al, *Economic and Social Initiative*, 17-35.

The level of income replacement, the next measurement of decommodification, was also reduced. This was achieved through the substantial cuts to benefits rates in 1991. These cuts fulfilled what Esping-Andersen calls the principle of less eligibility, a hallmark of liberal welfare states. This principle dictates that benefits should be set at a level below what is provided by the market, ensuring no overlap between welfare and the market.²⁴ This is precisely what the reforms achieved, as benefit levels were set at a level which ensured beneficiaries received a higher income from work than from the benefit.²⁵ Reforms in the mid-1990s increased wages through tax cuts and the introduction of the Independent Family Tax Credit. This decreased the level of income replacement by increasing the gap between wage earners and beneficiaries.²⁶

The final measure used by Esping-Andersen was a measure of how extensive benefits were. The coverage of benefits was restricted by excluding young people from welfare. This occurred in 1991, when those under 18 were restricted from receiving a benefit. However, the independent Family Tax Credit increased coverage to those in full-time work who were not receiving any other benefits. This violates the principle of less eligibility as it extends welfare into the market. However, the goal of this reform was to ensure work incentives through increasing the income gained from work. So, whilst it appears to be a move towards increasing decommodification, it is driven by a desire to decrease decommodification.

Social Stratification

Social stratification relates to whether welfare provision fosters a sense of solidarity amongst society, or stigmatises and alienates welfare recipients. Esping-Andersen measures the level of means-testing, the degree of market provision of welfare, and the extent of universalism. He also states the impact welfare has on inequality is important, but less so than its impact on solidarity.²⁷ As Castles places a greater emphasis on inequality, it will be discussed in the following section which analyses the WEWS. Given New Zealand's history of high levels of means-testing and low universalism in welfare, only minor changes have occurred in this area. This contrasts

²⁴ Gosta Esping Andersen, *The Three Worlds of Welfare Capitalism*, 42.

²⁵ Jim Bolger et al., *Economic and Social Initiative*, 19.

²⁶ Mike O'Brien, "A Better Welfare System," in *Inequality: A New Zealand Crisis*, ed. Max Rashbrooke (Wellington: Bridget Williams Books, 2013), 217.

²⁷ Gosta Esping Andersen, *The Three Worlds of Welfare Capitalism*, 57.

to areas where universalism was the norm, including: health;²⁸ education;²⁹ accident compensation;³⁰ and superannuation,³¹ where substantial moves were made towards reducing universality. However, universalism in welfare was reduced, as the universal Family Benefit was replaced by the means tested Family Support, and later the targeted Independent Family Tax Credit was introduced.

There was also an increase in the privatisation of welfare. This was achieved through the failure of the state to respond to the needs of those in poverty, representing “privatisation by default.”³² This was seen in the sudden explosion of food bank usage after the 1991 cuts.³³ The New Zealand Council of Christian Social Services (NZCCSS) succinctly states the role of foodbanks: “Foodbanks are an indicator of intense hardship, because many people experiencing food poverty do not go to a foodbank unless they have exhausted other forms of help (such as loans or benefit assistance) and are desperate or courageous enough to ask for assistance.”³⁴ Thus an increase in the usage of foodbanks represents an increase in intense hardship which the state has not addressed. The increase in food bank usage was illustrated by the Salvation Army, one of the major providers of food parcels. In the first quarter of 1990, they provided 1,226 food parcels; in 1994, the equivalent number was 14,906.³⁵ It was estimated

²⁸ Toni Aston, “The Health Reforms: To Market and Back?,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 134-153.

²⁹ Susan St John, “Accident Compensation in New Zealand: A Fairer Scheme?,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 154-176.

³⁰ Jonathan Boston, “The Funding of Tertiary Education: Enduring Issues and Dilemmas,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 197-217.

³¹ Susan St John, “Superannuation in the 1990s: Where Angels Fear to Tread?,” in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 278-298.

³² Glenda Laws, “Privatisation and the Local Welfare State: The Case of Toronto's Social Services,” *Transactions* 13 (1988): 442.

³³ Chris Rudd, “The Welfare State,” in *The Political Economy of New Zealand*, ed. Brian Roper and Chris Rudd (Auckland: Oxford University Press, 1997), 252.

³⁴ New Zealand Council of Christian Social Services, *A Snapshot Comparative Analysis of Foodbank Usage: December Quarter 2004 and December Quarter 2007* (Wellington: New Zealand Council of Christian Social Services, 2008), 5.

³⁵ Ross MacKay, *Foodbanks in New Zealand: Patterns of Growth and Usage* (Wellington: Social Policy Agency, 1994), 2.

that two thirds of the foodbanks that existed in late 1991 had been established in the previous two years.³⁶ By 1994, there were 365 foodbanks providing over 40,000 food parcels each month.³⁷

In response to the explosion of foodbanks, the government increased eligibility for the Special Needs Grants. In the five months after this decision, grants increased by 75%, and food grants by 142%. This led to an increase in expenditure of approximately \$6 million, accompanied by a reduction in the usage of foodbanks. Because of the rapid increase in expenditure, National retightened eligibility, leading to a rise in foodbank usage.³⁸ The Income Support Service (the precursor to WINZ), began directing beneficiaries to foodbanks when they could not provide assistance.³⁹ Foodbanks represent a form of privatisation of welfare, as the state allows (and encourages) individuals to ensure their welfare outside of state welfare through foodbanks.⁴⁰

The changes to welfare, and the dependency rhetoric that accompanied it, had a substantial impact on social stratification. The key insight of Esping-Andersen, shared by many others, is that highly targeted systems can produce feelings of exclusion and stigmatisation for beneficiaries. A substantial amount of research on the living standards of people living below the poverty line amply showed this.⁴¹ This research was excellently summarised by Mike O'Brien in *Poverty, Policy and the State*. Due to space constraints, this research can only be briefly summarised. Broadly, the research shows food inadequacy (either not having enough, or insufficiently nutritious) became a significant problem; many beneficiaries had inadequate clothing; many had to go without key household items such as washing machines or fridges; housing was often inadequate, which was exacerbated by the need to reduce heating costs; visits to medical services, and the purchase of

³⁶ Mike O'Brien, *Poverty, Policy and the State*, 116.

³⁷ Robert Stephens, "Poverty, Family Finances and Social Security," in *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, ed. Jonathan Boston, Paul Dalziel and Susan St. John (Auckland: Oxford University Press, 1999), 251.

³⁸ Ibid.

³⁹ Mike O'Brien, *Poverty, Policy and the State*, 117.

⁴⁰ Chris Rudd, "The Welfare State," 252.

⁴¹ Mike O'Brien, *Poverty, Policy and the State*, 85.

prescriptions, was often avoided due to cost; and families felt embarrassed as they could not afford school fees.⁴²

As a consequence of these problems, some families “were feeling so hopeless that they could see no end to their struggle and hence were not looking after themselves, leading to mental, physical and emotional neglect.”⁴³ List et al. argue “restrictions in every day areas can be seen to have caused stress in relationships and a decline in emotional and personal well-being ... Many families have therefore become more isolated and less able to participate in society in a way they would like to.”⁴⁴ This isolation was caused in part by an inability to “reciprocate hospitality ... because the costs of social and recreational participation could not be met.”⁴⁵ In one focus group, a participant put the consequences of isolation poignantly: “You are limited so much that when someone does show you a bit of human kindness you lap it up like cream – I reckon it is quite sad ... I think [to] myself that life is just a thing you have got to put up with. If you’ve not got the guts to commit suicide just keep going.”⁴⁶ Overall, the poverty created by welfare reforms excluded beneficiaries from participating in society.⁴⁷

The Fifth National Government: Decommodification

The Fifth National Government has entrenched the liberal welfare regime which emerged in the 1990s. National subscribes to the same notion of social citizenship it proposed in the 1990s; stating it supports a “genuine safety net in times of need” which provides “temporary support.”⁴⁸ Thus, National has not raised benefit rates above a “modest safety net,” and continued to make welfare conditional on behaviour.

⁴² Ibid, 85-102.

⁴³ Ibid, 104.

⁴⁴ Penny List, Allison Hubbard and Gerard Dolan, *Budgeting for Cuts: A Study of Poverty in Palmerston North After the April 1st Benefit Cuts* (Palmerston North: Methodist Social Services Centre, 1992), 28.

⁴⁵ Mike O’Brien, *Poverty, Policy and the State*, 105.

⁴⁶ Shona Soloman, *Hand to Mouth: Life of a Long Term Benefit* (Wellington: Inner City Mission, 1990), 8.

⁴⁷ Mike O’Brien, *Poverty, Policy and the State*, 107.

⁴⁸ “National’s Benefits Policy Backgrounder,” National Party, accessed 15th October, 2014, www.nzdoctor.co.nz/media/137374/benefits_backgrounder.pdf, 3.

The move towards decreasing decommodification is seen in National's overall goal of reducing the amount of welfare recipients. The rhetoric used by National sums up this goal; with reforms having "an unrelenting focus on work."⁴⁹ Paid employment is valorised as an individual and societal virtue in policy documents and public statements. Its opposite, benefit dependency, is identified as the major problem facing welfare. These goals are seen in the terms of reference for the Welfare Working Group, which would research how to reduce "long-term benefit dependence" and improve work outcomes.⁵⁰ The most prominent reform designed to achieve these goals is the restructuring of benefit categories, which ensures a strong work focus for beneficiaries. Decommodification was further decreased by reducing access to benefits. This was achieved through the creation of an array of obligations for beneficiaries, with sanctions being reformed to encourage greater usage. As with the previous National Government, this represented a move to make benefits dependent on behaviour, not on citizenship.

There has been little change in the level of income replacement. National have made no attempts to reduce benefit rates. Indeed, National linked benefits to the CPI, ensuring benefit rates increase in line with inflation. This is not a major change, as it had been adjusted by convention. This means, unlike the previous National Government, poverty rates have not increased. As Table 8: New Zealand Poverty Rates, 1982-2013 shows, poverty rates suddenly spiked after the 1991 benefit cuts, and continued to rise until the economy began to grow in the mid-1990s.⁵¹ Under the Fifth Labour Government, poverty decreased, driven by a mixture of economic growth and new policy initiatives, particularly the introduction of Working For Families (WFF).⁵² Since 2007, poverty rates have only changed by a few percentage points. However Bryan Perry, the author of poverty research outlined in Table 8: New Zealand Poverty Rates, 1982-2013, states "nothing should be read into small changes from one survey to the next, as sampling and non-sampling errors mean that such

⁴⁹ John Key, "National focuses on work in Benefits Policy," (last modified 11th August, 2008), <https://www.national.org.nz/news/news/media-releases/detail/2008/08/11/national-focuses-on-work-in-benefits-policy>.

⁵⁰ Welfare Working Group, *Long-Term Benefit Dependency: The Issues, Detailed Paper* (Wellington: Institute of Policy Studies, 2010), 1.

⁵¹ Ibid, 131.

⁵² Ibid, 130.

differences are unlikely to have any significance.”⁵³ National’s decision to leave benefit rates largely untouched has ensured the “safety net” protects the poor to a similar degree as it had under Labour.

Table 8: New Zealand Poverty Rates, 1982-2013⁵⁴

	Percentage of whole population below selected thresholds (BHC) – Constant Value	Percentage of whole population below selected thresholds (AHC)
HES year	60% 1998 median	60% 1998 median
1982	12	8
1984	13	9
1986	14	8
1988	12	9
1990	14	11
1992	24	21
1994	26	23
1996	20	21
1998	16	18
2001	16	19
2004	13	17
2007	11	13
2009	7	12
2010	9	12
2011	10	14
2012	7	13
2013	9	13

Measuring current poverty levels compared to pre-1990 levels is a more difficult task. The two measures in Table 8: New Zealand Poverty Rates, 1982-2013 provide

⁵³ Ibid, 125.

⁵⁴ Bryan Perry, *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013* (Wellington: Ministry of Social Development, 2014), 132-3. Perry describes the key differences between the two measures on page 128.

different answers. The before housing costs measure shows a decrease in poverty, reflecting a rise in real incomes for those in low income households. However, poverty increases once housing costs are taken into account, as housing costs have increased faster than incomes for those on low-incomes. Thus, poverty has increased on this measure, as low-income households have less income to spend after housing costs are considered.⁵⁵ Bryan Perry also includes other measures of poverty. Seven of the eight measures used by Perry show an increase in poverty levels since the 1980s. Thus, there appears to have been a slight increase in poverty since the 1980s.⁵⁶ It is worth noting, as described in chapter three, that the welfare state was in crisis in the early 1980s, with high levels of unemployment emerging for the first time in decades, and economic growth slowing substantially. As Castles points out, social security was guaranteed through work, not welfare. Thus, the increase in unemployment would have likely seen an increase in poverty compared to the 1960s and 70s.

There has been no attempt to make welfare reliant on previous employment, or to introduce time limits on benefits. Finally, there has been no attempt to reduce the coverage of welfare benefits. Though welfare categories were reduced, grouping together beneficiaries with different needs (e.g. those suffering from sickness and sole parents with older children with the unemployed), it did not reduce the range of people eligible for welfare.

Social Stratification

According to Esping-Andersen's three measures of stratification: means-testing; the extent of universalism; and the privatisation of welfare, social stratification has slightly increased. However, there is a lack of research in this area, so the conclusion is a tentative one. As previously mentioned, means-testing and low levels of universalism has always been a prominent feature of New Zealand's welfare. The Fifth National Government has built on this tradition by seeking to improve the efficiency of targeting. National consistently argues it is targeting welfare spending on those who will cost the state the most money (or, more kindly, on the most

⁵⁵ Ibid, 130.

⁵⁶ Ibid, 131-7.

vulnerable).⁵⁷ This is seen in two areas. Firstly, the adoption of the investment approach, which is most obviously seen in the commissioning of the *Actuarial Valuation of the Benefit System* report, which analyses what groups of beneficiaries will likely cost the state the most. Secondly, it is seen in Treasury's support of National's welfare reforms, with Treasury arguing National is reprioritising welfare expenditure to "effectively ... improve outcomes for the most disadvantaged New Zealanders."⁵⁸ The targeting is seen in a variety of policies. The Job Ops and Straight 2 Work programs were merged into Job Streams, which provided greater funding for beneficiaries deemed "at-risk" of long term unemployment. Paula Bennett announced the parenting obligations would not be applied equally to all beneficiaries; and would instead only be applied to the "most vulnerable."⁵⁹ The increased targeting of welfare to "the most vulnerable" now means beneficiaries are not treated equally; those defined as "at-risk" or "vulnerable" face stricter obligations, and can access more funding. Welfare may now be producing levels of stratification within beneficiaries by targeting some more heavily than others.

Despite the decrease in poverty during the 2000s, foodbanks continue to be a crucial part of New Zealand's social security. The NZCCSS attempted to monitor the usage of foodbanks from 2001 to 2004. However, due to a variety of reasons, the project proved unsuccessful.⁶⁰ Thus, there is no official data which measures the exact usage of foodbanks. However, a variety of research clearly demonstrates there were high levels of demand for foodbanks through the 2000s.⁶¹ Under the Fifth National Government, foodbanks continue to play an important role.⁶² The 2015 *Vulnerability Report*, produced by the NZCCSS, state their members saw an increase in demand for

⁵⁷ One News, "Welfare measures to target 'vulnerable' beneficiaries," *One News*, September 23, 2012, accessed 23rd February, 2015, <http://tvnz.co.nz/politics-news/welfare-measures-target-vulnerable-beneficiaries-5099821>.

⁵⁸ Treasury, *Brief to the Incoming Minister of Finance: Increasing Economic Growth and Resilience* (Wellington: Treasury, 2011), 3.

⁵⁹ One News, "Welfare measures to target 'vulnerable' beneficiaries."

⁶⁰ Donna Wynd, *Hard to Swallow: Foodbank Usage in New Zealand* (Auckland: Child Poverty Action Group, 2005), 10-11.

⁶¹ *Ibid*, 1.

⁶² Simon Collins, "Our Hungry Kids: Huge leap in foodbank use," *New Zealand Herald*, July 27, 2011, accessed February 20, 2015, http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10741017.

foodbanks since the Global Financial Crisis.⁶³ Another report by the Child Poverty Action Group details the experiences of foodbanks in Whangarei, concluding there is substantial demand in the area, with foodbanks establishing eligibility criteria to reduce demand.⁶⁴ Frustratingly, there is no data available to accurately compare foodbank usage over the past twenty five years. However, the evidence does show foodbanks remain an integral part of social security.

The large rise in poverty in the 1990s provided the impetus for research into the lived experiences of those in poverty. Unfortunately, the recent reforms have not received similar levels of attention. Thus, there is relatively little research available describing the lived experiences of beneficiaries. However, two pieces of research point to the on-going impact of welfare reforms on stratification. As part of wider research funded by the Auckland City Mission, Hodgetts et al. produced qualitative research regarding beneficiary's experiences with WINZ.⁶⁵ WINZ has become an increasingly important institution, as the usage of case management means WINZ is at the forefront of beneficiary's experiences of welfare. The Fifth National Government has increased obligations, but allow case managers the discretion over whether to enforce them. Further, case managers can approve extra funds for beneficiaries, providing they can prove their neediness.⁶⁶ Thus, how beneficiaries are treated by case managers is fundamental to their lived experiences.

Hodgetts et al. use spousal abuse as a criterion to judge the experience of beneficiaries against; and finds numerous similarities.⁶⁷ The authors argue "having to beg for food and charity is a demeaning experience." Three issues contribute to this problem. Firstly, there is the underlying inequality between case manager and beneficiary. The case manager holds access to the basic necessities of life, particularly in times of crisis. Several participants note they felt they had to "shut up and suffer

⁶³ New Zealand Council of Christian Social Services, *Vulnerability Report: Issue 20, January 2015* (Wellington: New Zealand Council of Christian Social Services, 2015), 8.

⁶⁴ Sherry Carne and Alina Mancini, *Empty Food Baskets: Food Poverty in Whangarei* (Whangarei: Child Poverty Action Group, 2012).

⁶⁵ Darrin Hodgetts et al., "Urban Poverty, Structural Violence and Welfare Provision for 100 Families in Auckland," *Urban Studies* 51 (Issue 10: 2014): 1-16.

⁶⁶ Work and Income New Zealand, "Special Needs Grant," accessed 20th February, 2014, <http://www.workandincome.govt.nz/individuals/a-z-benefits/special-needs-grant.html>

⁶⁷ Darrin Hodgetts et al., "Urban Poverty, Structural Violence and Welfare Provision for 100 Families in Auckland," 7.

through” their negative experiences with case managers.⁶⁸ Secondly, the process of seeking help leads to the revictimisation of beneficiaries. Beneficiaries applying for additional assistance have their budgets thoroughly analysed to ensure they are spending their incomes in a “morally sanctioned manner.”⁶⁹ This requires WINZ staff to be critical of the spending choices of beneficiaries, and “impose their ideas” on how beneficiaries should spend their money.⁷⁰ Several participants report going through this process, successfully displaying an urgent need for money, but were provided with insufficient money.⁷¹ The process of extensive budget analysis and rejection leads to the growth of resentment.⁷²

The unequal relationship and revictimisation is exacerbated by the behaviour of WINZ staff. Beneficiaries experience personal ridicule, criticisms of their behaviour, ignoring of their needs, cynicism, and a lack of sympathy from staff.⁷³ They also feel a sense of distrust and betrayal after being rejected for help.⁷⁴ Hodgetts, a social psychologist, states “the WINZ office comes to be associated with strong emotional feelings of exclusion, fear, foreboding, dislike, disrespect and anxiety.”⁷⁵ These feelings lead to avoidance of WINZ, and an increase in anxiety and depression. Overall, Hodgetts et al. conclude “the psychological impact of recent efforts to manage the poor promotes low self-esteem, fear, shame and guilt.”⁷⁶ These findings are supported by two other pieces of research. The first is from the Child Poverty Action Group, who set up the Alternative Welfare Working Group (AWWG), which sought to counter the dependency narrative produced by the WWG. Though there were some positive experiences with WINZ, the AWWG report “a marked change in the institution’s culture to be less respectful, more judgemental and more suspicious towards people.”⁷⁷ For beneficiaries, this means WINZ had become a more “menacing and punitive environment.”⁷⁸ A recent report by Community Law Canterbury notes

⁶⁸ Ibid, 12.

⁶⁹ Ibid, 8.

⁷⁰ Ibid.

⁷¹ Ibid, 11.

⁷² Ibid, 8.

⁷³ Ibid, 9.

⁷⁴ Ibid, 12.

⁷⁵ Ibid, 11.

⁷⁶ Ibid, 12.

⁷⁷ Alternative Welfare Working Group, *Welfare Justice In New Zealand: What We Heard* (Wellington: Caritas Aotearoa New Zealand, 2010), 12.

⁷⁸ Ibid, 11.

beneficiaries are left with feelings of dehumanisation, intimidation, public humiliation and stigmatisation due to their dealings with WINZ.⁷⁹

Table 9: Polling Data on Welfare⁸⁰

Statement	Agreed	Disagreed	Weren't Sure
Welfare benefits make people lazy and dependent	62%	24%	12%
Most people on the dole are fiddling in one way or another	51%	81	-
Around here, most unemployed people could find a job if they really wanted one	57%	28%	15%
With lower benefits, people would learn to stand on their own two feet'	56%	-	-
Many people who get welfare benefits don't really deserve any help'	38%	38%	24%

The second key piece of research comes from polling data analysed by Louise Humpage. Several questions from the poll are relevant. The survey asked individuals

⁷⁹ Kim Morton, Claire Gray, Anne Heins and Sue Carswell, *Access to Justice For Beneficiaries: A Community Law Response* (Christchurch: Community Law Canterbury, 2014), 29-55.

⁸⁰ Louise Humpage, "Do New Zealanders Really Support Welfare Reform?," in *The New Electoral Politics in New Zealand: The Significance of the 2011 Election*, ed. Jack Vowles (Wellington: Institute for Governance and Policy Studies, 2014), 53-71.

⁸¹ Humpage did not provide data on how many disagreed or weren't sure for these questions.

to state whether they agreed, disagreed, or weren't sure about the truth of a variety of statements. Unfortunately, the poll only asked about unemployed people, and respondents may not have considered DPB, sickness or invalid's benefit recipients in their response. For the unemployed, a clear majority of New Zealanders believe they are lazy, dependent, fraudsters, could get a job if they really tried, and could "stand on their own two feet" if their benefits were less generous. Clearly, New Zealand's welfare does not foster a sense of social solidarity. Instead, the poor are being blamed for their situations. This represents a substantial level of stratification, which is associated with liberal welfare regimes.

Towards Esping-Andersen's Liberal Welfare Regime

The Fourth and Fifth National Governments' welfare reforms entrenched New Zealand as a liberal welfare state according to Esping-Andersen's measures. The major reforms were enacted in the 1990s. These reforms were justified as part of a push to make welfare a "modest safety net." This represents the abandonment of the social democratic concept of social citizenship, leading to a decrease in decommodification and an increase in the level of stratification. The Fifth National Government are committed to a "modest safety net" for welfare. Consequently, National has decreased decommodification, and the effects on stratification are unclear due to a lack of available research, though the evidence suggests there remain significant levels of stratification. So, the Fifth National Government's reforms have had less of an effect than the reforms of the 1990s, but have continued to entrench New Zealand in the liberal category. Overall, the reforms of the two Governments a move towards a more comprehensively liberal regime, driven in part by the adoption of a neoliberal ideology which rejected the social democratic conception of citizenship.

5.3. The Wage Earners' Welfare State

The evaluation of National's welfare reforms which utilises Esping-Andersen's concepts shows New Zealand entrenching its classification as a liberal welfare state. However, as was shown in chapter one, Castles' critique shows several deficiencies in Esping-Andersen's characterisation of Australia and New Zealand's welfare regimes. So, then, what has happened to the WEWS? There is a general consensus that the Fourth National Government dismantled it. There is some disagreement, however, over whether post-1999 reforms have fundamentally changed social security. Here, I

put forward a modified thesis, originally made by Shaun Wilson et al., that the WEWS has been “hollowed out” into a Trojan horse. The reforms maintain the valorisation of work and protection for working families, but bring with it the abandonment by the state of its commitment to full employment, and the impoverishment and exclusion of beneficiaries.⁸²

There is a general consensus the Fourth National Government effectively destroyed the WEWS.⁸³ The core of the WEWS lay in employment; the state guaranteed social security through full employment and a managed labour market which ensured a family wage. This system was dismantled by the Employment Contracts Act (ECA). Arbitration was removed, and union membership was made voluntary, which substantially reduced their influence, and “effectively ended New Zealand’s wage-earner compact.”⁸⁴ Contracts are now set in the context of supply and demand, not by what is considered an appropriate family wage.⁸⁵ Unemployment remained high throughout the era, only falling to a low of 6.3% in 1996.⁸⁶ Thus, the core of the WEWS had been destroyed; the state no longer guaranteed social security via the labour market.

Table 10: New Zealand Gini Coefficient, 1984-1998⁸⁷

	1984	1988	1990	1992	1994	1996	1998
BHC-1 (OECD)	27.0	26.2	30.0	31.1	31.8	32.5	32.7
AHC	28.5	28.5	32.1	34.9	35.6	37.2	37.5

⁸² Shaun Wilson et al., “Wage-Earners’ Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?,” 623.

⁸³ See Frank Castles and Ian Shirley, “Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State,” in *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand*, ed. Frank Castles, Rolf Gerritsen and Jack Vowles (Auckland: Auckland University Press, 1996), 88, and Peter Starke, “Resilient or Residual? From the Wage Earners’ Welfare State to Market Conformity in New Zealand,” *TranState Working Papers* (no. 22, 2005): 29.

⁸⁴ Shaun Wilson et al., “Wage-Earners’ Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?,” 627.

⁸⁵ Peter Starke, *Radical Welfare State Retrenchment: A Comparative Analysis* (Basingstoke: Palgrave Macmillan, 2008), 148.

⁸⁶ See Table 4: Economic Data, 1996-99 in chapter three.

⁸⁷ Bryan Perry, *Household Incomes in New Zealand*, 107.

The second defining feature of the WEWS was its distributional outcomes. Castles argues the WEWS was different from liberal regimes because it maintained low levels of poverty and inequality; a trait more commonly associated with social democratic regimes.⁸⁸ The impact on poverty rates has already been described; with poverty rates substantially rising over National's nine years in office. Inequality also increased substantially. Numerous measures have been utilised by different authors to show the increase in inequality over the 1990s.⁸⁹ Due to space constraints, only the changes in the Gini coefficient will be described, as it is the most popular measure of income inequality internationally.⁹⁰ The Gini coefficient measures income inequality out of 100; with a score of zero meaning all individuals have the same level of income.⁹¹ Amongst OECD countries, the Gini coefficient rose by an average of 1.4 points between the mid-1980s and mid-1990s. New Zealand increased by 6.1 points.⁹² By 2001, New Zealand had the eighth highest rate of inequality in the 27 countries measured by the OECD.⁹³ National dismantled the system of labour market protections which characterised the WEWS, and oversaw a substantial increase in poverty and inequality.

The Fifth Labour and National Governments

Few academics have sought to analyse the evolution of New Zealand's welfare state since 1999. The little work which has been done has come to differing conclusions. The debate focuses on three key reforms: the introduction of WFF; the increases in the minimum wage; and the repeal of the ECA. The first two reforms were described in chapter four. WFF includes an array of benefits for families with low incomes who

⁸⁸ Frank Castles and Deborah Mitchell, "Worlds of Welfare and Families of Nations," in *Families of Nations: Patterns of Public Policy in Western Democracies*, ed. Frank Castles (Aldershot: Dartmouth, 1993), 103.

⁸⁹ For an overview of the relevant research, see Brian Roper, *Prosperity for All? Economic, Social and Political Change in New Zealand Since 1935* (Southbank: Thomson Dunmore Press, 2005), 34-39.

⁹⁰ Max Rashbrooke, "Footnotes for Inequality and New Zealand," in *Inequality: A New Zealand Crisis*, ed. Max Rashbrooke (Wellington: Bridget Williams Books, 2013), 249.

⁹¹ Jean Simpson et al., *Child Poverty Monitor 2014: Technical Report* (Dunedin: NZ Child & Youth Epidemiology Service, University of Otago, 2014), 43.

⁹² Michael Förster and Marco Mira d'Ercole, *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s* (Paris: OECD, 2005), 61-2.

⁹³ Ibid, 10.

are in full time work. The policy decreased both poverty and inequality.⁹⁴ It fails, however, to address poverty in families who are reliant on benefits, as they are not eligible for assistance.⁹⁵ The minimum wage was increased by over 50%, from \$7 per hour in 1999, to \$11.25 in 2007.⁹⁶ In 2000, Labour repealed the ECA, replacing it with the Employment Relations Act (ERA). The ERA gave a more prominent role to unions. By 2002, union membership had increased by 10.7% since the implementation of the ERA.⁹⁷ However, mandatory union membership was not reintroduced, and several key elements of the ECA were retained.⁹⁸

Peter Starke, writing during the final years of Labour's rule (1999-2008), argues the WEWS had been destroyed despite Labour's reforms. He argues "New Zealand is now a full member of the liberal club."⁹⁹ In terms of economic policy, the ERA fails to return New Zealand to a system of wage setting based on the family wage, trade protections had not been reintroduced, and despite favourable economic conditions unemployment only reached a low of 3.7%.¹⁰⁰ Full employment, as was seen in the 1950s and 60s, has never been achieved. In terms of welfare, Starke argues welfare has become more liberal, as family policy now relies on means-testing, as the universal Family Benefit was abolished in 1991.¹⁰¹ WFF utilises extensive means-testing, thus Starke views its implementation as entrenching the liberal welfare regime. Further, demographic changes had undermined the (male) WEWS; women are now an important part of the workforce, dual-earner families are more prevalent and sole parenthood has increased. Overall, he concludes

⁹⁴ Bryan Perry, *Household Incomes in New Zealand*, 107.

⁹⁵ Susan St John, "Working for Families," in *Left Further Behind: How Policies Fail the Poorest Children in New Zealand*, ed. Claire Dale, et al. (Wellington: Child Poverty Action Group, 2011) 61.

⁹⁶ "Previous Minimum Wage Rates," Ministry of Business, Innovation and Employment, accessed 27 October, 2014, <http://www.dol.govt.nz/er/pay/minimumwage/previousminimum.asp>.

⁹⁷ Brian Roper, *Prosperity for All?*, 231.

⁹⁸ Paul Dalziel and Ralph Lattimore, *The New Zealand Macroeconomy: A Briefing on the Reforms and their Legacy 4th Ed.* (Melbourne: Oxford University Press, 2001), 96-7.

⁹⁹ Peter Starke, *Radical Welfare State Retrenchment*, 150.

¹⁰⁰ See Figure 9 – Employment and Unemployment, "All key graph data," Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls

¹⁰¹ Peter Starke, "Resilient or Residual? From the Wage Earners' Welfare State to Market Conformity in New Zealand," 28.

although not all of the elements that once characterized the wage earners' welfare state are completely gone, they 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.¹⁰²

In 2013, Shaun Wilson et al. put forward a different thesis. They argue the WEWS had been "hollowed out," a concept which "sits between earlier characterizations of 'refurbishment' and 'abandonment'."¹⁰³ They argue contemporary reforms reflect the enduring influence of the WEWS, which is seen in three areas: minimum protections; levels of employment; and WFF. Crucial to this thesis are the three reforms implemented by Labour. They argue that though the ERA did not return New Zealand to a system of centralised wage setting, it represents a compromise for workers. Employers maintain the freedom to set wages, whilst the state ensures "minimum protections" for workers by increasing the minimum wage. Over its nine years in office, Labour increased the minimum wage to 59% of median full-time earnings, one of the highest levels in the OECD.¹⁰⁴ The second argument relates to unemployment; though New Zealand's unemployment rate is high historically, unemployment remains relatively low compared to other countries.¹⁰⁵ Finally, they argue the WFF represents "a mechanism to shift from a narrower wage-earner focus to a broader one, involving more welfare instruments."¹⁰⁶ WFF is now a key mechanism for the provision of a family wage; it ensures the social security of those in full-time work through welfare payments. In principle, this fulfils the WEWS' goal; it provides social security for those who participate in the labour market. Only the mechanism has changed. Social security is provided through direct income payments to families in paid employment, not via a managed market.¹⁰⁷ Overall, Wilson et al. argue the reforms of the 1990s "have fallen short of full retrenchment or abandonment, with

¹⁰² Ibid, 29.

¹⁰³ Shaun Wilson et al., "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?," 624.

¹⁰⁴ Ibid, 628.

¹⁰⁵ Ibid, 630.

¹⁰⁶ Ibid, 632.

¹⁰⁷ Ibid, 634-5.

later Labour governments ... legislating new protections that suggest ongoing to commitment to wage-earner norms.”¹⁰⁸

Wilson et al. note that the Fifth National Government have made four reforms which “hollow out” what remains of the WEWS. Firstly, the ERA has been maintained, but several reforms have been implemented. According to Nigel Haworth, these reforms have been based on “orthodox neo-liberal policy settings ... [representing] views about [employment relations] more akin to those found in the ECA.”¹⁰⁹ The minimum wage continues to be increased, though the increases have been below the rise in average weekly earnings, representing a relative decrease in the value of the minimum wage.¹¹⁰ Secondly, National has restricted eligibility for WFF. Between 2008 and 2018, the abatement threshold will fall in nominal terms from \$36,875 to \$35,000, and the abatement rate will be increased.¹¹¹ Thirdly, National introduced regressive tax reforms through the reduction of income taxes (particularly for high earners), and increasing GST from 12.5 to 15%.¹¹² Finally, the authors note National’s welfare reforms create an “increasingly stratified welfare, which marginalizes and stigmatizes many outside the workforce.”¹¹³ Thus, on each of the measures of the hollowed out WEWS, National has implemented reforms which represent a move away from Labour’s reforms.

Wilson et al. do not comment on the effectiveness of the hollowed out WEWS. By doing so, a clearer picture of what is meant by “hollowing out” can be gained. In assessing its effectiveness, three issues will be addressed. The first issue is the changes in distribution outcomes. Current levels of poverty remain at higher levels than in the early 1980s. Thus, the hollowed out WEWS is slightly worse than its

¹⁰⁸ Ibid, 637-8.

¹⁰⁹ Nigel Haworth, “A Commentary on Politics and Employment Relations in New Zealand: 2008-2011,” *New Zealand Journal of Employment Relations* 36 (Issue 2, 2011): 36.

¹¹⁰ Shaun Wilson et al., “Wage-Earners’ Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?,” 629.

¹¹¹ Susan St John, “Working for Families,” 63.

¹¹² Brian Roper, “The Fifth (Key) National Government’s Neoliberal Policy Agenda: Description, Analysis and Critical Evaluation,” *New Zealand Sociology* 26 (Issue 1, 2011): 26.

¹¹³ Shaun Wilson et al., “Wage-Earners’ Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?,” 623.

predecessor at preventing poverty; and it is likely the statistical difference would be larger if poverty statistics were available from prior to the 1980s. Changes in the level of inequality are, as yet, unknown. Since 2008, the Gini Coefficient has been volatile, as the impact of the global financial crisis makes it too difficult to discern a trend from National's time in Government. However, since the mid-1990s, inequality has remained relatively stable.¹¹⁴

Table 11: Gini Coefficient, 2007-2013¹¹⁵

	2007	2009	2010	2011	2012	2013
BHC-1 (OECD)	32.5	33.1	32.5	35.0	32.4	33.4
AHC	36.8	37.5	37.0	39.9	37.7	38.3

The second key trend is the level of unemployment. As Table 13: Unemployment, 1999-2013 shows, unemployment has never fallen below 3.7%, which is markedly higher than in the 1950s and 60s. The most striking difference is the difference in the number of people relying on benefits. The Welfare Working Group estimated the total numbers receiving a benefit as a proportion of the total working age population. In 1970, just over 2% were receiving a benefit; in 1993 the proportion peaked at 15%; and decreased to 12% in 2010. In total numbers, 31,277 people received a benefit in 1970, compared to 352,918 in 2010. Each of the main benefits (unemployment, sickness, invalid's, and the DPB) saw an increase in total recipients, reflecting a range of different causes for each.¹¹⁶

¹¹⁴ Bryan Perry, *Household Incomes in New Zealand*, 107.

¹¹⁵ Bryan Perry, *Household Incomes in New Zealand*, 107.

¹¹⁶ This includes: higher levels of sole parenthood, the abandonment of full employment, increased diagnosing of mental illnesses etc.

Table 12: Total Numbers Receiving a Benefit, 1970-2010¹¹⁷

Year	Total Numbers receiving a benefit
1970	31,277
1975	54,528
1980	97,595
1985	139,991
1990	309,157
1995	343,089
2000	370,688
2005	308,668
2010	352,918

Table 13: Unemployment, 1999-2013¹¹⁸

Year	Unemployment Rate (%)	Year	Unemployment Rate (%)
1999	7	2007	3.7
2000	6.1	2008	4.2
2001	5.4	2009	6.1
2002	5.3	2010	6.5
2003	4.8	2011	6.5
2004	4	2012	6.9
2005	3.8	2013	6.2
2006	3.8		

So, compared to the WEWS which existed prior to the neoliberal reforms, the hollowed out version has higher levels of poverty, inequality and welfare recipients. However, when compared to the outcomes of the late 1990s, it has lower levels of

¹¹⁷ Excludes superannuation and pensions. Ministry of Social Development, *The Statistical Report: For the Year Ending June 2010* (Wellington: Ministry of Social Development, 2010),13-14.

¹¹⁸ See Figure 9 – Employment and Unemployment, “All key graph data,” Reserve Bank of New Zealand, accessed 30th October, 2014, http://www.rbnz.govt.nz/statistics/key_graphs/graphdata.xls.

poverty and welfare recipients, and similar levels of inequality. The core of the WEWS was the linking of social security to work through an extensively managed labour market, backed by economic regulations to ensure full employment. Now, the state still links social security to work; escaping poverty can only be achieved through entry into the labour market, as benefits are set below the poverty line.¹¹⁹ However, the state no longer guarantees full employment. The state maintains the valorisation of work which characterised the WEWS, without ensuring people can get the work which ensures their social security.¹²⁰ Its consequences are seen in the higher levels of poverty, unemployment, and welfare recipients. Further, as was shown in the previous section, reforms have created a more stratified welfare regime. At the same time as the state abandoned its commitment to full employment, it ensured those who could not find employment would be systematically excluded from society. Overall, New Zealand's WEWS has been hollowed out into a Trojan horse; it maintains the valorisation of work and protection for working families, but brings with it the abandonment by the state of its commitment to ensure everyone can get a job which ensures their social security, and the impoverishment and exclusion of beneficiaries.

5.4. The Wage Earners' Welfare State, the Labour Market and Neo-Marxism

The final part of this chapter draws upon the neo-Marxist literature described in chapter one to analyse National's welfare reforms. The key insights of neo-Marxism are that unemployment and the welfare state assist the process of accumulation, and help to mitigate and legitimate the negative outcomes of capitalism. As stated in section 1.6 of the first chapter, a neo-Marxist analysis requires a depth of analysis of the process of accumulation which is not possible in this thesis. However, important insights can still be gained by viewing welfare reforms in the context of increasing unemployment, and the state of the labour market.

The first point regarding unemployment has already been noted; levels of unemployment since the neoliberal reforms remain substantially higher than during

¹¹⁹ Mike O'Brien, "A Better Welfare System," 219.

¹²⁰ Shaun Wilson et al., "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?," 638.

the golden era of Keynesianism during the 1950s and 60s. It is widely accepted by both Keynesian and Marxist economists that central banks operating a monetarist monetary policy framework, which New Zealand continues to operate, rely on historically high levels of unemployment to place downward pressure on inflation.¹²¹ Thus, these economists argue there is a causative link between neoliberal economic policy and high unemployment. The need for brevity means this cannot be discussed more fully, as I am not closely analysing the process of accumulation. It is sufficient to note that the onset of neoliberalism is associated with mass unemployment.

The second point is the changing nature of jobs available in the labour market. These changes are well described by Paul Spoonley and Carl Davidson. They argue Western economies, including New Zealand, have undergone a transformation from “mass production to flexible specialisation.”¹²² During the mid-twentieth century, the “dominant political-economic framework” of Western economies was characterised by the “Fordist” form of production.¹²³ Economically, Fordism relied on mass production and consumption of goods. This required high levels of demand, and was supported by the implementation of Keynesian economic management, which sought to maintain aggregate demand. The relevant point here is the nature of work which underpinned Fordism; it required “standardised work,” which is defined as the “employment of individuals for wages and salaries by a single firm, where individuals work full-time ... and expect (and are expected) to be employed for an indefinite

¹²¹ The Fifth Labour Government initiated a “small shift back towards Keynesianism,” however its policy broadly “remain[ed] firmly bounded by a broadly neoclassical vision.” Brian Roper, *Prosperity for All?*, 230. Byron Richards also characterised the current National Government’s monetary policy as monetarist. See Byron Richards, “The Dollar-Wall Street Regime and New Zealand,” *New Zealand Sociology* 25 (no.1, 2010): 28. The argument that monetarist monetary policy increases unemployment is seen in mainstream Keynesian, Post-Keynesian and Marxist political economy. See Engelbert Stockhammer, “Still Unemployed, After All These Wage Cuts. Labor in Europe,” in *Employment, Growth and Development: A Post-Keynesian Approach*, ed. Claude Gnos et al. (Cheltenham: Edward Elgar Publishing, 2012), 108-20. The argument has been made in the New Zealand context by Jan Whitwell, “The Rogernomics Monetarist Experiment,” in *The Fourth Labour Government*, ed. Martin Holland and Jonathan Boston (Oxford: Oxford University Press, 1990), 101-22.

¹²² Paul Spoonley and Carl Davidson, “The Changing World of Work,” in *Work and Working in Twenty-First Century New Zealand*, ed. Paul Spoonley et al. (Palmerston North: Dunmore Press, 2004), 18.

¹²³ Ibid.

period.”¹²⁴ Further, New Zealand was characterised by low levels of unemployment, and the WEWS ensured relatively high wages.¹²⁵ Thus, work during the mid-twentieth century was predominantly full-time, had high levels of job security, a clear career path, and had high enough wages to support a family. This form of employment underpinned the economic system by ensuring high levels of demand for products, allowing for the mass consumption of goods Fordism required.

The onset of economic crisis in the 1970s and 80s and the subsequent neoliberal reforms heralded the end of the Fordist form of production.¹²⁶ Newly industrialising countries, predominantly located in Asia, began to adopt the mass production techniques which characterised Fordism. The costs of production, particularly labour costs, are substantially lower in these countries. Thus, mass production began to move away from advanced capitalist countries to countries with lower cost structures. Further, consumption patterns in advanced capitalist countries were changing. Consumer demand moved away from mass produced goods towards “niche” goods which expressed the values of consumers. Thus, a post-Fordist regime began to emerge which is characterised by “new patterns of production and consumption which were more noticeably global and niche-based.”¹²⁷ To remain competitive, firms had to reduce their own cost structures, and become “flexible in product development and cost, especially the cost of labour.”¹²⁸ According to Spoonley and Davidson, this flexibility is incompatible with the old system of standardised work. Standardised work is inflexible; it guarantees full-time hours, with high levels of job security, and historically had provided wages designed to support a family, rather than being set by market forces. Thus, a new and more flexible form of work emerged, called “non-standard work.”¹²⁹ Non-standard work is defined as the opposite of standard work, which includes work that is: part-time; temporary or casual; having multiple jobs; or

¹²⁴ Public Service Commission of Canada, *The Future of Work: Non-Standard Employment in the Public Service of Canada* (Ottawa: Research Directorate; Policy, Research and Communications Branch, 1999), 2.

¹²⁵ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 25.

¹²⁶ Ibid, 19.

¹²⁷ Ibid.

¹²⁸ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 20.

¹²⁹ Ibid, 25-9.

being self-employed without any employees.¹³⁰ Crucially, the neoliberal reforms of the 1980s and 90s opened New Zealand firms to competition from countries with substantially lower cost structures. Thus, New Zealand faced the pressures which were undermining the Fordist form of production in other advanced capitalist countries.¹³¹

Table 14: Percentage of workers in Standard and Non-Standard Work, 1981-2006 ¹³²				
	1981	1991	2001	2006
Standard Work ¹³³	77.2	50.2	41.6	45.4
Non-Standard Work	22.8	49.8	58.4	54.6
Part-time	6.3	17.7	22.9	22.4

Table 14: Percentage of workers in Standard and Non-Standard Work, 1981-2006 outlines the growth of non-standard employment in New Zealand over the past thirty years. Standard work is defined as those on wages or salaries, working 30-50 hours per week, and working only one job. Between 1981 and 2006, the total amount of standard work dropped from 77.2 to 45.4%, with non-standard work now forming the majority of jobs in New Zealand. The amount of part-time work has almost quadrupled, with a quarter of all jobs being part-time. This shift reflects global trends, with non-standard employment commanding “a quantitatively larger share of total employment” than it had during the Fordist era.¹³⁴

In the economics literature, the causes of this trend are sorted into supply and demand side factors. The supply side relates to the decisions of those seeking employment in the labour market. The major changes on the supply side relate to

¹³⁰ Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” in *Beyond Skill: Institutions, Organisations and Human Capability*, ed. Jane Bryson (Hampshire: Palgrave MacMillan, 2010), 82-3.

¹³¹ Jane Kelsey, *Rolling Back the State: Privatisation of Power in Aotearoa/New Zealand* (Wellington: Bridget William Books), 108-9.

¹³² Ibid, 93.

¹³³ Defined as wages/salaried, 30-50 hours per week, not multiple job holders.

¹³⁴ Heidi Gottfried, “Pathways to Economic Security: Gender and Nonstandard Employment in Contemporary Japan,” *Social Indicators Research* 88 (1, 2008): 179-80.

changing demographic pressures and social expectations. The most prominent of these changes is the breakdown of the “traditional breadwinner couple where the man was in full-time work and the woman was not in the labour force at all.”¹³⁵ This resulted in two trends. Firstly, women entered the workforce in large numbers from the mid-twentieth century. In 1981, approximately 47% of women were employed in the labour force, compared to 79% of males. By 2001, 59% of women were employed, compared to 71% of men.¹³⁶ Secondly, there has been a substantial rise in the number of sole parents. In 1975, just over 10% of all families were headed by a sole parent. By 2009, the number had risen to 28%.¹³⁷ These trends have contributed to the rise of non-standard work, as women are more likely to participate in this form of work (particularly part-time work), as it “appear[s] to suit their need to be flexible around domestic commitments.”¹³⁸

The second demographic change relates to age. Young people are engaged in education for longer periods of time, and often shift between full-time work and education during their adult lives.¹³⁹ Young people engaged in education tend to seek part-time, temporary or casual work, as they are unable to participate in standard work.¹⁴⁰ Those nearing or beyond retirement age are also more likely to seek non-standard work, as they seek to manage their exit from the labour force by reducing the amount of hours they work, or working on an irregular basis through contractual or temporary work.¹⁴¹ Such options are likely to become increasingly popular, as those in the “baby boomer” generation reach retirement age. There are also a range of other supply-side factors not related to demographic changes. These include: an increase in higher income professionals holding multiple jobs; high marginal rates of

¹³⁵ Mervyl McPherson, *Paid Work and Personal Relationships* (Auckland: EEO Trust, 2004), 3.

¹³⁶ Grant Johnston, *Women’s Participation in the Labour Force* (Wellington: Treasury, 2005), 3.

¹³⁷ Centre for Social Research and Evaluation, *Sole parenting in New Zealand: An Update on Key Trends and What Helps* (Wellington: Ministry of Social Development, 2010), 13.

¹³⁸ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 35.

¹³⁹ Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” 88.

¹⁴⁰ Ann Dupuis and Eva McLaren, *Non-Standard Work and Young(er) Workers* (Auckland: Labour Market Dynamics Research Programme, 2006), 33-4.

¹⁴¹ James Baines and James Newell, *Trends in the New Zealand Labour Market, Non-Standard Work and Multiple Job Holding 1981-2001* (Christchurch: Taylor Baines & Associates, 2005), 34.

taxation; and a growing interest in work-life balance issues.¹⁴² Overall, the effect of supply-side factors is to make non-standard work a more desirable option for work than standard employment for many workers.

Demand side factors have also played an important role in changing the nature of work. In line with the move to post-Fordism, research conducted by the Centre for Research on Work, Education and Research (WEB) argues the growth in non-standard work represents an increase in demand from business for “flexible” labour. The research concludes “supply-side characteristics are not unimportant, [however] demand side factors appear to provide more likely explanations.”¹⁴³ The most important point to note from this research is how demand side factors are supported by the employment law framework. WEB argues “the context within which supply and demand side factors operate shifted to strengthen the demand side under the Employment Contracts Act 1991.”¹⁴⁴ So, whilst there was increased demand from business, they were only able to achieve a flexible labour force through the support of the ECA. Indeed, business groups lobbied the government heavily to implement the ECA, with the explicit goal of creating a more flexible labour force.¹⁴⁵ Despite the introduction of the ERA four years prior to the research, it appears to have little effect. WEB cite Department of Labour research which concludes “the large majority of workplaces have been largely unaffected by the ERA and there is little in the ERA to compel them to make changes.”¹⁴⁶ Importantly, the WEB study found non-standard work is most common in occupations with low levels of union membership; which rapidly declined after the introduction of the ECA. Overall, the effect of demand-side factors is to increase the amount of non-standard work available.

Given the increase in non-standard work is predominantly due to the demands of employers, a key question must be whether the increase in non-standard employment represents a positive trend for employees. The local research on this topic is well

¹⁴² Paul Spoonley and Carl Davidson, “The Changing World of Work,” 25-9.

¹⁴³ Centre for Research on Work, Education and Research Limited, *Education and Research, Report of Exploratory Case Study Research into Precarious Employment* (Wellington: Centre for Research on Work, Education and Research Limited with Labour Market Policy Group, 2004), 9.

¹⁴⁴ Ibid, 65.

¹⁴⁵ Brian Roper, “Business political activity in New Zealand from 1990 to 2005,” *New Zealand Journal of Social Sciences Online* 1 (2, 2006): 169.

¹⁴⁶ Tony Waldegrave et al., *Evaluation of the Short-Term Impacts of the Employment Relations Act 2000* (Wellington: Department of Labour, 2003), 133.

summarised by Spoonley and Davidson, with Spoonley updating the research in 2010. They point to research by Karl Klare, who argues the New Zealand labour market is being split into two separate groups: the first a “highly attached core workforce,” characterised by excellent conditions in their employment; and a group of “peripheral, low-attachment employees,” who have poor conditions of employment and few alternative employment options.¹⁴⁷ Work in the peripheral labour force is often “precarious,” which is defined as

Employment [that] can be terminated with little or no notice by an employer, that the hours and functions of employment can be changed at short notice, that earnings are uncertain and low, that there is no (or little) protection against unacceptable working practices and there is limited opportunity to gain skills or access to education.¹⁴⁸

There are multiple problems which arise for workers in precarious work: health and safety provisions are worse;¹⁴⁹ they are likely to be paid less than those in standard work;¹⁵⁰ be required to work “asocial and extensive hours;”¹⁵¹ and such jobs are associated with lower levels of job satisfaction.¹⁵² The temporary nature of the employment means “without continuity of employment, a number of benefits, including those from employers and the state, as well as the satisfaction and security of employees, are foregone.”¹⁵³ Research from the WEB found “many employees employed in casual work ... would prefer permanent employment or reported that they were unhappy with the quality of their employment.”¹⁵⁴ Overall, Spoonley and Davidson conclude “the combined effect of these conditions is that precarious casual employment limits the options for those in the secondary labour market and restricts the opportunities to obtain a living wage, to qualify for mortgages or personal loans

¹⁴⁷ Karl Klare, “Horizons of Transformative Labour Law,” in *Labour Law in an Era of Globalisation*, ed. Joanne Conaghan et al. (Oxford: Oxford University Press, 2002), 17.

¹⁴⁸ Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” 84.

¹⁴⁹ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 30.

¹⁵⁰ Organisation for Economic Co-operation and Development, *Employment Outlook* (Paris: Organisation for Economic Co-operation and Development, 2002), 143.

¹⁵¹ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 31.

¹⁵² Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” 85.

¹⁵³ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 31.

¹⁵⁴ ¹⁵⁴ Centre for Research on Work, Education and Research Limited, *Education and Research, Report of Exploratory Case Study Research into Precarious Employment*, 65.

and to invest in the education and training of themselves or their dependents.”¹⁵⁵ It is worth noting, however, many workers have positive experiences in non-standard employment, particularly those demographic groups who contributed to the supply-side factors, and high-skilled and higher income employees.¹⁵⁶ However, Spoonley concludes “the increase in non-standard work, driven as it has been by the goal of increasing labour flexibility, has produced significantly more “bad” jobs.”¹⁵⁷

It is in the context of mass unemployment and an increase in “bad” jobs that the theories of Marxism and neo-Marxism become important. In particular, the concept of the reserve army of labour is useful. The reserve army is the pool of unemployed and underemployed workers in society. They play two key roles in ensuring the extraction of surplus value. Firstly, they ensure workers cannot claim all of the surplus value, as employers can simply replace them with lower paid workers.¹⁵⁸ Secondly, they ensure greater productivity, as employers can pressure employees to work harder out of fear of losing their job, or to accept the introduction of new technology.¹⁵⁹ One of the roles of the welfare state is to ensure the unemployed are prepared to work by ensuring they are suitable for employment.¹⁶⁰

Throughout the 1950s and 60s, New Zealand was characterised by exceptionally low unemployment, underpinned by the prevalence of standard work. During this period, the vast majority of working-age males were employed, and were therefore not part of the reserve army of labour. Women, particularly married women, constituted the reserve army of labour, as they could be brought into the labour force in times of economic boom, and pushed out during recessions.¹⁶¹ In New Zealand, wages for women were set at a lower rate than males, and were therefore a cheap source of

¹⁵⁵ Paul Spoonley and Carl Davidson, “The Changing World of Work,” 31.

¹⁵⁶ Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” 99, and Ann Dupuis and Eva McLaren, *Non-Standard Work and Young(er) Workers*, 33-4.

¹⁵⁷ Paul Spoonley, “New Ways of Working: Changing Labour Markets in 21st Century New Zealand,” 87.

¹⁵⁸ James Caporaso and David Levine, *Theories of Political Economy* (Cambridge: Cambridge University Press, 1992), *Theories of Political Economy*, 70.

¹⁵⁹ Mathew Forstater, “Unemployment,” in *The Elgar companion to Post Keynesian Economics*, ed. John Edward King (Cheltenham, UK: Edward Elgar Publishing, 2003), 377.

¹⁶⁰ Christopher Pierson, *Beyond the Welfare State? The New Political Economy of Welfare* (Cambridge: Polity Press, 2006), 52.

¹⁶¹ Irene Bruegel, “Women as a Reserve Army of Labour: A Note on Recent British Experience,” *Feminist Review* 3 (1, 1979): 12-3.

labour. The expectation that the male would be the main income-earner meant they were a disposable source of labour.¹⁶² This had an important impact on the welfare state; the reserve army of labour did not have to rely on welfare to avoid poverty, as they could rely on the family income. The onset of mass unemployment from the 1970s, combined with the breakdown of the traditional breadwinner couple, fundamentally changed the relationship between the reserve army and the state. The reserve army now had to rely on the state, not the family, for their income. This substantially increased the cost of the welfare state which, as described in chapter three, occurred under the Muldoon Government. The reserve army served as a valuable economic asset during the 1950s and 60s by providing a source of cheap and disposable labour. By the 1970s and 80s, it became a burden on the state through increased social spending.

The Fourth National's Government's welfare reforms should be seen in this light. As I previously argued, the three terms are characterised by a shift from a neoliberalism dominated by classical liberalism, to one more heavily influenced by conservatism. The liberal period was dominated by the 1991 benefit cuts, which reduced social spending. This performed the important economic goal of reducing social spending by lowering the burden of the reserve army on state finances. By the mid-1990s, National was more influenced by conservatism. This shift should be conceptualised using James O'Connor's concepts of social capital and social expenses. Social capital refers to social spending which seeks to increase the rate of profit, e.g. through investing in education or healthcare. Social expenses are projects which maintain social harmony, without increasing the rate of profit.¹⁶³

Underlying the increase in obligations and sanctions during the mid-1990s was a change in welfare spending from social expenses to social capital. Prior to the 1990s, benefits were set at a level, at least nominally, to ensure participation in society and prevent poverty amongst beneficiaries. They were predominantly a social expense, designed to maintain social harmony. With the introduction of reciprocal obligations, work tests and sanctions, welfare was now explicitly designed to ensure beneficiaries

¹⁶² Alternative Welfare Working Group, *Welfare Justice For All: Reflections and Recommendations, A contribution to the Welfare Reform Debate* (Wellington: Caritas Aotearoa New Zealand, 2010), 79.

¹⁶³ James O'Connor, *Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), 6-7.

were ready to work, were actively seeking work, and would accept offers of employment. Case managers provided individualised assistance to ensure beneficiaries were improving their job opportunities. The increased intervention of welfare into the lives of beneficiaries was designed to ensure the reserve army of labour would function more effectively. The ECA moved the power away from employees towards employers, allowing employers to substantially increase the levels of non-standard work. The welfare reforms supported this goal by providing a source of “cheap, non-unionized, compliant wage labour” for employers, who were obliged to accept offers of employment.¹⁶⁴ Forcing welfare beneficiaries into work helps reduce wages and labour costs for businesses, which Marx identified as a key role of the reserve army.¹⁶⁵ Thus, the welfare reforms assisted the ECA in the growth of non-standard, low quality work.¹⁶⁶ Overall, National was moving welfare spending from a social expense to a social capital, which helps boost the profitability of capitalism.

The welfare reforms also helps shift the incentive to work towards the supply-side of the economy. Rather than building an economy with “sufficient long-term jobs at decent wages,” which would target the demand side of the labour market, the state introduced the threat of relative and absolute poverty to ensure the reserve army would seek employment. The 1991 benefit cuts substantially increased relative poverty by setting benefit rates below the relative poverty line. The introduction and usage of sanctions represents the threat of absolute poverty; if beneficiaries do not submit to the requirements imposed by the state, their main (or only) source of income will be reduced or removed. The welfare reforms of the Fifth National Government have followed the same path. They have deepened the level of intervention with the introduction of obligations for parents, drug testing and the increased use of sanctions. Overall, National’s welfare reforms should be conceptualised as an attempt to ensure the economic effectiveness of the reserve army of labour in an environment of high unemployment and an increase in non-standard, low quality, work. The focus of welfare reforms have not been to create suitable employment for beneficiaries, but to ensure they are incentivised to work through the threat of relative and absolute poverty.

¹⁶⁴ David Bedggood, “Beyond Dependency or Beyond Capitalism? A Critique of New Zealand’s Drive Towards Workfare,” *Policy Studies* 20 (2, 1999): 136.

¹⁶⁵ Ibid.

¹⁶⁶ Mike O’Brien, *Poverty, Policy and the State*, 23-4.

5.5. Conclusion: The Emergence and Entrenchment of a Neoliberal Welfare State

This chapter has applied the theoretical framework outlined in the first two chapters to the case studies outlined in chapters three and four. The first section outlined the new paternalist ideology which originated in the United States. It was demonstrated that new paternalism was an important influence on the Fourth National Government, particularly in its later years in government. The influence of new paternalism is seen the Fifth National Government's reforms. Reforms assume beneficiaries are incompetent, public statements of morality are utilised, and welfare is delivered through case management. Sections 5.2 and 5.3 addressed whether the reforms impacted on how New Zealand delivers its social security, drawing on the theories outlined in chapter one. Esping-Andersen's theories show the Fourth National Government decreased decommodification and increased the stratification of welfare. The Fifth National Government continued to reform welfare according to this belief, most notably through decreasing the decommodification of welfare. Underlying these changes is the adoption of a neoliberal conception of social citizenship.

Section 5.3 utilised Castles' concept of the WEWS. Whilst the Fourth National Government effectively dismantled it, Labour was able to rebuild a "hollowed out" version. National have made some moves towards retrenching these reforms. However, I argued this hollowed out version represents a Trojan horse for beneficiaries; it maintains the valorisation of work, without any means of ensuring full employment, leading to the impoverishment and exclusion of beneficiaries. Finally, I drew on the neo-Marxist theories outlined in chapter one to develop two further arguments. Firstly, underlying the welfare reforms is a changing relationship between the state and the reserve army of labour. In the 1970s and 80s, the reserve army began to rely on the state for their welfare, which substantially increased social spending. The reforms of the 1990s reacted to this by reducing social spending through benefit cuts, and then by making welfare spending a social capital, rather than an expense. Secondly, I argued the reforms represent a changing of incentives from the demand to the supply side of the economy. Rather than incentivise work through the creation of full-time, high wage and sustainable work, welfare reforms have incentivised the supply side (potential employees). The main incentive was

plunging beneficiaries into relative poverty, with the threat of absolute poverty being used to ensure the compliance with increasingly invasive obligations.

Table 15: Conclusions

	Fourth National Government	Fifth National Government
Paternalism		
Assumption of incompetence	Introduced	Continued
Linked to a dysfunctional culture	Introduced	Discontinued
Case Management based on “help and hassle”	Introduced	Continued
Public statements of morality	Introduced	Continued
Esping-Andersen		
Neoliberal conception of social citizenship	Introduced	Continued
Decommodification	Decreased	Decreased
Stratification	Increased	Research unclear
Wage Earners’ Welfare State		
Managed labour market	Dismantled	Some retrenchment of Labour’s ERA
Poverty	Substantial Increase	Maintained
Inequality	Substantial Increase	Maintained
Minimum protections	Not yet implemented	Some retrenchment
WFF	Not yet implemented	Some retrenchment
Neo-Marxism		
Reserve Army of Labour	Reduced cost and move from social expense to social capital	Continued to turn welfare expenditure into social capital

The final task is to bring these four key findings together. Table 15: Conclusions shows the arguments across the four sections. It is clear the Fourth National Government radically reformed the welfare state. It entrenched New Zealand in the category of a liberal welfare regime, introduced paternalism, and dismantled the

WEWS. The Fifth National Government's record is not so clear. On one hand, it has continued the paternalist reforms and decreased decommodification. Indeed, in the area of obligations, it has moved further than the previous National Government. On the other, it has maintained poverty and inequality levels in spite of a recession, and has not dismantled the reforms of the previous Labour Government. However, it has retrenched some of Labour's reforms. Thus, in each of the three areas, the Fifth National Government has continued to reform welfare in the same direction, though to varying degrees of similarity, as had been done in the 1990s. This is most obvious in the analysis of paternalism and Esping-Andersen's concepts, which more closely focus on welfare provision. It is weakest in the WEWS, which focusses on the labour market and distributional outcomes. Overall, National has clearly moved New Zealand to the political right over the six years analysed in this thesis. In terms of welfare, the reforms are driven by a neoliberal conception of citizenship and new paternalism; a school of thought located in the neoliberal tradition. National's move to the right has been guided by neoliberalism.

It is worth considering these reforms in the context of Louise Humpage's work referred to earlier in this chapter. Over the past 25 years, there has been a substantial change in the public's views regarding welfare. Broadly, there has been a significant hardening of views against the unemployed.¹⁶⁷ For example, in 1993, 69% of respondents agreed with the statement "Government should be responsible to ensure a decent standard of living for the unemployed," with only 22% disagreeing. By 2011, 45% agreed, and 45% disagreed.¹⁶⁸ This is supplemented by the earlier conclusions that the majority of New Zealanders believe beneficiaries are lazy, dependent, fraudsters, could get a job if they really tried, and could "stand on their own two feet" if their benefits were less generous. Further, National is viewed as a better party than Labour to reform and manage the welfare state. Overall, Humpage argues there has "been a hardening of New Zealand attitudes towards the unemployed over the past two decades, particularly between 2008 and 2011," suggesting "the public largely endorses the direction of National's incremental welfare reform, representing a definite shift to the political right on this issue."¹⁶⁹ This is in stark contrast with the Fourth National Government, which faced a major public backlash over the

¹⁶⁷ Louise Humpage, "Do New Zealanders Really Support Welfare Reform?," 77.

¹⁶⁸ Ibid, 80.

¹⁶⁹ Ibid.

“previously unannounced [welfare] reforms in the early 1990s.”¹⁷⁰ The depth of the unpopularity of the wider reforms was seen in opinion polls, with National’s support dropping from around 50% in 1990, to 22% by late 1991.¹⁷¹ Whereas National went against public opinion in the 1990s, the Fifth National Government appears to be broadly in line with it.

Given the popularity of National’s recent reforms, these reforms should be considered an entrenchment of neoliberal welfare reforms. They are not as extreme or as extensive as the 1990s; however, in some areas they are extending the reforms, and in others slowly moving towards the right. A key difference between the governments is in the support for the reforms; National’s recent welfare reforms are popular, making them less likely to be reversed, at least in the short term. Not only is the neoliberal welfare state more popular than it has ever been, it is more popular in New Zealand than in the UK, Canada or Australia.¹⁷² Thus, given the recent reforms are more popular than the neoliberal reforms during the 1990s and less likely to be reversed, the recent reforms represent an entrenching of the neoliberal features of welfare. Overall, a neoliberal form of welfare emerged in the 1990s, and has been entrenched from the late 2010s. This conclusion should be put in the context of the high unemployment and an increase in bad jobs. At the same time the economic system is producing mass unemployment and poor quality jobs, the view that beneficiaries are to blame for relying on welfare is increasingly popular. The increase in welfare “dependency” does not appear to be seen as a failure of neoliberalism. Indeed, it is the opposite; neoliberal welfare reform now forms part of the popularity of both neoliberalism and the National Party.

¹⁷⁰ Ibid, 77-8.

¹⁷¹ Brian Roper, *Prosperity for All?*, 198.

¹⁷² Louise Humpage, *Policy Change, Public Attitudes and Social Citizenship: Does Neoliberalism Matter?* (Bristol: Policy Press, 2014), 141.

CONCLUSION

The first two chapters of this thesis outlined a theoretical framework to analyse the evolution of the welfare state. The first chapter provided a literature review of the political economy of welfare, and began with a description of the welfare regimes debate. It outlined Gosta Esping-Andersen's typology of welfare regimes. He uses three concepts to guide his categorisation: social citizenship; decommodification; and stratification. He concludes that New Zealand is a liberal welfare state, with a high degree of commodification and stratification. Frank Castles' work showed several deficiencies with the categorisation of Australia and New Zealand as liberal regimes. These countries were better categorised as wage earners' welfare states (WEWS), which guaranteed people social security through work. Once this was taken into account, Castles' argues it was clear these countries were closer to social democratic regimes in both intent and outcomes than other liberal regimes. Then, the three dominant traditions in political economy were described: neoliberalism; social democracy; and neo-Marxism. Each tradition provides a different characterisation of the relationship between the welfare state and capitalism. Neoliberals view the welfare state as a costly burden on the economy; social democrats view welfare as ameliorating inequality and extending social citizenship; and neo-Marxists view it as a crucial institution in ensuring the profitability and legitimacy of capitalism. Finally, I outlined my own position in relation to these traditions. I predominantly drew from the social democratic theories of Esping-Andersen and Castles. I supplemented their theories with the more critical insights derived from neo-Marxism, particularly regarding the role of the reserve army of labour and how welfare assists the profitability of capitalism.

The second chapter completed the theoretical framework by providing a basis to compare the two National Governments. This basis was found in the new paternalism school of thought, which originated from Conservative thinkers from the US in the 1970s and 80s. Three key elements of new paternalism were identified. The first element is the assumption of incompetence amongst beneficiaries, which is linked to a dysfunctional culture. The second is a reliance on case management to provide welfare, which was based on a "help and hassle" approach. The final element is that the welfare reforms must be backed by public statements of morality.

The third and fourth chapters outlined the two case studies. Chapter three described the welfare reforms of the Fourth National Government, and identified the key trends of this period. I demonstrated the reforms of the early 1990s were driven by neoclassical economic theories. Policies were designed to reduce public debt, and improve work incentives through cutting benefit rates and taxes for low income earners. By the end of the 1990s, National were strongly influenced by the new paternalist school of thought. The influence of new paternalism was demonstrated through the similarities in the analysis of welfare, and by the extensive levels of direct contact between New Zealand, Wisconsin and Lawrence Mead. I characterise this shift as a change from a neoliberalism dominated by classical liberalism, to one more heavily influenced by conservatism.

The fourth chapter described and analysed the Fifth National Government's welfare reforms. Overall, National's goal was to reduce "welfare dependency" by encouraging people into work. This encouragement took the form of a "punitive, obligation-based, sanction-reinforced process."¹ Sole parents, people with health issues, and youth were targeted by reforms, with each group facing an array of new obligations. National also utilised a particular form of rhetoric to justify their reforms, which sought to avoid the controversy created by its 1990s reforms.

The final chapter brought together the previous four chapters, and sought to critically analyse and evaluate the reforms of the National Governments. The two National Governments were characterised by the evolution of a neoliberal outlook on welfare, one which was initially dominated by classical liberalism, to one more heavily influenced by conservatism. There are significant similarities in the welfare reforms of the two National Governments. Reforms increased the level of paternalism in welfare, with beneficiaries now facing an array of behavioural obligations backed by the threat of sanctions. The method New Zealand uses to deliver social security has been fundamentally altered. The Fourth National Government saw the emergence of a neoliberal approach to welfare; and the Fifth National Government has entrenched it. This thesis was supported through using Esping-Andersen's welfare typology and Castles' conception of the WEWS. The concepts created by Esping-Andersen showed a clear move towards a liberal welfare regime, driven by a change in the content of

¹ Mike O'Brien, "Work-First and Active Labour Markets," in *New Zealand New Welfare*, ed. Neil Lunt et al. (Melbourne: Cengage Learning, 2008), 53.

social citizenship, and an increase in commodification and stratification. The WEWS was a major area of change, with the Fourth National Government effectively dismantling it. The Fifth National Government made only minor changes in this area after the reforms of the previous Labour Government. However, the cumulative results of these reforms have been to turn the WEWS into a Trojan horse, which valorises work, but brings with it increased poverty, inequality, and the impoverishment and exclusion of beneficiaries. Finally, I utilised the insights of neo-Marxism to develop two further arguments. Firstly, underlying the welfare reforms was a fundamentally changed relationship between the state and the reserve army of labour. The breakdown of the Fordist era meant the reserve army became a significant expense on the state. The welfare reforms of the 1990s sought to reduce this expense, and then turn welfare spending from a social expense to a social capital. Secondly, the welfare reforms have sought to strengthen the incentive to work on the supply side of the economy. The Keynesian era was defined high levels of employment and full-time work. The neoliberal era, conversely, is defined by mass unemployment and an increase in low-quality work. The welfare reforms now serve to strengthen the incentive to work through increasing poverty in order to encourage participation in low quality work.

Wider Importance

In the introduction to this thesis, I outlined three areas where this thesis would contribute to the wider academic and public debate on welfare. The first pointed to the lack of an analysis of the broad shape of welfare provision reform under the Fifth National Government, and that nearly no comparisons have been made between the Fourth and Fifth National Governments. This thesis has contributed in both of these areas. The second was the lack of analysis of the evolution of social security, particularly from a political economy perspective. In chapter five, I built on recent work by Peter Starke and Shaun Wilson et al. to conclude the “hollowed out” WEWS represents a Trojan horse for beneficiaries. This is a modified thesis of Wilson et al., and hopefully represents a worthy contribution to the field.

Finally, I noted the academic and public debate over whether neoliberalism is still a relevant concept in analysing the Fifth National Government. A range of authors argue the Fifth National Government cannot be classified as neoliberal; Grant Duncan went as far as to say “the analysis and critique of neoliberalism is

increasingly of historical interest only.”² These writers who rejected neoliberalism did not address welfare reforms in their analyses. Thus, this thesis does not provide a direct refutation of the examples used to support their arguments. However, it has shown significant similarities between the welfare reforms of the two National Governments. There is no question the previous National Government can be classified as neoliberal. The similarities between the two Governments provides clear evidence that neoliberalism is still relevant in analysing welfare. Further, these similarities can be traced to the new paternalism school of thought, which was a major part of neoliberal reforms in New Zealand and the US. Thus, in the field of welfare, neoliberalism is still a valuable and relevant theoretical lens to use in the analysis of reforms. Indeed, the central argument of this thesis is that the Fifth National Government is entrenching neoliberal reforms.

² Grant Duncan, “After Neo-Liberalism, What Could Be Worse?,” *New Zealand Sociology* 29 (Issue 1, 2014): 15.

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APPENDIX A

New Zealand Real GDP Growth				
Source: David Briggs, Looking at the Numbers: a View of New Zealand's Economic History (Wellington, NZIER, 2003), 37.				
Year	GDP	Growth	Average Growth	
			5 years	10 Years
1945	5,497			
1946	5,659	2.95		
1947	5,683	0.42		
1948	5,863	3.17		
1949	5,570	-5.00		
1950	5,847	4.97	1.30	
1951	6,759	15.60		
1952	6,387	-5.50		
1953	6,380	-0.11		
1954	6,572	3.01		
1955	7,017	6.77	3.95	
Source: David Thorns and Charles Sedgwick, Understanding Aotearoa/New Zealand: Historical Statistics (Palmerston North, The Dunmore Press, 1997), 81.				
1955	13,252			
1956	13,744	3.71		
1957	14,009	1.93		
1958	14,737	5.20		
1959	15,148	2.79		
1960	15,744	3.93	3.51	
1961	16,711	6.14		
1962	17,270	3.35		
1963	17,799	3.06		
1964	18,884	6.10		
1965	20,038	6.11	4.95	4.23
1966	21,259	6.09		

Appendix A

1967	22,065	3.79		
1968	21,875	-0.86		
1969	22,341	2.13		
1970	23,469	5.05	3.24	
1971	24,338	3.70		
1972	24,957	2.54		
1973	26,063	4.43		
1974	27,933	7.17		
1975	29,059	4.03	4.38	4.02
1976	29,548	1.68		
1977	29,591	0.15		
1978	28,775	-2.76		
1979	28,835	0.21		
1980	29,571	2.55	0.37	
1981	29,888	1.07		
1982	31,357	4.92		
1983	31,561	0.65		
1984	32,422	2.73		
1985	34,022	4.93	2.86	1.52
1986	34,284	0.77		
1987	33,005	-3.73		
1988	35,471	7.47		
1989	35,212	-0.73		
1990	35,800	1.67	1.09	

Source: Statistics New Zealand (2002) INFOS 3.0. (Wellington: Statistics New Zealand).

INFOS series SNBA.S2AZAT

1989	72,989			
1990	73,607	0.85		
1991	73,174	-0.59		
1992	72,278	-1.22		
1993	73,124	1.17		
1994	77,740	6.31		
1995	81,920	5.38	2.21	

Appendix A

1996	85,015	3.78		
1997	87,268	2.65		
1998	88,953	1.93		
1999	88,970	0.02	2.75	
Public Debt				
Source: David Thorns and Charles Sedgwick, Understanding Aotearoa/New Zealand, 104				
Public Debt	Total debt	% increase		
1975	4200.0	12.4		
1976	5557.0	32.3		
1977	6289.2	13.2		
1978	7483.8	19		
1979	8819.5	17.8		
1980	10346.4	17.3		
1981	11617.0	12.3		
1982	14382.0	23.6		
1983	18733.0	30.3		
1984	21879.0	16.8		
		Overall	20.725%	