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**Welfare state retrenchment in New Zealand under
National rule 1990 - 1996: a Marxist Perspective**

**A thesis presented in partial fulfillment of the
requirements for the degree of**

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Abstract

Shortly after their election in October 1990, the National Government announced radical changes to the welfare state in New Zealand. The reforms were necessary, National argued, in order to restore growth to the economy. The reforms were designed to impose a residual welfare state, requiring significant retrenchment of the state provision of welfare.

Existing accounts of the welfare retrenchment process in New Zealand by National Governments between 1990-1996 fail to adequately take into account two factors. First, the location of this retrenchment process in the economic downturn faced by New Zealand. Second, the role of the state in implementing the retrenchment process.

In this thesis I argue that an orthodox Marxist framework enhances existing understandings of the retrenchment process. This framework argues that the state in times of crisis will act in the interests of capital to restore profitability to the economy. The state will adopt particular strategies aimed at reducing state expenditure, of which spending on welfare constitutes a considerable portion, and at tailoring social policy to the needs of the market. The state will also use economic and ideological arguments consistent with New Right thinking to impose its reform agenda.

I employ an orthodox Marxist theoretical framework to identify the kinds of strategies a New Right government would use to retrench or roll back state welfare provision. In particular this thesis examines the retrenchment strategies adopted by National Governments between 1990 and 1996 in the social policy areas of income support and state funded pensions.

The evidence suggests that an orthodox Marxist framework provides a valuable lens through which to view the welfare retrenchment process in the areas of income support and state funded pensions in New Zealand between 1990 and 1996.

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Chapter One

Introduction

Background

Shortly after its election in October 1990, the National Government announced a series of policies signalling significant changes in state welfare provision. The then Minister of Finance, Ruth Richardson, declared the:

government's determination to attack the burden of government spending, and its commitment to translate into action the mandate it has obtained to redesign the Welfare State (Bolger, Richardson and Birch, 1990, p.18-19).

Adopting an orthodox Marxist approach, this thesis argues that National's agenda was to retrench or roll back welfare provision by the state in New Zealand.¹ National saw the existence of a sizeable welfare state as an important factor in the poor performance of the economy. Any attempt to return the economy to growth, National argued, required a reduction both in the size of state expenditure on welfare and the dependency of beneficiaries upon the state for assistance.

National's approach was designed to put in place a residual or minimal welfare state. The role of this residual welfare state was to provide "a

¹ Pierson suggests that: "Retrenchment can be defined to include policy changes that either cut social expenditure, restructure welfare state programmes to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future" (Pierson, 1994, p.17).

'safety net' for those who can demonstrate genuine need" (Shipley, 1991, p.4).

Not surprisingly, given the radical nature of the changes introduced by National, much exploration and analysis of National's policies has been undertaken by commentators in New Zealand and overseas. Much of the analysis has tended to focus on the following elements:

- the reasons why National was able to introduce such radical reforms (Kelsey, 1995; Mulgan, 1997);
- detailed descriptions of the reform process (Boston, 1992, 1994, 1999; Stephens, 1996, 1999; St John, 1999);
- the change in the type of welfare state present in New Zealand (Boston, 1992, 1999; Rudd, 1993, 1997); and
- the impact of the reforms on the living standards of beneficiaries and low income earners (Stephens, 1996, 2000).²

This thesis takes a different approach, one drawn from the orthodox Marxist tradition.³ Drawing on the work of Bedggood (1996), I argue that many of the accounts of the retrenchment process mentioned above neglect two closely interwoven factors central to understanding it. First, the importance of locating the retrenchment within the long economic downturn experienced in New Zealand from the mid 1980s onwards. Second, the failure by commentators to adequately theorise the role of the state. These accounts are situated, often implicitly, within a social democratic theoretical framework, which understands the state as a neutral body, one that seeks to balance competing interests and acts in the interests of the country as a whole (Boston, 1992, 1999; Stephens,

² These sources constitute a cross section of the available literature, not a complete bibliography.

³ Discussion on various Marxist traditions is taken up in Chapter Three.

1999). These accounts, I argue, fail to adequately account for the actions of the state in the retrenchment process.

The use of an orthodox Marxist theoretical framework, I suggest, overcomes these two deficiencies of the New Zealand literature on welfare retrenchment and provides a better understanding of the policy introduced by National during the period 1990 to 1996. I argue that in times of economic crisis, and especially during prolonged economic crises, the state in a capitalist society will act first and foremost in the interests of capital as a whole (Bedggood, 1996; Roper, 1997). The state will adopt particular strategies aimed at reducing state expenditure, of which spending on welfare constitutes a considerable portion, and at tailoring social policy to the needs of the market. The state will also use economic and ideological arguments consistent with New Right thinking to impose its reform agenda.

I do not, however, suggest in this thesis that the use of an orthodox Marxist theoretical framework explains all aspects of the retrenchment. I will highlight later in the thesis those aspects where it is less than adequate.

In this thesis I will focus on two aspects of the retrenchment process. The first aspect examines the usefulness of orthodox Marxist explanations of the state response to economic crisis, particularly with respect to attempts to restructure welfare provision. Commentators examining welfare retrenchment in New Zealand have tended to neglect this theoretical framework, with the exception of Bedggood (1996, 1999) and Roper (1991a, 1991b, 1993, 1997).

The welfare retrenchment policies enacted by National in the social policy areas of income support and pensions form the second aspect of the

retrenchment process examined in this thesis. These policies will be examined to assess the usefulness of an orthodox Marxist understanding of welfare retrenchment.

The thesis questions

This thesis seeks to answer the following questions:

- are orthodox Marxist understandings of the response by the state to economic crisis useful in explaining the actions of National during the period 1990 to 1996?
- is an orthodox Marxist theoretical framework useful in explaining the retrenchment process that National undertook in the areas of income support and pensions?

The significance of this study

This study contributes to an understanding of the value of using an orthodox Marxist theoretical framework for examining the welfare retrenchment process in New Zealand between 1990 and 1996. Analysis of the reform process introduced by National from an orthodox Marxist perspective, with the exceptions of those identified above, has been lacking and this study begins to bridge that gap. Additionally, it assesses whether such a framework is useful in explaining the retrenchment process in the particular policy areas of income support and pensions.

Timeframe

This thesis is concerned with the period October 1990 to October 1996. The starting point, the election of a National Government after two terms of Labour rule, was chosen for two reasons. First, it marked the end of six

years of radical economic restructuring by a Labour Government. Second, the process and outcomes of this restructuring had been very unpopular and National had campaigned for office on the slogan of 'Rebuilding a Decent Society', suggesting they would ameliorate the impact of the reforms. The end point was chosen because following the general election in October 1996 the National Party entered into a coalition government with the New Zealand First Party. This decision resulted in some changes in the policy directions previously pursued by National.⁴

Scope

The specific social policy areas of income support and pensions were chosen because they:

- were sites of considerable policy activity by the National Government;
- consume a considerable amount of the state expenditure on welfare;
- had the necessary data required for analysis readily accessible; and
- allow me to assess whether the retrenchment process impacted differently in each of these policy areas.

Additionally, attempting to examine the extensive domain of the field of social policy is beyond the scope of a Masters thesis.

The research methodology

The methodology adopted in this thesis is located within the social science research paradigm, which Sarantakos (1993) labels 'critical'. The critical approach, Sarantakos notes:

⁴ The October 1996 elections were the first held under the Mixed-Member Proportional (MMP) system. After long negotiations the National Party and the New Zealand First Party agreed to enter into a coalition government.

has the purpose of emancipating, empowering and liberating, that is, to get below the surface, to expose real relations, to disclose myths and illusions, to remove the false beliefs and ideas and to show how the world should be, how to achieve goals and how to change the world (Sarantakos, 1993, p.60).

I argue that the 'real relations' and 'myths and illusions' which need to be uncovered are those relating to the role of the state in retrenching public welfare provision in New Zealand.

The methods used to investigate the questions posed earlier in this chapter comprise documentary research and numerical analysis. Documentary research is used to obtain support for the arguments posed while numerical analysis is used to interpret the outcomes of the National Government's policy implementation in the areas of income support and pensions.

The documentary sources consist mainly of official government papers, including budget announcements, election manifestos, political party news releases, speeches, newspapers, Acts of Parliament, reports from relevant government departments, and parliamentary records (Hansard). Where available, autobiographical and biographical sources will also be used.

The sources of numeric data include official statistics, journal articles, research reports, data requested from government departments and data from the reports of government departments.

This thesis draws largely on data gathered from secondary sources. The use of such sources has both advantages and disadvantages. Among the former are:

- that the data already exists so the researcher does not have to spend as much time or money creating and / or accessing it; and
- that it can allow the researcher access to far greater quantities of data than he or she could afford to have created (via a survey for example).

However, relying on secondary sources may disadvantage the study in that:

- the reliability of the data is open to question;
- not all the relevant material may be accessible; and
- the original data may not have been collected for the purposes the secondary user has in mind and may have been recorded in categories that are not easily usable (Sarantakos, 1993, p.209).

Definitions of the welfare state

Considerable debate has taken place over what constitutes a welfare state (for a thorough summary of these debates see Pierson, 1998; Waddan, 1997). Veit-Wilson notes that commentators tend to use the term 'welfare state' with little regard for its precise definition. "This undifferentiated global use of the term... leaves no discriminating concept for analytical use" (Veit-Wilson, 2000, p.1). If all states are welfare states, then how does one determine when a welfare state has been undermined, radically changed or left relatively intact by attempts to retrench it?

The first point to clarify is that although there are different types of welfare delivery (Barr, 1998), this study focuses on the state provision of welfare.⁵

⁵ This is not to underplay the importance of other sources of welfare provision. These became increasingly important during the early 1990s in New Zealand as a consequence of the impact of the reforms introduced by the National Government. The most obvious of these was the increase in the number of food banks offering assistance to those in need.

Pierson (1998) notes that existing definitions of the term 'welfare state', range from narrow to comprehensive. For the former he posits that the welfare state "may refer to state measures for the provision of key welfare services (often confined to health, education, housing, income maintenance and personal services)" (Pierson, 1998, p.7). For the purposes of this study, this narrow definition is problematic in that it enables potentially significant changes that impact on the welfare state to be neglected due to the exclusion of important elements. For example, if the above definition was used, it would not be able to take into account the importance of lowering income tax rates on the state's ability to fund the welfare state.

The comprehensive definition offered by Pierson suggests that the term 'welfare state' refers to a particular type of society:

in which the state intervenes within the processes of economic reproduction and distribution to reallocate life chances between individuals and / or classes (Pierson, 1998, p.7).

Using this second and more comprehensive definition provides me with the scope to examine the questions posed in this thesis.

Thesis structure

The thesis is laid out in the following manner:

- Chapter Two provides a review of the literature on welfare state retrenchment, drawing on both overseas and New Zealand material.
- Chapter Three assesses the usefulness of orthodox Marxist understandings of the welfare state in examining welfare retrenchment in New Zealand.

- Chapter Four outlines the methodology framing the research and the methods used to gather information.
- Chapter Five provides a brief history of welfare provision by the state in New Zealand. This history is designed to provide a backdrop to the policies and period under review.
- Chapter Six examines the retrenchment process in the area of income support policy and provision.
- Chapter Seven examines the retrenchment process in the area of superannuation policy and provision.
- Chapter Eight offers some conclusions arising from the thesis research and proposes possible areas of interest for further research.

Chapter Two

Literature Review

Introduction

The purpose of this literature review is to evaluate the existing literature on theories and methodologies of welfare state retrenchment. In addition, this critical evaluation will identify issues not addressed by previous researchers, giving rise to the questions examined in this thesis.

The literature review is divided into four sections. The first section deals with theoretical issues relating to welfare provision and New Right understandings of the role of the state and the provision of welfare. The second section reviews the methodological literature on welfare state retrenchment. The third section examines the literature and themes on welfare state retrenchment in New Zealand. The final section evaluates the retrenchment literature and explains where the thesis questions fit within existing literature.

An evaluation of Marxist understandings of the welfare state is not included in this review. This topic requires more in-depth coverage because Marxist theory grounds the research and will be explored in the following chapter.

Theorising welfare provision

Most commentators recognise the existence of theoretical underpinnings to different understandings of the welfare state and hence the social policy options deriving from these, whether these underpinnings are made explicit or not (George and Wilding, 1994; Cheyne, O'Brien and Belgrave, 1997; O'Brien and Penna, 1998; Pierson, 1998). Indeed, O'Brien and Penna suggest that we cannot properly understand social policy unless we are aware of two things. First, that policies have specific theories underpinning them; and second, that particular theories bring to the forefront different aspects of the policies under study (O'Brien and Penna, 1998, p.5). O'Brien and Penna (1998) further suggest that intertwined with these theories of welfare provision are different understandings of the nature and role of the state.

New Right theory – background

The theoretical underpinnings of National's welfare state retrenchment are based on New Right political theory (Kelsey 1993, 1995; Cheyne, O'Brien and Belgrave, 1997; Roper, 1991a, 1991b; Boston, 1999).¹ This same political theory has underpinned attempts to retrench the welfare state in other developed countries, particularly the United Kingdom and the United States of America (Gough, 1983; King, 1987; Mishra, 1990; Waddan, 1997).

King notes that the term New Right:

refers primarily to economic and political liberalism... (in which)
... Liberal economic arguments for the free market were joined

¹ The terms New Right and neo-liberal are used interchangeably in much of the literature. I will use the term New Right in this thesis.

with political arguments about individualism and a reduced public sector (King, 1987, p.8).

Gamble extends this definition, suggesting that New Right thought also incorporates:

a conservative tendency, which is more interested in restoring social and political authority throughout society (Gamble, 1994, p.36).

In New Zealand, criticisms of the welfare state based on New Right theory came from a range of sources, including the Treasury, the Business Round Table, and sections of the Labour Party and the National Party (Treasury, 1984, 1987, 1990; Business Round Table, 1989; Douglas, 1980; Upton, 1987; Bolger, Richardson and Birch, 1990; Shipley, 1991; Richardson, 1995). The early use of New Right theory focussed on the need to restructure the economy (Treasury, 1984). Arguments for a more market driven economy underpinned the reform process initiated by the Labour Government after its election in 1984, with the major focus on the use of monetarist economic policy (Treasury, 1984, 1987).

The conservative aspect of New Right theory, identified above by Gamble, became prominent after the election of the National Government in 1990 (Bolger, Richardson, Birch, 1990; Shipley, 1991; Richardson, 1995), although it had been elaborated in some earlier official papers (Treasury, 1984, 1990).

New Right theory – understandings of the welfare state

The existence of the state provision of welfare is a problem for those of the New Right persuasion (George and Wilding, 1994, p.20; Barr, 1998, p.62).

George and Wilding (1994) and Pierson (1998) identify a range of reasons why New Right thought is hostile to the idea of a welfare state. New right theory argues that the welfare state is inefficient and ineffective, and is economically, politically and socially damaging (George and Wilding, 1994, pp. 21-34; Pierson, 1998, pp. 45-46).

The welfare state is considered inefficient because it fails to reduce the inequalities it sets out to address (Pierson, 1998, p.45). The welfare state damages the economy because “it displaces the necessary disciplines and incentives of the marketplace, undermining the incentive (of capital) to invest and the incentive (of labour) to work” (Pierson 1998, p.45).

Furthermore the presence of the welfare state damages competitiveness as:

Social security benefits increase the cost of labour to employers and become a de facto minimum wage which pushes up the cost of labour (George and Wilding, 1994, p.31).

Other New Right proponents argue that its presence creates a culture of dependency among benefit recipients (Shipley, 1991). Thus,

the long-term effect of welfare benefits is to make the recipients reliant on government hand-outs which in turn creates a culture of dependency from which many never escape (Waddan, 1997, p.39).

However, the existence of some minimum level of provision by the state is generally accepted. Cheyne, O'Brien and Belgrave note that in the provision of welfare New Right theorists argue that:

the state has simply a residual role, stepping in only when the family and the voluntary sector fail (Cheyne, O'Brien and Belgrave, 1997, p.87).

This sentiment is echoed by Green (1996).

In New Zealand, the New Right criticisms of the welfare state most commonly expressed were that its presence had damaged the economy in the late 1970s and early 1980s (Treasury, 1984; Upton, 1987; Business Round Table, 1989; Bolger, Richardson and Birch, 1990) and that it created social problems by reducing individual self-reliance (Shiple, 1991; Richardson, 1995; Green, 1996).

The moral and economic critiques of the welfare state in New Right thought are evident in statements made by National Party Members of Parliament after their election in 1990. Richardson, the then Minister of Finance, argued for a reduction in the role of the state because the "crushing burden of government spending (has) sapped the initiative and energy of New Zealand's wealth creators" (Bolger, Richardson, Birch, 1990, p.17). National politicians also criticised the welfare state for its generous level of welfare provision, which meant that:

Many beneficiaries receive an income close to or even higher than what they could receive in paid work (Bolger, Richardson, Birch, 1990, p.19).

These politicians and commentators argued that, with no or little incentive to work, beneficiaries became dependent upon the state for assistance (Shiple, 1991; Richardson, 1995; Green, 1996).

Possibly the most explicit elucidation of the New Right position and the most radical on state welfare provision in New Zealand came from Green

(1996). His central thesis is that the Welfare State has eroded society's moral underpinnings, sapping personal responsibility and initiative with ruinous results. His solution is the complete abolition of state provided welfare and its replacement with forms of private insurance and charitable welfare provision (Green, 1996; Preston, 1998).

Methods of examining retrenchment

The following sections explore the literature related to methodologies of assessing welfare retrenchment. Early approaches to examining the extent of retrenchment are outlined first then more recent approaches are investigated.

Early approaches

The early approaches to examining the extent of welfare retrenchment arose from the 'crisis of the welfare state' in the mid to late 1970s. These early studies examined the extent to which the Thatcher and Reagan administrations were able to roll back or retrench their respective welfare states. The studies tended to focus on examining the level of public expenditure on state provided welfare (Ruggles and O'Higgins, 1987). Mishra (1990) and Pierson (1994) note the dangers of examining only levels of expenditure. They argue that limiting examinations to expenditure reveals only changes to short term spending patterns and will miss programmatic changes that impact in the long term. Pierson (1994, 2000) also suggests that it is important to examine expenditure patterns over the long run to detect changes imposed upon future benefit recipients.

Examining the retrenchment of particular programmes of welfare provision

Several commentators (Pierson, 1994; Myles, 1998; Kemp, 2000) note the importance of studying the impact of retrenchment on individual programmes of welfare provision. Pierson (1994) suggests that studying individual programmes is important for a range of reasons. First, the impact of retrenchment is likely to vary across the different programmes that make up a country's system of welfare provision (Pierson, 1994, p.5). Second, the study of individual programmes allows an examination of which programmes are more resistant to retrenchment and why this is the case (ibid., p.6). Third, the way in which a policy is originally designed and how it operates in practice has implications for those attempting to retrench it. As Myles (1998) notes:

Initial policy designs play a central role in determining the range of possible policy designs that can be implemented in the future (Myles, 1998, p.343).

The importance of studying each programme separately in the New Zealand context is noted by O'Brien (forthcoming), who observes that a:

different process of change has operated in each of the areas of welfare provision for the elderly, accident compensation, housing assistance and wage subsidy and social security benefits for sole parents, the unemployed (O'Brien, forthcoming, p.2).

Given the existence of a different process of change for different policy areas, any thorough study of retrenchment needs to take this into account before reaching conclusions about the path of reform.

Examining whether some programmes are more vulnerable than others

An important debate in the welfare retrenchment literature is the degree to which the type of welfare provision influences the responses generated to retrenchment attempts. Esping-Andersen and Alber argue that programmes based on universal provision are more likely to be resilient to retrenchment than those that are means-tested (Esping-Andersen, 1990; Alber, 1996). This is because of the wider range of support they have, both potential and real. In contrast, targeted programmes are deemed, due to the limited political strength of their client groups, to be less able to resist retrenchment.

This view is supported by Boston and St John (1999), who argue that:

On the whole, however, targeted welfare arrangements tend to be more vulnerable to government expenditure cuts than programmes that also benefit the middle class (Boston and St John, 1999, p.95).

Bedggood (1996) corroborates this view, arguing that because the welfare state in New Zealand fell short of a universalistic welfare state it was more vulnerable to retrenchment.

The view that means-tested programmes are more vulnerable to retrenchment is contested by Pierson (1994), who argues that ascertaining which programmes are more able to resist retrenchment is more complex than determining whether they are universal or means-tested. He suggests that the relatively small size (expenditure wise) of most means-tested or targeted programmes, compared to universal programmes, means that

there is little to be saved financially by reducing the level of the entitlements they disperse. Additionally, he notes that:

some means-tested programmes have been vulnerable; others have not. The same is true for universal programmes (Pierson, 1994, p.6).

Pierson (1994) suggests that the preference of conservative governments for means-tested forms of welfare provision may be another reason for their reduced vulnerability to retrenchment (Pierson, 1994, p.6).

Pierson further suggests that universal programmes are more likely to be targeted by conservative governments:

Because they are more often directly in competition with private alternatives, they also present a much more serious challenge to the market-oriented preferences of conservative governments (Pierson, 1994, p.170).

The role of previous policy

Pierson (1994) suggests that the role of policy feedback or the influence of policy previously introduced is important in understanding the process of retrenchment. According to Pierson (1994), previous policy contributes to the creation of groups with an interest in defending the existing welfare state from retrenchment. These groups, such as public-sector service providers and beneficiary lobby groups arose from the expansion of the welfare states in their respective countries. Pierson notes that:

The emergence of these new networks of support for the welfare state is one of the most important illustrations of the role

of policy feedback in contemporary politics (Pierson, 1994, p.165).

The presence of such interest groups makes retrenchment a very difficult exercise. They are most likely to defend the welfare state against attempts to retrench it because they are dependent upon state funded welfare.

Welfare retrenchment in New Zealand

The welfare state retrenchment policies introduced by National Governments during 1990 to 1996 have received considerable attention from New Zealand commentators (Rudd, 1993, 1997; Boston, 1992, 1999; O'Brien and Wilkes, 1993; Stephens, 1992, 1996, 1999; Peters, 1997; Bedggood, 1996, 1999; Cheyne, O'Brien and Belgrave, 1999; Kelsey, 1993, 1995; St John, 1994, 1996, 1999; O'Brien, 1997, forthcoming).

With the exception of Bedggood (1996), these commentators agree that the changes which occurred under National were significant and that the form of state welfare provision in New Zealand has fundamentally changed as a result. Overseas commentators agree on the extent of radical change in New Zealand (Pierson, 1996; Esping-Andersen, 1996; Huber and Stephens, 1999). Huber and Stephens note:

There were only a few cases of large-scale ideologically driven cuts... Only in Great Britain and New Zealand could one speak of an actual shift... to welfare state regimes that are essentially residualist (Huber and Stephens, 1999, p.13).

The tools of retrenchment in New Zealand

Targeting

The targeting of welfare provision was a key part of National's plans to reduce expenditure on welfare (Treasury, 1990; Bolger, Richardson, Birch 1990; Shipley, 1991; Boston, 1999). It must be noted however, that the targeting of welfare provision is a familiar concept in New Zealand, most predominantly in the area of income support (MacKay, 1998; Boston, 1999).

The incoming National Government based its case for greater targeting on the grounds that:

targeting social assistance imposes lower fiscal costs, improves efficiency, enhances equity, and encourages altruism and private charity (Boston, 1999, p.95).

Targeting, the National Government argued, would allow for the allocation of scarce resources to those most in need by removing assistance from those who did not require it (Shipley, 1991). National was also expected that the use of targeting would result in expenditure savings (Bolger, Richardson, Birch, 1990).

As Boston (1999) demonstrates, these claims do not hold up well under scrutiny. Instead, the use of targeting can be seen as a way to reduce the number of people applying for assistance and hence welfare expenditure. This reduction is achieved in a number of ways. First, people may not apply because of the intrusiveness of the information required under a target regime (MacKay, 1998, p.24). Second, people may not apply for

benefits because of the stigma attached to being a recipient (MacKay, 1998, p.25).

The remoralisation of state welfare provision

The remoralisation of state welfare provision in New Zealand was driven by the introduction of the term 'welfare dependency' into the social policy discourse. The Treasury in its 'Briefing to the Incoming Government' in 1990 raised the issue of beneficiary dependency in New Zealand.

Treasury argued that:

Reforms are essential to reduce the level of state dependency and to avoid the social problems that persistent high levels of dependence can create (Treasury, 1990, p.96).

The then Minister of Finance, Ruth Richardson, in the 'Economic and Social Initiative' (1990), expressed similar sentiments, as did the then Minister of Social Welfare, Jenny Shipley, in 'Welfare that Works' (1991).

The term dependency then disappeared from prominence during the economic boom of the early 1990s as the number of unemployment beneficiaries dropped. As the economic recovery stalled in the mid 1990s, however, and the number of welfare beneficiaries continued to rise the term reappeared, especially in official Department of Social Welfare documents (O'Brien, 1997).² As O'Brien notes:

The term has almost universally carried with it an implicit and explicit criticism of beneficiaries themselves and of their reliance on the state for their income support (O'Brien, 1997, p.107).

² These included the 'Tax Reduction and Social Policy Bill' 1996, 'Strategic Directions 1996', 'Investing in People: Government Priorities for 1995-2000 Period' and 'Strategic Result Areas for the Public Sector 1994-1997'.

He also notes its explicit use with only a limited range of welfare recipients – single parents and those unemployed (ibid., p.108). Peters concludes:

There has been a shift in the nature and style of argumentation by neo-liberals both in the government and business away from an exclusive and overwhelming attention on economic arguments to moral arguments against the welfare state (Peters, 1997, p.8).

Evaluation of the retrenchment literature and the space for my study

This literature review has examined the key material related to the theoretical underpinnings of welfare state retrenchment, examinations of the retrenchment process and the retrenchment of welfare provision in New Zealand itself. This review identifies a range of issues to be considered when examining the welfare retrenchment policies introduced by National after its election in 1990.

Early studies of retrenchment noted the importance of examining more than state expenditure on welfare and the significance of examining the impact of the retrenchment process in particular programme areas. The later material highlights the importance of understanding the tools of retrenchment in New Zealand.

Much of the New Zealand literature on welfare state retrenchment has been informed by a social democratic framework with its associated understanding of the role of the state, for example, the writings of Boston (1992, 1999), arguably the most influential commentator on social policy issues in New Zealand today. The social democratic approach understands the role of the state as neutral, that is, it operates to balance

the demands of competing interest groups. As Bedggood (1996) notes, however, this approach fails to adequately theorise the role of the state in the welfare retrenchment process in New Zealand, particularly its actions to protect the interests of capital.

An additional feature of much of the New Zealand literature is that it has consisted of detailed studies of particular programmes of reform and their outcomes (Boston, 1994; Stephens, 1999). Roper and Rudd note that:

Such analysis often results in a narrow focus on institutions and processes of policy formulation within the bureaucratic structures of government, with the result that the broader social, economic and political context of policy formulation recedes from view (Roper and Rudd, 1993, p.xi).

These two criticisms suggest that what is required is an approach which both adequately theorises the role of the state and incorporates an understanding of the 'broader social, economic and political context of policy formulation' (Roper and Rudd, 1993, p. xi). I argue that these requirements are met by operating from within an orthodox Marxist framework, which is outlined in the following chapter.

Chapter Three

Theory

Introduction

This chapter introduces the orthodox Marxist theoretical approach underpinning this thesis. In the preceding literature review I argued that much of the analysis of welfare state retrenchment in New Zealand has been conducted through the lens of a broadly social-democratic approach (see Boston, 1992, 1999; Stephens, 1992, 1996, 1999; Kelsey, 1993; and Easton, 1997; as examples). This approach neglects two important aspects that are essential to any comprehensive understanding of National's welfare retrenchment policies. First, an understanding of the reforms as part of a response by the state to restore economic growth. Second, the role played by the state in this process of retrenchment in advancing the interests of one particular group in society, capitalists, over the interests of other groups, notably beneficiaries.

The chapter is structured as follows. The opening section briefly examines the role of theory in social science research, followed by a section which introduces orthodox Marxism as both a social and economic theory, with a focus on the importance of understanding the impact of economic crises on the state. The second section looks at orthodox Marxist theories of the welfare state, then briefly outlines the research on the welfare state in New Zealand in the Marxist tradition. The next sections apply an orthodox Marxist approach to examine the response by the state to economic crisis and identify retrenchment strategies likely to be implemented by a New Right government. (These strategies will be used to analyse the areas of

income support and pensions taken up in Chapters Six and Seven). The final section responds to criticisms of the orthodox Marxist perspective and outlines the limitations of this approach.

The role of theory and the connections between theory and research

The fundamental purpose of theory is somehow to explain, comprehend and interpret 'reality'...Theory, in crude terms, helps us see the wood for the trees. Good theories select out certain factors as the most important or relevant if one is interested in providing an explanation of an event. Without such a sifting process no effective observation can take place (Stoker, 1995, p.16).

As Stoker notes, without some guiding theory it would be difficult to focus research in any meaningful manner. An investigation into an area of interest would quickly become swamped by a myriad of details and without some criteria for judgement it would be easy to miss what may be essential detail or focus on what is relatively unimportant.

Blaikie notes that a recurrent problem in social research is the:

lack of connection between the ideas discussed in books on social theory and the theoretical ideas that are used in research (Blaikie, 2000, p.143).

This thesis attempts to bridge that 'lack of connection' by first setting out the theoretical approach underlying the investigation and then examining its usefulness in explaining welfare state retrenchment in New Zealand between 1990 and 1996.

Blaikie suggests that using a theoretical perspective provides:

- a way of viewing the social world, including ontological and epistemological assumptions;
- a language with which to describe and explain aspects of the social world;
- general theoretical ideas to set the context and direction for research; and
- possible explanations or tentative hypotheses (Blaikie, 2000, p.161).

An explanation of the ontological and epistemological principles underlying Marxist social theory is beyond the scope of this thesis. (For an elaboration on these see Keat and Urry, 1982). Suffice to say that Marxism is identified with the philosophical approach labelled realism, which:

shares with the positivist the view that the world exists independently of our knowledge of it;... (and argues that) many of the relationships between social phenomena in which we are interested cannot be directly observed (Marsh, 1999, p.329).

Additionally Marxists, argue that:

it is our interpretation and understanding of these social phenomena which affects outcomes ... (and)... consequently, structures do not determine the actions of agents, rather they constrain and facilitate them (Marsh, 1999, p.329).

Orthodox Marxist theory

Marxist theory, like other social theories, offers a way of understanding how society is organised.¹ Marxism emphasises the idea that social life is based upon 'conflicts of interests'. The most fundamental and significant of these conflicts is that between those who own and control the means of production in society (the capitalists) and those who sell their labour power in the capitalist market place (the workers). Marxists see capitalism as "an economic system based upon the production and exchange of privately owned commodities" (Pierson, 1998, p.9). From the process of production of commodities arises the exploitation of the class who produce the commodities (the workers) by the class who own the means of production (the capitalists).

Capitalists are powerful in a capitalist society because they are able to use their wealth to enhance and expand their power. This usually involves translating economic power into political power and ideological power to shape the social world in ways that will enhance and expand their economic power base.

Marxist theories of economic crises

There are different Marxist theories on the causes of economic crises in capitalism, including theories of under consumption, the falling rate of profit and disproportionality (Onimode, 1985, p.171-177).² The important feature of these different Marxist theories of crisis is their emphasis on "the

¹ As with most other social theories there are variants of Marxist theory. The range of positions include orthodox Marxism, neo-Marxism, post-Marxism, and the Frankfurt School (see Barrow, 1993; Ritzer, 1996; McLellan, 1998). For a comprehensive introduction to Marxism and Marxist theory see Mandel, 1968; Harvey, 1999.

² A more in-depth analysis and guide to the debates is provided in Mandel, 1975; Roper, 1993; and Clarke, 1994.

necessity of crisis as an essential and ineradicable feature of the capitalist mode of production” (Clarke, 1994, p.4).

In capitalist societies economic crises derive their uniqueness from the nature of capitalist production, which is undertaken for profit. Capitalists seek to maximise their rate of profit in order to maximise their accumulation of capital. The outcomes of this process of profit maximisation generate crises characterised by, among other things, declining profitability, economic stagnation and increasing unemployment. Roper notes that:

The core of the Marxist explanation of the crisis rests on the basic theoretical hypothesis that the general level of profitability is most likely to be the primary underlying cause of economic crisis in New Zealand because profitability plays a large part in determining the overall level of productive investment, and hence rate of economic growth in the economy as a whole (Roper, 1993, p.15).

The consequence of a decline in the rate of profit is that capitalists seek to reverse it. Profitable capital accumulation can be restored in a number of ways. These include: reducing wages, finding new sources of investment from which to make profits, increasing productivity, and reducing costs other than wages, such as taxes.

The impact of economic crises on the state

During the ‘long-boom’ of the 1950s and 1960s experienced by most developed countries, the state could obtain the revenue it required, without making excessive tax demands on capitalists, because of the high rates of economic growth and the low levels of demand for welfare expenditure

(due to nearly full employment). Rudd, commenting on the effect of the economic crises of the 1970s and 1980s in New Zealand, notes that:

The economic crisis placed the state under considerable fiscal pressure because it simultaneously increased the demands on the State for welfare services (due to rising unemployment) while eroding the tax base (because personal and corporate incomes either stagnated or declined as unemployment rose and profits fell) (Rudd, 1993, p.224).

Hence at the very time the state could least afford to increase or even maintain expenditure on welfare spending, demand for such expenditure was escalating as unemployment levels rose, the number of people receiving the Domestic Purposes Benefit increased and the costs of providing state funded pensions also increased. Indeed, the actions of the state exacerbated the crisis as tax cuts introduced during the 1980s reduced the level of income it received and hence its ability to finance welfare expenditure.

The onset of economic crisis, especially a prolonged crisis, fundamentally changes the ability of the state to implement much of its policy. Roper argues that:

the State's role in crisis management is shaped primarily by its fiscal dependence on the taxation of incomes generated in the process of capital accumulation (wages and profits) in order to fund its operations. Consequently, the State must ensure that the social, economic, and political conditions necessary for profitable capital accumulation are maintained (Roper, 1993, p.21).

Orthodox Marxist theorists argue that:

while the state under capitalism might intervene in the reproduction of social relations; however, it could not (1) intervene in such a way as to undermine the logic of the capitalist market economy or (2) act against the long-term interests of the capitalist class (Pierson, 1998, p.10).

The state intervenes, especially in times of economic crises, to enhance conditions for investment, using such mechanisms as lowering tax rates, weakening the labour movement to remove upwards pressure on wage increases, and ensuring that inflation is kept low. In doing so it ensures general economic conditions are favourable to capital accumulation.

In New Zealand, supporters of economic reform from the mid 1980s onwards³ argued that high levels of spending by the government, which required borrowing to finance, caused higher interest rates, making it more expensive for firms to borrow money to invest. Therefore, it was argued that reduced borrowing by the state would help to lower interest rates, making investment cheaper.

Rudd suggests there were two reasons for the focus on reducing government spending:

First, there is the moralistic, Thatcherite view that the state should, like all good households, live within its means and balance its budget. Second, there is an economic argument in favour of cutting state expenditure and reducing the overall level of state activity (Rudd, 1992, p.53-54).

³ The advocates of reform included Treasury, prominent business people and a group of Labour Party Members of Parliament.

With respect to the welfare state, Gough (1979) identified a number of ways that the state could reduce expenditure:

- (1) by adopting policies to secure more efficient reproduction of the labour force;
- (2) by shifting emphasis to the social control of destabilising groups in society;
- (3) by raising productivity within the social services; and
- (4) by reprivatising parts of the welfare state (Gough, 1979, p.138-141).

Additional measures available to reduce welfare expenditure include cutting the levels at which benefits are paid, restricting eligibility for benefits, and changing the mechanisms by which benefits are adjusted.

Orthodox Marxist theorists argue that economic crises generate powerful ideological and political responses as capitalists attempt to restore profitable capital accumulation. The ideological and political responses are utilised to justify the measures taken in order to restore the level of profitability.

Orthodox Marxist understandings of the welfare state

Introduction

Much of early Marxist writing (O'Connor, 1973; Gough, 1979; Ginsburg, 1979) about the welfare state was undertaken during the 1960s and 1970s and was derived from new theorising on the role of the state in capitalist societies.⁴ Marxist theories of the state and the welfare state are intertwined, and for many Marxists, especially orthodox Marxists, "the welfare state is a form or dimension of the capitalist state" (O'Brien and

⁴ See Miliband, 1973; Poulantzas, 1978; and Jessop, 1977.

Penna, 1998, p.62). For example, if the state is regarded as a tool of the dominant class, then the related understanding of the welfare state is that it serves first and foremost the interests of capital.

As Pierson (1999) notes given the existence of different variants of Marxism it is not surprising that we are not likely “to find a single and wholly consistent Marxist explanation of welfare state developments” (Pierson, 1999, p.175). Explanations include the welfare state as a means of social control and the welfare state as a contradictory phenomenon (Pierson, 1998). These different approaches to Marxist understandings of the welfare state are outlined below.

The contradictions of the welfare state

Some Marxist theorists see the presence and role of the welfare state as serving two different and contradictory roles. Gough captures the core element of this approach when he argues that the welfare state:

simultaneously embodies tendencies to enhance social welfare, to develop the powers of individuals, to exert social control over the blind play of market forces; and tendencies to repress and control people, to adapt them to the requirements of the capitalist economy (Gough, 1979, p.12).

Thus the welfare state is presented as having both a liberating presence and an oppressive presence. The liberating aspects include the availability of pensions so that people do not need to work until they die and the availability of extra financial support for those with large families on low incomes. The oppressive aspect includes such factors as a requirement to take any job offered or lose entitlement to a benefit and the level of intrusiveness by the state in determining eligibility for many benefits.

This notion of the contradictory role of the welfare state is also present in the work of O'Connor, who notes:

the capitalist state must try to fulfil two basic and often mutually contradictory functions – accumulation and legitimation (O'Connor, 1973, p.6).

The first refers to the state's role in ensuring that the process of capital accumulation can take place and the second to its role in maintaining social cohesion. These roles are contradictory because:

the costs of legitimisation, which are to secure circumstances for favourable capital accumulation, themselves tend to undermine the very process of profitable accumulation (Pierson, 1998, p.142).

An important aspect of the notion of the welfare state as embodying contradictory aspects is ascertaining which of the contradictory aspects dominate at any given time. I argue, from an orthodox Marxist framework, that in times of economic crisis, the tendency to adapt (people) to the requirements of the capitalist economy will predominate. This was certainly the case in New Zealand under National Governments between 1990 to 1996, as will be demonstrated in Chapters Six and Seven.

The welfare state as a form of social control

Ginsburg articulated the concept of the welfare state as a form of control, arguing:

that (while) specific reforms have come about as a result of pressure from the organised working class... a detailed

examination of the functioning and management of state welfare suggests that it remains part of a capitalist state which is fundamentally concerned with the maintenance and reproduction of capitalist social relations (Ginsburg, 1979, p.2).

Dean supports this view, arguing that while:

the social security system and the welfare state (have) brought significant benefits... (they also have) ... negative effects which arise from social security's inherent capacity for... social control (Dean, 1991, p.3).

In New Zealand this view is developed by Bedggood (1974, 1980), who argues that the welfare state enables the:

ruling class... to use the state to both mobilise the labour-power and discipline the interests of the working class (Bedggood, 1974, p.104).

In New Zealand the different forms of social control include the collection of detailed information to ensure benefit entitlement, assessments of work readiness, compulsory requirements to attend training schemes, and a requirement to undertake some form of community work to ensure eligibility. Other evidence is found in the unavailability of benefits for those out of work through industrial action. Pierson further argues that:

the administration of benefits by the state has placed considerable discretionary, investigative and directive powers in the hands of state officials (Pierson, 1998, p.51).

New Zealand theorising in the orthodox Marxist tradition on the welfare state

Bedggood (1974, 1980, 1996, 1999) has been the predominant commentator on the welfare state in New Zealand from an orthodox Marxist perspective. Bedggood's early writing argued that the welfare state was:

merely one aspect of the modern capitalist state which has intervened in the economy by numerous means to facilitate the reproduction of capitalist social relations (Bedggood, 1980, p.15).

In more recent work on the welfare state, Bedggood (1996, 1999) argues that the neo-liberal, social democratic and neo-Marxist viewpoints⁵ are unable to give an adequate explanation of the economic crisis in New Zealand, the onset of which has led to attacks on the welfare state. What is required, he suggests, is an understanding of capitalist social relations of production, which is contained within the orthodox Marxist position. Bedggood explains this position, noting that:

orthodox Marxists regard the labour theory of value, the tendency of the rate of profit to fall, and crises of overproduction as setting limits to the ability of the state to control the economy (Bedggood, 1996, p.147).

Adopting this viewpoint allows us to identify the state as a capitalist state, which under conditions of economic crisis, would be required to intervene, where possible, to restore profitability. It is this need to restore profitability,

⁵ Neo-Marxist theorising differs from an orthodox Marxist position in that it gives more priority to political and ideological causes of economic crises (Bedggood, 1996).

he suggests, which explains the attacks on the welfare state first by the Labour Governments between 1984 and 1990 and then increasingly by National Governments since 1990.

Economic crisis in New Zealand and the response by the state

Upon its arrival in office in October 1990, National was presented with evidence from Treasury of the alleged parlous state of the country's economy and news of a need to provide major financial assistance to the Bank of New Zealand. Ruth Richardson, the then Minister of Finance, noted a "sense of fiscal crisis, which could only add impetus to my agenda" (Richardson, 1995, p.76).⁶ Whether the crisis was as deep as it was said to be or whether National used the opportunity to force through its political agenda is a point for debate but beyond this thesis (Roper, 1997; Boston, 1999; St John, 1999). Whatever the answer to this question, National used the opportunity to impose radical reforms, which it argued were needed to restore growth to the economy.

National explicitly stated that it saw the reform of welfare provision as vital to restoring growth to the economy (Bolger, Richardson, Birch, 1990). National's plans for reform were contained in the 'Economic and Social Initiative' statement released in December 1990. Along with a radical overhaul of the welfare state it announced a major deregulation of the labour market.⁷ The statements signalled a significant extension of the economic restructuring introduced by the previous Labour Government.⁸

⁶ Richardson's agenda was aimed at a radical reduction in the size of the state (See Richardson, 1995).

⁷ The specific details of reform relating to the areas of income support and pensions will be detailed in Chapter Six and Chapter Seven respectively.

⁸ For a brief introduction to the reforms see Chapter Five.

From the viewpoint of orthodox Marxist social theory, the attacks on the welfare state in New Zealand are a typical response of capitalists to an economic crisis. Gough (1983), discussing the restructuring of the welfare state in the United Kingdom by Margaret Thatcher's Conservative Government, argues that such restructuring needs to be understood in the context of attempts to overcome the economic crisis facing that country during the late 1970s and 1980s. Bedggood (1996) also highlights the need to locate the attacks on the welfare state within a general capitalist economic crisis. He suggests that it has been the depth of the economic crisis in New Zealand that helps to explain the harshness of the attacks on the welfare state.

The presence of a sizeable welfare state is a problem for New Right theorists at any time for both economic and moral reasons.⁹ However, during an economic crisis this problem is exacerbated. The welfare state is seen as a problem because of its unaffordability, which becomes an issue because, as Rudd (1993) notes above, it consumes more expenditure when it can be least afforded. Additionally, the existence of generous levels of benefit provision tends to reduce the attractiveness of low wage employment.

When the state is attempting to restore profitability moral arguments based on New Right theory are used to assist this process. As a result some categories of beneficiaries may become ostracised and made more vulnerable to punitive treatment. In her autobiography, Ruth Richardson, Minister of Finance in the 1990 to 1993 National Government, captures this latter aspect when she comments that:

We (Jenny Shipley and Ruth Richardson) were certainly not oblivious to the question of affordability, but equally we saw the

⁹ See Chapter Two.

cuts as a statement about the types of lives people should be encouraged to lead, about the types of activities that should be more highly valued, about personal responsibility and integrity (Richardson, 1995, p.207-208).

In his examination of the impact of the attacks on the welfare state, Gough (1983) notes the presence of two distinct elements of the New Right attack on the welfare state in the United Kingdom during the Conservative Government of Margaret Thatcher. The first of these elements was the:

quantitative role of cuts follow(ing) from the precepts of monetarism: strict control of the money supply, a substantial reduction in the level of government expenditure and taxation and a shift towards indirect taxation (Gough, 1983, p.155).

The second element of the attack was:

qualitative shifts in social policy (which) are designed to reassert individualism, self-reliance and family responsibility, and to reverse the collective social provision of the post-war era (Gough, 1983, p.155).

These two distinct elements were present in the reforms introduced by National, and will be explained in more detail in later chapters. The National Government's welfare state retrenchment policies focussed on reducing expenditure (the quantitative aspect) and reducing dependency on the state (the qualitative aspect).

Gough notes that the cuts in public expenditure have the purpose of:

weakening (the) power of organised labour via higher rates of unemployment (and the threat of still higher levels if wage claims are 'excessive') (Gough, 1983, p.155).

An important aspect of the reforms introduced by National was their linkage with the labour market reforms introduced at the same time as the welfare reforms.¹⁰ The aim of the labour market reforms was to allow more flexibility for employers to negotiate with employees without the perceived rigidities imposed by the presence of the national award system.

Orthodox Marxists view the term 'flexibility' (when used in relation to the labour market) as a euphemism for the ability of employers to hold or reduce wages. The welfare reforms assisted in holding down wages in several ways. First, the cuts to benefit levels resulted in some beneficiaries accepting low paying work in order to survive. Second, the introduction of new regulations reduced the ability of a job seeker to refuse an offer of employment without suffering a loss of benefit or 'stand-down' of 26 weeks.

Using a Marxist framework to analyse the reforms

An orthodox Marxist framework suggests various ways in which the state is likely to impose reforms, given a New Right agenda. This framework argues that the state in times of crisis will act in the interests of capital to restore profitability to the economy by reducing state expenditure, of which spending on welfare constitutes a considerable portion. In order to impose

¹⁰ The labour market reforms were introduced through the Employment Contracts Act early in 1991.

the needed reforms the state will use both economic and ideological arguments.

Adopting this framework, I argue, therefore, that National was likely to use a variety of strategies to reduce state expenditure, and furthermore, that these strategies contributed to a programme that was designed to retrench the welfare state. These strategies were likely to include:

- reducing the overall level of expenditure on welfare provision;
- reducing the level of benefit payments;
- reducing or delaying increases in the level of payments;
- tightening eligibility for benefits;
- aligning benefit receipt more closely with readiness for the labour market;
- penalising those receiving benefits and / or favouring those in paid work; and
- encouraging people to provide for their own retirement rather than relying solely on state funded pensions.

The purpose of this thesis is to examine whether orthodox Marxist understandings of the response by the state to an economic crisis is useful in explaining the actions of the National Government during the years 1990 to 1996, particularly in the social policy areas of income support and pensions. If an orthodox Marxist understanding is useful, then one would expect the National Government to employ the above strategies to impose its retrenchment agenda.

Drawing on documentary and numerical evidence, Chapters Six and Seven identify how these strategies were used by National to achieve its aims of reducing welfare expenditure in the areas of income support and pensions respectively.

Criticisms of orthodox Marxist theory and its limitations

Marxist theory is subject to a range of criticisms, with probably the most serious criticism being its alleged reductionism. Explanations are said to be reductionist when they attempt to account for a range of events in terms of a single determining factor. Jessop suggests that economic reductionism in Marxist thought:

claims that the forms and functions of non-economic systems necessarily correspond to the forms and functional needs of the economy. It also treats economic factors as the mechanism which generate this correspondence... It denies that non-economic systems have any significant institutional logics and also denies they can have significant independent effects on the economy (Jessop, 1990, p.79).

The extent and influence of economic reductionism present in Marxist thought is, however, contested. Engels argued that:

According to the materialist conception of history, the ultimately determining element in history is the production and reproduction of real life. Neither Marx nor I have ever asserted more than this. Therefore if somebody twists this into saying that the economic factor is the only determining one, he (sic) is transforming that proposition into a meaningless, abstract, absurd phrase. The economic structure is the basis, but the various components of the superstructure – political forms of the class struggle and its consequences, such as: constitutions drawn up by the victorious battle, etc., juridical forms, ... political, juristic, philosophical theories, religious views ... also

exercise their influence upon the course of historical struggles and in many cases determine their form in particular. There is an interaction of all these elements in which, amid all the endless number of accidents... the economic movement is finally bound to assert itself (Engels, cited in Sayer, 1987, p.6).

Other limitations exist in the use of Marxist social theory. For example, this approach fails to provide adequate explanations to feminist questionings of the patriarchal basis of social policy provision. For example, the ineligibility of married women to receive the unemployment benefit. It also fails to adequately explain the discriminatory treatment dealt out to Maori and ethnic minorities. Failing to adequately address gender and race issues may serve to mask the particular impact of retrenchment policy on certain groups in society. Where these groups are over-represented in welfare statistics (that is, they make up a higher proportion of benefit recipients than their proportion of the total population) they are likely to be more vulnerable to retrenchment policies and therefore risk greater marginalisation.

Additionally, orthodox Marxist theory struggles to explain the positive outcomes experienced by particular groups in the retrenchment process. Larner (forthcoming) notes that while the reforms imposed significant hardships upon some groups, they also opened up positive opportunities for others. These she identifies as some Maori groups, who have been able to gain control over delivering their own welfare services. Cheyne, O'Brien and Belgrave (1997) also support this aspect of welfare state reform, arguing that it:

has provided an opportunity for some Maori to pursue group interests by interpreting the Crown's denial of their rights to own property and manage it without interference from the state as Treaty breaches, and by asserting the rights of Maori as

consumers of state services (Cheyne, O'Brien and Belgrave, 1997, p.169).

Conclusion

Orthodox Marxist theory argues that in times of economic crisis the state will intervene in the interests of the capitalist class to assist in the restoration of profitability. In light of this argument we would expect that the National Government elected in October 1990 would attempt to reform the welfare state in New Zealand in a manner consistent with attempts to reduce expenditure on welfare and increase the attachment of some groups of beneficiaries to the labour market.

This chapter has briefly introduced orthodox Marxist theory and orthodox Marxist understandings of economic crises and the welfare state. Additionally, it has examined the responses by the state to economic crisis and how these impact on the welfare state.

Finally, by employing an orthodox Marxist framework, this chapter has identified strategies that the state is likely to employ in pursuing a New Right agenda of welfare state retrenchment. These strategies will be elaborated upon and examined in Chapters Six and Seven. In particular, I will examine whether these strategies were put in place in the areas of income support and pensions respectively, and in so doing seek to demonstrate the usefulness of an orthodox Marxist theoretical framework in understanding the state's role in the welfare retrenchment process.

Chapter Four

Methodology

Introduction

The methodology chapter serves three purposes. First, it illustrates how I went about exploring, investigating and answering the thesis questions identified in the introduction. Second, it outlines the problems and issues that arose during this research and how they were addressed. Finally, the chapter can also be compared somewhat to an audit trail in that it allows anyone who wishes to retrace, and if necessary to replicate, the research process applied in this thesis to do so.

The chapter will first examine the nature of methodology and its relationship to the main paradigms of social science research. It will outline critical methodology in more detail, then examine the relationship between the critical research paradigm and the central questions of the thesis. A discussion of the research methods used to conduct the study follows. The advantages and disadvantages of these methods will be outlined and a section on ethical issues will conclude the chapter.

A brief introduction to methodology

Sarantakos notes that:

what constitutes a methodology... as well as the number of methodologies that deserve a place in the context of social research is a contentious issue (Sarantakos, 1993, p.32).

This contention is demonstrated in the work of Crotty (1998), who identifies nine types of methodology¹ and indicates the existence of more. In contrast, Sarantakos (1993) argues for the existence of only two methodologies – the quantitative and qualitative, while Dean (1998) suggests there are three - empiricist, interpretive and critical.

The contention appears to centre on a definitional issue, which is beyond the concern of this study.² For the purpose of this thesis I will adopt the following definition of methodology:

as the point at which method, theory and epistemology coalesce in an overt way in the process of directly investigating specific instances within the social world (Harvey, 1990, p.1).

Before I discuss in detail the particular methodology adopted in this thesis, I will first locate it within the social science paradigm³ from which it originates. Such an approach is required because, as Guba and Lincoln (1994) and Crotty (1998) note, the ontological⁴ and epistemological⁵ underpinnings of the paradigm adopted constrain the choice of methodological approach.

¹ These types of methodology are experimental research, survey research, ethnography, phenomenological research, grounded theory, heuristic inquiry, action research, discourse analysis, and feminist standpoint research (Crotty, 1998, p. 5).

² For further discussion see Sarantakos, 1993; Guba and Lincoln, 1994; and Blaikie, 2000.

³ Sarantakos defines a paradigm as: "a set of propositions that explain how the world is perceived; it contains a world view, a way of breaking down the complexity of the real world" (Sarantakos, 1993, p.30).

⁴ Davidson and Tolich note that: "Ontology deals with questions about what things exist in the 'real' world" (Davidson and Tolich, 1999, p.24).

⁵ Blaikie notes that: "An epistemology consists of ideas about what can count as knowledge, what can be known, and what criteria such knowledge must satisfy in order to be called knowledge rather than beliefs" (Blaikie, 2000, p.8).

In the introduction I identified orthodox Marxism as the theoretical approach that I would use to examine the questions posed in this thesis. This theoretical approach lies within the social science research paradigm identified as critical inquiry, realist or emancipatory (Sarantakos, 1993; Guba and Lincoln, 1994; Livesey, 2000). Critical inquiry or realism is one of the three commonly identified paradigms of social science research (Sarantakos, 1993; Livesey, 2000). The others are positivism and interpretivism. As noted above, each of these three paradigms is characterised by distinct ontological and epistemological underpinnings.

Each paradigm is also often distinguished by its association with a particular methodology, which reflects its philosophical framework. The existence of a distinctive methodology for each paradigm is disputed by Sarantakos (1993), who argues for the existence of only two – quantitative and qualitative methodologies. He justifies his stance by arguing that the critical approach is distinguished largely by its different understanding of the purpose of social research, not by any significant ontological or epistemological differences with the other paradigms.

However, this argument is rejected by Guba and Lincoln (1994), who note that while the distinction between methodologies is often over-emphasised for pedagogical reasons, there is sufficient difference to warrant the identification of a specific methodology with the critical approach.

Critical methodology

The critical research methodology⁶ encompasses a broad range of theoretical perspectives. Sarantakos (1993) suggests that it includes the conflict school of sociological thought, Marxism and feminism, while Dean extends it to also include “anti-racism or such movements as post-structuralism” (Dean, 1998, p.319).⁷

While this range of theoretical approaches is diverse, Sarantakos suggests that what they have in common is an understanding that research:

has the purpose of emancipating, empowering and liberating, that is, to get below the surface, to expose real relations, to disclose myths and illusions, to remove the false beliefs and ideas and to show how the world should be, how to achieve goals and how to change the world (Sarantakos, 1993, p.60).

Within the critical methodology I have chosen an orthodox Marxist theoretical approach. The thesis questions (see following section below) justify this choice for two reasons. First, the introduction of such policies by the incoming National Government reflected shifts in the balance of power between different groups in society. The National Government introduced policies which severely disadvantaged one group in society, while other options, such as raising taxes on those earning higher incomes, were not considered. In order to understand why the former option was chosen over the latter, we need to have a theoretical approach that incorporates an

⁶ For the sake of convenience and brevity I will refer to the methodology used as critical, rather than use the phrase critical inquiry, emancipatory or realism.

⁷ Within each of these theoretical perspectives, there is of course a diverse range of viewpoints. For instance, within Marxism there is a range of positions, including neo-Marxism, orthodox Marxism, post-Marxism, and the Frankfurt School.

understanding of power and domination. Marxism, with its theory of the exploitation of one class or group by another, provides such a framework.

Second, the changes to the welfare state initiated by National were driven by the expressed need to restructure the economy. The then Minister of Finance, Ruth Richardson, noted that the current form of welfare provision had become untenable due to “the crushing burden of government spending” (Bolger, Richardson, Birch, 1990, p.17). As Kellner notes, Marxist social theory is suited to this type of analysis because it is:

at bottom a theory of capitalism, rooted in the political economy of the existing social system. If the economy is undergoing changes, and if economic factors continue to play a key role in all aspects of social life, then a theory of capitalism is a necessary component of social theory (Kellner, 1995, p.36).

The research questions

In the ‘Introduction’ the questions central to this thesis were identified as follows:

- 1 are orthodox Marxist understandings of the response by the state to economic crisis useful in explaining the actions of National during the period 1990 to 1996; and
- 2 is an orthodox Marxist theoretical framework useful in explaining the retrenchment process that National undertook in the areas of income support and pensions?

The questions are significant for two reasons. First, because this study will demonstrate the utility of adopting an orthodox Marxist theoretical

framework for examining welfare state retrenchment. As noted earlier, this framework has been much neglected, both in New Zealand and overseas, in the examination of welfare retrenchment. Second, the adoption of an orthodox Marxist approach allows the development of an understanding of the role of the state in the retrenchment process.

Reliability and validity

Sarantakos suggests that “a method is reliable if it produces the same results whenever it is repeated, even by other researchers” (Sarantakos, 1993, p.79).

For the purposes of this thesis ‘stability reliability’ is the condition which needs to be satisfied, for it refers to the reliability of a measure across time. ‘Stability reliability’ assesses “whether a measure produces reliable findings if it is employed several times” (Sarantakos, 1993, p.79). In order to meet this criteria, the research would need to be repeated at a later date. Given that the data used (such as expenditure data, the numbers of people receiving benefits, and the content of newspaper articles and journal articles) do not change, this research is open to being replicated and the reliability of its findings assessed.

Validity “refers to the extent to which a question or variable accurately reflects the concept the researcher is actually looking for” (Davidson and Tolich, 1999, p.31). For this thesis the issue of validity arises in relation to the strategies identified towards the end of the Chapter Three which will be used to assess the usefulness of the orthodox Marxist viewpoint in Chapters Six and Seven. I argue that the use of these strategies to analyse the actions of the National Government in the two analytical chapters on income support and pensions demonstrates their validity.

Methods

While some of the literature on research methods (for example, Sarantakos, 1993; Davidson and Tolich, 1999) tends to equate particular methods with particular methodologies (that is, surveys with quantitative methodology and in-depth interviews with qualitative methodology), the researcher's choice of methods is not necessarily restricted in this way. Harvey suggests that:

while some methods lend themselves more readily to certain epistemological perspectives, no method of data collection is inherently positivist, phenomenological or critical (Harvey, 1990, p.1).

This view is also supported by Guba and Lincoln (1994).

Thus a range of methods have been used to collect the data necessary to answer the thesis questions. The methods used are an examination of documentary sources and secondary numerical data.

The following section will first look at the advantages of using secondary and tertiary data. It will then look at the use of documentary sources and numerical data and issues arising from their application.

Secondary data

This thesis draws largely on secondary data. Blaikie defines secondary data as:

raw data that have already been collected by someone else, either for some general information purpose, such as a government census or official statistics, or for a specific research project (Blaikie, 2000, p.183-184).

The use of secondary sources has both advantages and disadvantages. Among the advantages are that:

- the data already exists so the researcher does not have to spend as much time or money creating and / or accessing the data; and
- it can allow the researcher access to far greater quantities of data than he or she could afford to have created (via a survey or in-depth interviewing for example).

However, relying on secondary sources may disadvantage the study in that:

- the data was most likely collected with different research aims and questions in mind;
- the data may have been recorded in categories that are not easily usable by another researcher;
- the quality of the collected data may be difficult to assess, especially if the information needed to assess this is not supplied;
- the reliability of the data is open to question;
- not all the relevant material may be accessible; and

- the data may be out-of-date (Blaikie, 2000, p.185; Sarantakos, 1993, p.209).

Tertiary data

Blaikie suggests that tertiary data are data which:

have been analysed either by the researcher who generated them or by an analyst of secondary data. In this case the raw data may not be available, only the results of this analysis (Blaikie, 2000, p.184).

Using tertiary data has similar advantages to those mentioned in the preceding discussion on the use of secondary data. The disadvantages of using tertiary data are also similar to those of secondary data with one addition. Blaikie notes that the greater the distance the researcher is from the original data “the greater the risk of unintentional or deliberate distortion” (Blaikie, 2000, p.185).

Documentary Analysis

Documentary analysis has a long history in social research and Scott (1990) notes that the investigation of documents was the principal tool of the classical sociologists (Marx, Durkheim and Weber). Yet despite this prestigious lineage, documentary analysis receives little coverage in most texts on methods. Sarantakos (1993) devotes three pages out of 450 and Davidson and Tolich (1999) none.

Plummer (1990) suggests the reasons for this neglect lie in the fact that:

The twin influences of positivistic methodologies and abstract theories on social research lead either to documents being dismissed as 'impressionistic', or to the use of any kind of data being regarded as crude empiricism (Plummer, 1990 p.149 quoted in May, 1997, p.158).

Documentary sources

The majority of the analysis conducted for this thesis draws on documentary sources. The primary documents used include:

- election manifestos;
- political party news releases;
- speeches;
- newspapers;
- Acts of Parliament;
- government budget documents;
- reports from the relevant government departments;
- autobiographies of those who took part in the events under examination;
- official statistics; and
- Parliamentary records (Hansard).

The secondary documents include:

- relevant theses;
- relevant journal articles; and
- book reviews.

The chosen documents were selected by various approaches. Key dates, such as budget announcements, election days and policy announcements were first identified from journal articles and my own previous knowledge. The electronic database NEWZINDEX, covering New Zealand newspapers, journals and magazines was searched by 'key words' using a number of categories. These key words included pensions, superannuation, welfare, social security, benefits, and the names of key participants in the welfare reform process such as Ruth Richardson, the then Minister of Finance, and Jenny Shipley, the then Minister of Social Welfare.

These two methods provided a list of dates, which I then used to search the microfilm copies of the *Dominion* and *New Zealand Herald*, the two largest daily newspapers in New Zealand. Additionally, the *National Business Review* and *Independent*, both weekly business publications, were used where their contents appeared relevant.

Where available, autobiographies of the key decision-makers or politicians have been used. Although presently few are available, those by Ruth Richardson (1995) and Jim Bolger (1998), the Minister of Finance and the Prime Minister respectively during the early period of the reforms, offer interesting insights into the policy-making process and the reasoning behind the changes introduced.

These sources are classified as primary; that is, they are "materials which are written or collected by those who actually witnessed the events they describe" (May, 1997, p.161). That such sources have their drawbacks is common knowledge. Levin (1997) notes that:

Although it is common to disparage memoirs as self-serving and self-justificatory, they are written from first-hand

experience, they are invaluable in drawing up a chronology of events, different accounts of the same events can be compared, and self-justifying statements tell us what kinds of behaviour the author regards as justified (Levin, 1997, p.3).

However, he does acknowledge that such memoirs do need to have, where possible, their accounts verified by other evidence.

Sarantakos (1993) classifies documents using two criteria. The first categorises them according to whether they are public documents, archival records, personal documents, administrative documents or formal studies and reports. The second classifies them according to their proximity to the event they describe, resulting in the classifications of documents as contemporary, retrospective, primary and secondary (Sarantakos, 1993, p.206). Documents used in this thesis fall into both of these classifications.

Analysing documentary sources

May notes that:

Documents do not stand on their own, but need to be situated within a theoretical frame of reference in order that their content is understood (May, 1997, p.171).

The theoretical frame of reference for this thesis lies within the orthodox Marxist tradition. Using this framework means that documents are interrogated to see how they portray the relationships of power in a society and whether they extend our understanding of the underlying dynamics of society.

Scott argues that “the general principles involved in handling documents are no different from those involved in any other area of social research” (Scott, 1990, p.1). Among the criteria he identifies for assessing the quality of scientific research based on documents are: authenticity, credibility, and representativeness.

The authenticity of a document relates to whether it can be considered genuine, that is, “whether it is actually what it purports to be” (Scott, 1990, p.19). The documents chosen for examination in this thesis are official government records, journal or newspaper articles or autobiographies. As such they have been in the public domain for some time and are accepted as genuine and authentic records.

Assessments of the credibility of a document entail understanding:

the extent to which an observer is sincere in the choice of a point of view and in the attempt to record an accurate account from that chosen standpoint (Scott, 1990, p.22).

The documents used in this study are credible although the content may be contested.

The issue of representativeness arises when attempting to ascertain whether a document is typical of others from which it derives. The official documents used are of the same type as those produced by governments in power before 1990 and after 1996, thus they are representative of their genre.

Advantages and disadvantages of using documentary sources

A comprehensive list of the advantages of using documentary sources is provided by Sarantakos (1993). Among those which are relevant to this thesis are:

i documents as the sole source of information

For much of the research I undertook, documents were the only available sources of information. Not only were they the sole sources, they were also the important sources.

ii retrospectivity

Documentary sources such as newspaper articles, autobiographies and government department documents allowed me to examine previous events and issues.

Among the limitations of documentary sources impacting on this thesis are:

i bias

Potential problems with documents include the omission of contentious (or potentially so) issues by the writer, and the amending of accounts to better (or worse) reflect upon the actions of those involved. As May notes:

what people decide to record, to leave in or take out, is itself informed by decisions which relate to the social,

political and economic environment of which they are a part (May, 1997, p.164).

This may particularly be the case for the two autobiographies used, where the writers may wish to have emphasised or hide certain things that had been done. However, this also includes newspaper, magazine or journal articles, where particular events are emphasised whilst others are neglected.

ii **inaccessibility**

Another issue in the field of documentary research is the lack of access by the researcher to what may be important documents. An example for this study is the researcher's inability to access Cabinet documents from the period in question. Additionally, there may be other official government documents, available under the Official Information Act, but not requested because the researcher is unaware of their existence.

Numerical data

The numerical data collection and analysis undertaken for this thesis is somewhat different from the quantitative analysis outlined in most texts on methods (Sarantakos, 1993; Davidson and Tolich, 1999). In these texts data is assumed to come from surveys, and discussions are based around sampling, questionnaire design, coding and subsequent analysis.

For this thesis the numerical data comes mainly from official statistics. That is: "data collected by the state and its agencies" (May, 1997, p. 65). An advantage of using such data includes its availability in the public domain, which means the research can be replicated and verified by other

researchers. Another advantage of such data is its credibility, if the agency collecting it is seen as having a reputation for independence.⁸

On a cautionary note, May suggests that official statistics should be viewed:

not simply as 'social facts', but also as social and political constructions which may be based upon the interests of those who commissioned the research in the first instance (May, 1997, p. 65).

The issue of official agencies failing to release data which may be unfavourable to the government also needs to be noted.

Sources of data

The sources of numeric data include:

- Department of Social Welfare statistical reports;
- Work and Income New Zealand information on benefit levels;
- information released by Statistics New Zealand on Crown spending, unemployment figures, wage levels, inflation and Gross Domestic Product;
- Treasury information (that which is available in the public domain);
- annual government budget information;
- relevant journal articles; and
- conference proceedings.

⁸ In New Zealand, data collected by Statistics New Zealand is seen as having a considerable degree of independence from government interference due to the provision of the Statistics Act (1975), which gives the Government Statistician independence.

Analysing numerical data

There are some problems in using numerical, and particularly expenditure data, that I encountered and addressed during my investigations. These include changing definitions and the use of different categories, resulting in problems of series continuity over time.

For the expenditure analysis I have focussed on government spending for the period 1990 to 1996 on state funded pensions and within the income support area, Unemployment Benefit and the Domestic Purposes Benefit. Where necessary I have extended the time series of data beyond those years to allow a better understanding of events to be portrayed. Overall government spending on welfare has also been analysed, using the sources listed above.

Welfare expenditure by policy area (income support and pensions) as a percentage of total welfare spending has been calculated, as well as nominal and real welfare spending as a percentage of Gross Domestic Product (GDP). Income support expenditure is detailed for each type of programme.

Rudd (1992) highlights the pitfalls that can arise when expressing expenditure in relation to GDP. He notes:

The main problem here is that changes in the denominator can produce misleading impressions concerning real changes in expenditure, as opposed to changes in its share of GDP. Thus, for example, a fall in GDP will mean that nominal government expenditure increases as a ratio, even though it may have stayed constant in real terms (Rudd, 1992, p.41).

The analysis of the number of persons receiving different types of benefits and the period for which they are in receipt of particular benefits is based on statistical data released by the Department of Social Welfare.

Ethical Issues

This thesis will not require the ethical considerations involved, for example, in a piece of interpretive research with in-depth interviewing on a subject of a personal nature. The material used for analysis is available in the public domain, and hence is not subject to privacy considerations.

However, ethical considerations do come into play for the researcher. He or she is expected to approach the subject material in a fair manner, and not to select only material for analysis that supports the hypothesis he or she is testing and similarly not to disregard evidence that may be contrary to his or her expectations.

Conclusion

The use of critical methodology is important for the questions posed in this thesis for it allows the researcher "to get beneath the surface of apparent reality to reveal the nature of oppressive social structures" (Harvey, 1990, p.197). Using critical methodology enables the researcher to expose the welfare retrenchment undertaken by National Governments between 1990 and 1996 as an attempt to restore the profitability of the economy and subordinate social policy "to the needs of the labour market" (Sheldrick, 2000, p.100).

This chapter outlined the links between the orthodox Marxist theoretical framework adopted for this thesis and the chosen methodology. It also explained the importance of using a critical methodology to examine the

questions central to this thesis. Finally the methods used to conduct the research were identified and the advantages and disadvantages of each outlined.

Chapter Five

Setting the Scene

Introduction

The policies of the National Governments between 1990 and 1996 cannot be understood merely by examining the events that occurred during that period. An explanation, however brief, of the events prior to this time is important for understanding the context within which those policy decisions were made. The reasons are twofold. First, the theoretical framework chosen for this study is located within the Marxist tradition in social science¹ and this approach "locates events in their social and political contexts" (Harvey, 1990, p.28-29). Second, Pierson (1994, 1996) argues that the current actions of those attempting to retrench state welfare provision are constrained by the institutions and policies that have been created as a consequence of welfare state expansion. Thus an understanding of the previous development of welfare provision by the state is required.

The focus in this chapter is on the social policy areas under examination in the thesis: income support and pensions.² These areas of policy were chosen for two reasons. First, because both areas experienced considerable policy activity under National Governments between 1990 and 1996. Second, because together these areas constitute a significant proportion of spending on social security.

¹ As noted in Chapter Three, there is not one but many Marxist traditions. For a discussion of these see Ritzer, 1996.

² For a comprehensive view of the development of state welfare in New Zealand see McClure, 1998; Hanson 1980.

The first section of this chapter deals with the historical development of state provision of welfare in New Zealand until the early 1970s. In the second section I will cover the period from the early 1970s until the election of the fourth Labour Government in 1984. The third section will detail the actions of the Labour Government while it was in power from 1984 to 1990. Finally, in the concluding section, I will assess state welfare provision as the National Party entered office in October 1990.

First moves

The first significant piece of legislation in New Zealand involving direct state provision of welfare was the Old Age Pensions Act of 1898. Pensions were granted to those aged over 65 years who met strict criteria, including a residency requirement (25 years in New Zealand), and who conformed to a moral code which stated that recipients must be deserving and of good moral character (McClure, 1998, p.17). The pension was means-tested, available to both men and women and paid for out of taxation. Maori were eligible to receive a pension, however their eligibility was restricted due to the way communal land ownership was treated and the difficulty many had in proving their age, but the pension was not available to those of Asian descent.

Another Act, the Industrial Conciliation and Arbitration Act, passed in 1894, was to have a significant impact on the state provision of welfare in New Zealand. Introduced by the then Liberal Government, the Act ensured that the:

needs of a family were implicitly built into wage awards; the male wage was set according to the cost of living on the basis of providing for a man, his wife and two children (McClure, 1998, p.39).

Built around a system of arbitration, it eventually became a system:

of wage setting institutions which, effectively, usurped functions that elsewhere were to be the province of massive social expenditure programmes (Castles, 1996, p.91).

Coining the term 'wage-earners welfare state' to describe this particular form of welfare state, Castles explains its workings thus:

To the degree that wage regulation delivered all male employees an adequate family wage, and in so far as the assumption was that all women and children were dependent upon male wage earners, it followed that only when men were unemployed or had been insufficiently provident to provide for their old age could there be a need for additional intervention by the state (Castles, 1996, p.93).

The provision of pensions was followed by the Workers Compensation Act (1900), the extension of pension eligibility to include widows (1911), a miners benefit (1915) and a family allowance (1926) (Rudd, 1993; O'Brien and Wilkes, 1993; Cheyne, O'Brien and Belgrave, 1997; McClure 1998).

The last of these, the Family Allowances Act 1926, "provided two shillings' weekly allowance for the third and each subsequent child in a family" (McClure, 1998, p.40). It was a means-tested benefit and paid to the mother, however the application form required the signature of the husband.

The supply of assistance by the state prior to the 1930s was marked by a gradual extension of the scope of benefit provision. However, assistance remained means-tested, with a strong moral element and the presence of

discriminatory clauses (O'Brien and Wilkes, 1993; Rudd, 1993; McClure, 1998).

With the onset of the world-wide depression in the 1930s the Coalition Government (comprising members of the United and Reform Parties) focused on balancing the budget rather than providing assistance to those in need (Simpson, 1990, p.43). The general belief among economists was that:

a free market economy would rapidly recover from any recession as prices and wages adjusted rapidly to re-establish the overall balance between supply and demand in the economy at full employment (Scollay and St. John, 1996, p.121).

As unemployment rose and economic recession deepened, the Arbitration Court issued an order cutting those wages covered by awards by 10 percent in June 1931 (Condliffe, 1959, p.261), and in 1932 pension payments were cut by a similar amount.

The first Labour Government

The first Labour Government elected in 1935 implemented an extensive programme of welfare provision by the state. Labour first restored wage cuts made during the depression and then passed the Pensions Amendment Act 1936. This Act increased the level of pensions, extended the range of those eligible to include invalids and deserted wives, eased eligibility conditions for Maori and removed discrimination against those of Asian descent (McClure, 1998, p.66).

The Social Security Act 1938 was the cornerstone of the Labour Government's social policy and set the tone for developments in that area for the next 50 years or so. The Act came into force on 1 April 1939 and among its measures included:

- an allowance for payment of superannuation benefits at age 65 without a means test;
- the replacement of the 'old-age' benefit with an 'age' benefit, payable at an increased level of 30 shillings per week, and available to men at age 60, the same as women;
- raising asset and income levels for other benefits;
- the doubling of the family allowance to four shillings per week for third and subsequent children;
- the introduction of an emergency benefit; and
- the introduction of a Social Security fund (McClure, 1998; O'Brien and Wilkes, 1993).

There are varied assessments of the significance and radical nature of the Act. On a positive note, O'Brien and Wilkes argue that:

While it was initially hedged with caveats, the poverty legislation of the first Labour Government still constituted a massive attempt to provide universal cover for many citizens against destitution, ill-health and lack of education (O'Brien and Wilkes, 1993, p.55).

MacKay contests this positive view, arguing that the Act was not radical as it did not alter:

the essential character of what already existed – a categorical, income-tested benefit system funded from general taxes on a pay-as-you-go basis (MacKay, 1998, p.5).

Rudd suggested that while the Act increased the level of provision, “The residual nature of the Welfare State remained basically unchanged” (Rudd, 1993, p.228).³

Despite the widespread acclaim that heralded its introduction, the 1938 Social Security Act contained much of the discriminatory and moralistic underpinnings of the earlier legislation. It retained a discretionary clause that allowed lower payments to be made to some beneficiaries (Hanson, 1980, p.162), which was used to ensure that Maori were excluded from obtaining full benefits. Universal superannuation was the only cash benefit to be provided regardless of wealth or ability to work.

Furthermore the motif of the ‘deserving poor’ was still present in the Act, as:

the age benefit was not payable to a man who had deserted his wife or had failed to provide adequate maintenance for her or their children, to a women who had deserted her husband or children, or to either men or women who were not of good moral character or sober habit (O’Brien and Wilkes, 1993, p.54).

This same distinction also applied to the Widows Benefit, the Family Benefit, the Invalids Benefit and the Veterans Benefit.

³ Rudd defined a residual welfare state as one in which “the State provides financial assistance and other services to ensure a minimum standard of living for the ‘deserving poor’” (Rudd, 1993, p.226).

Along with making changes to social policy the Labour Government also adopted a new form of economic management by the state. This new economic management was based on Keynesian economic thought:

a set of policy prescriptions whereby the government could closely regulate, or fine tune, the level of activity in the economy by frequent adjustments to expenditure and taxation policies – i.e. fiscal policy – in order to keep the economy operating at or near full employment on a sustained basis (Scollay and St John, 1996, p.121).

The long boom

The post war years saw few significant additions to social welfare provision. In 1945 a universal family benefit was introduced by the Labour Government, replacing the means-tested family benefit and payable at a rate of ten shillings per week for every child under 16 years of age (McClure, 1998, p.105-106).

Martin suggests that the pattern of post war welfare expenditure until the 1970s depended on which political party, either Labour or National, was in power:

During periods of Labour Government, considerable increases in spending established a new level or 'plateau' of expenditure. Following such periods there was little significant change in spending by National in power (Martin, 1982, p. 5).

In 1951 the National Government introduced a special assistance scheme for those in dire need, called supplementary assistance. O'Brien and Wilkes argue that it signalled "a return to individual assessment and the

individualisation of poverty” (O’Brien and Wilkes, 1993, p.56). The introduction of a system of supplementary benefits allowed the government to deal with hardship on an individual basis rather than increase the level of means-tested benefits.

In 1958 the second Labour Government, although only in office for three years, introduced changes to welfare provision. Labour “equalised the levels of superannuation and age benefit payments” (McClure, 1998, p.137) and raised the family benefit by five shillings, the first increase in twelve years (ibid., p.153). Furthermore, families were allowed to capitalise family benefit to use as a down payment for a house, giving low-income families the ability to move into home-ownership.

Steady economic growth and low rates of unemployment also marked the post-war economy. Rudd (1997) notes that:

Until the oil crisis of 1973, official registered unemployed in New Zealand never exceeded one percent of the workforce (and) economic growth averaged 4.5 percent per annum (Rudd, 1997, p.243).

This period, sometimes called the ‘long boom’, lasted from approximately 1945 to 1973, and:

was characterised by sustained economic growth fuelled by historically high levels of profitability and productive investment, full employment, low inflation, rising real wages and the absence of prolonged balance of payments problems due to the historically favourable terms of trade (Roper, 1993a, p.2).

As noted above, the post-war period was marked by low but increasing inflation, the existence of which eroded the purchasing power of beneficiaries, as “benefits were raised six months later than wages and not granted retrospectively” (McClure, 1998, p.124). Furthermore expenditure on state provided welfare failed to keep pace with the growth in wage rates or the level of inflation. Social security spending as a percentage of Gross National Product (GNP) fell from 7.21 percent in 1961 to 5.51 percent in 1971 (ibid. p.160).

The levels at which benefits were paid were raised according to increases in the level of the Consumers Price Index (CPI) or based upon general wage orders on an irregular basis (McClure, 1998,p.159). During the 1960s the gap between award wages and paid wage rates widened so that benefits lagged even further behind wages. As a result of evidence of the increasing degree of hardship for beneficiaries, a Royal Commission of Inquiry into Social Security was established in 1969 (McClure, 1998, p.165) and published its findings in a report in 1972.

In its 1972 report the Royal Commission suggested a range of changes, some of which were implemented by the National Government. These were the removal of the “clause which distinguished between the deserving and undeserving poor” (O’Brien and Wilkes, 1993, p.57), doubling the level at which the family benefit was paid, and raising the level of other benefits. Assessing the situation in New Zealand and Australia prior to the economic downturn of the 1970s, Saunders notes that:

Social Security was thus effective in both countries over this period mainly because it was not required. The labour market delivered jobs for all who wanted them and the wages system

ensured that wages were adequate to meet the needs of workers (Saunders, 1999, p.497).

The onset of crisis: 1972 - 1984

The third Labour Government took office in 1972 and, once in power, it proceeded to initiate the most significant expansion of the state provision of welfare since the 1938 Social Security Act (Rudd, 1997; McClure, 1998). The major extension to the provision of welfare occurred in 1973, when the existing emergency benefit for domestic purposes became the Domestic Purposes Benefit (McClure, 1998, p.179). In addition, Labour introduced six monthly reviews of the benefit rate (O'Brien 1993, p.10).

Labour also introduced an accident compensation scheme in April 1974, following the considerable and lengthy debate on the 1967 'Woodhouse Report on Compensation for Personal Injury'. This scheme considerably extended the accident coverage available, with the key element being "the replacement of individual liability with community responsibility for the accident victim" (Rudd, 1997, p.245), and compensation based on the recipient's previous earning levels.

The last major innovation introduced by the Labour Government was to extend the pension system. Labour adopted an insurance model (McClure, 1998, p.189), which entitled recipients to superannuation at 60 years of age. Contributions from employee's wages were compulsory and these were to be supplemented with contributions from employers.

Like much of the rest of the world, New Zealand faced an economic crisis during the mid 1970s.⁴ Economic growth slowed and the level of unemployment began to rise. The slowdown in growth of Gross Domestic Product and the rise in unemployment are shown in Figure 5.1 below.

Figure 5.1: New Zealand's post war economic performance



Source: Dalziel and Lattimore, 1999.

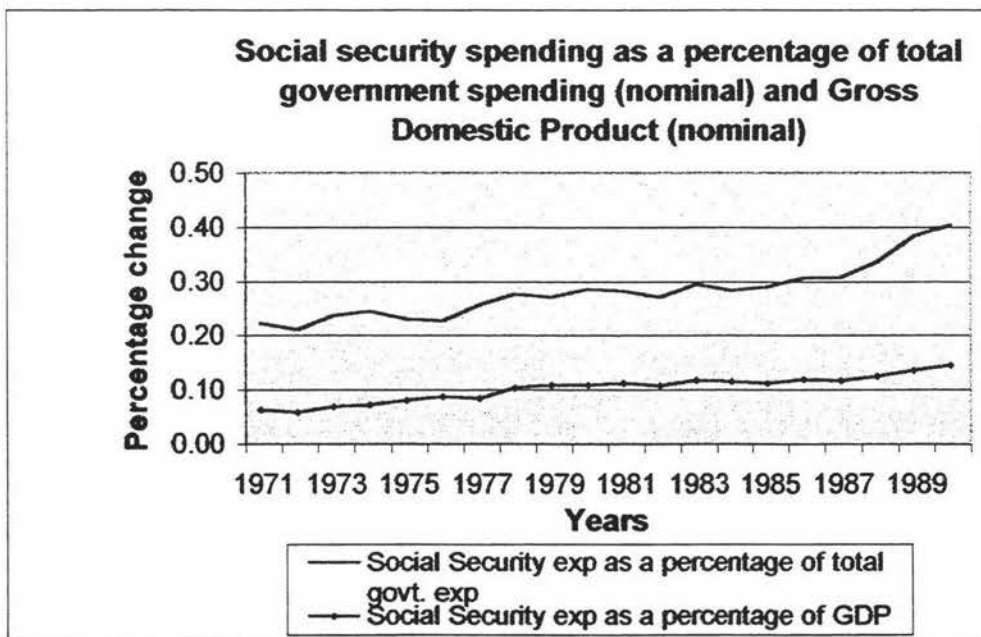
Elections held in 1975 saw the National Party, led by Robert Muldoon, returned to power. In the lead up to the 1975 elections, National campaigned against the superannuation scheme introduced by Labour. Once elected National replaced the existing superannuation arrangements with a more generous scheme financed from general taxation (Cheyne, Belgrave and O'Brien, 1997). The new single benefit was not means-tested and had a generous level of payment that was set at 80 percent of the average ordinary-time weekly wage before tax and was indexed to wage increases (McClure, 1998, p.191).

⁴ For an account of the differing perspectives of the crisis and its causes see Roper and Rudd, 1993.

From the onset of the economic downturn in the early 1970s until the early 1980s the economic crisis was handled in a traditionally Keynesian manner. Government spending was increased and schemes were introduced to reduce the number of unemployed. The focus of efforts to reduce unemployment was job creation schemes and programmes to assist beneficiaries from welfare to work (MacKay, 1999. p.7). However, the economic growth remained low (real Gross Domestic Product rose only two per cent between 1975 and 1980) and with unemployment rising (see Figure 5.1 above) and the costs of the expanded welfare state, social expenditure continued to rise as a percentage of Gross Domestic Product.

Figure 5.2 below shows a steady rise in social security spending from 1970 to 1986 and then a rapid increase from 1987 onwards, largely as a consequence of the negative outcomes of the economic reform process.

Figure 5.2: Social Security spending as a percentage of total government spending and Gross Domestic Product



Source: Dalziel and Lattimore, 1999.

The onset of economic crisis and the fourth Labour Government

The election of a Labour Government in 1984 signalled the beginning of an extended period of economic restructuring. This restructuring was:

based on the premise that the Muldoon economic management had brought the country to the brink of collapse (Cheyne, O'Brien and Belgrave, 1997, p.41).

Arguing that "the economy (was) beset with serious structural difficulties", (Treasury, 1984, p.104) Treasury explanations of the economic crisis laid the blame largely at the feet of poor economic management by previous governments (Roper 1997, p.7). This poor management, Treasury suggested, had:

depress(ed) economic performance by generating one or more of spiralling inflation, escalating debt, balance of payments deficits, recurring foreign exchange crises, a heavy tax burden, insufficient savings and investment, increasing unemployment and lower standards of living (Treasury, 1984, p.115).

Once elected, Labour implemented a programme of radical economic reform. Among the reforms were:

- (1) removal of interest rate controls (1984);
- (2) floating the New Zealand dollar (1984);
- (3) removal of subsidies for most areas of the economy (1984);
- (4) the flattening of the tax scale and the introduction of direct taxes such as the Goods and Services Tax (1986);
- (5) the corporatisation of state owned enterprises (1986);

- (6) the sale of state assets such as the Forestry Corporation and Telecom (1987-1990);
- (7) reform of the public sector via the State Sector Act 1988; and
- (8) establishing the independence of the Reserve Bank (1989).⁵

As a result of the economic restructuring, unemployment levels more than doubled. The number of those receiving the unemployment benefit rose from 50,136 in 1984 to 139,625 in 1990, with a resulting increase in expenditure on unemployment benefits from \$195 million in 1984 to \$1,235 million in 1990 (Social Welfare, 1993, p. 7- 8).

Along with the restructuring of the economy, Labour introduced changes to state welfare provision during their first term in office. These changes focussed on superannuation and increasing assistance to low-income families. In 1985 Labour introduced "a tax surcharge on other income earned by people who received National Superannuation" (McClure, 1998, p.214). This policy was controversial because during the election campaign Labour had promised not to weaken pension provision in any way.

The first of the policies increasing assistance to low-income families was the Family Care package introduced in late 1984. It was available to those working 30 hours or more per week on a low wage, and provided \$10 for each child in a family in addition to the family benefit" (McClure, 1998, p.216).

The introduction of supplements to wages was significant as it marked a shift from an economy in which the prime defence against need was high wages. Coupled with the increasing levels of unemployment it marked a

⁵ For a comprehensive list and examination of the reforms see Silverstone, Bollard and Lattimore, 1996.

move away from what Castles (1985) had termed the 'wage-earners welfare state'.

In October 1986 Labour introduced income support measures for low-income families, as compensation to low-income earners for the introduction of the Goods and Services Tax. These measures, called the Family Support Tax Credit and Guaranteed Minimum Family Income, replaced the Family Care package and the former family tax rebate. The new measures attempted "to achieve income support or redistribution through the taxation system rather than through social security" (McClure, 1998, p.218), with the assistance delivered as a tax credit rather than as a benefit.

During this second term in office Labour moved to curb the growing level of expenditure on welfare with a range of measures. The age of eligibility for the unemployment benefit was raised to 18 years in 1987 and a significant cut to the level of unemployment benefits for 16 and 17 year olds, from \$108.63 to \$80 per week, was introduced in January 1989. Furthermore, in 1990 Labour reduced the amount of money available for special benefits (McClure, 1998, p.230).

In a forerunner of future welfare-to-work schemes, Labour introduced a Transition to Work Allowance in 1987. This was designed:

to encourage long-term beneficiaries to move into employment by ensuring that, at least for the first three months of employment, they would be at least \$20 per week better off working than they were on the benefit (MacKay, 1999, p.11).

The increasing level of expenditure on superannuation was tackled by amending the level of indexation. The change meant that National

Superannuation was to be indexed to the lower movement of wages or the Consumers Price Index. In its first year in effect it, “reduced superannuation to 76 per cent, and by 1991 to 72 per cent of the average net wage” (McClure, 1998, p.230).

In 1990 National Superannuation was renamed Guaranteed Retirement Income and Labour announced plans to raise the age of eligibility gradually to 65 years, beginning in 2006 in an attempt to reduce costs. It also announced plans to introduce a single category of benefit called the Universal Benefit for all benefits except superannuation. The introduction of such a scheme would have resulted in a reduction in benefits levels for many categories of beneficiaries (O'Brien and Wilkes, 1993, p.79). These plans were shelved when National came to power in October 1990.

Assessing the impact of the actions of the Labour Government on the state provision of welfare, Rudd suggests that they:

began a process, continued by the following National Government, of reducing expenditure towards a more residual Welfare State (Rudd, 1993, p.226).

The impact of the changes introduced by Labour

The restructuring of the economy by the Labour Government resulted in increasing unemployment and a greater inequality in income distribution. Figure 5.3 below shows the quarterly unemployment rate from Labour's election in 1984 until the election of the National Government late in 1990. Initially dropping after Labour was first elected in 1984, it rose to a high of 8.8 percent, a doubling of the rate when Labour first took office.⁶

⁶ The unemployment data is sourced from Dalziel and Lattimore (1999).

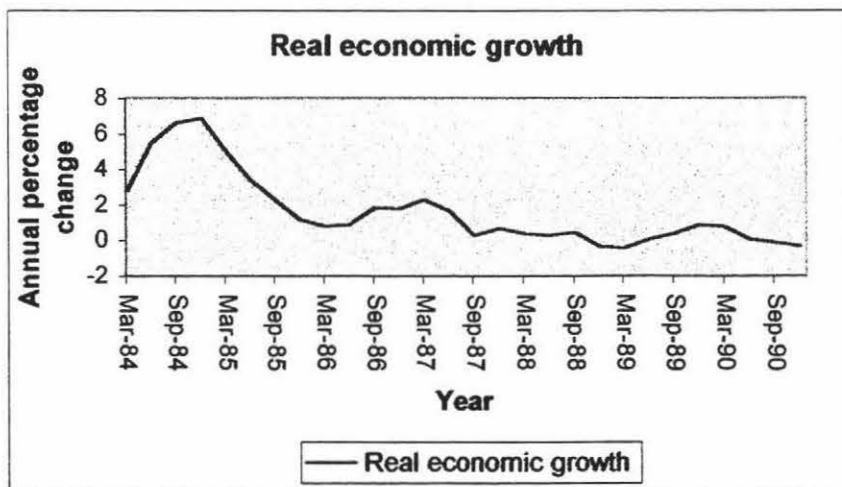
Figure 5.3: Quarterly unemployment rates between March 1984 and December 1990.



Source: Dalziel and Lattimore, 1999

Figure 5.4 below shows changes in real Gross Domestic Product during the period of Labour's two terms in office. After an initial upsurge in economic activity the rate of growth slowed, with negative levels of growth recorded in the middle of 1988.

Figure 5.4: Real economic growth March 1984 to December 1990



Source: Dalziel and Lattimore, 1999.

The economic data in the two graphs above show that the economic reforms introduced by Labour had a negative impact on economic growth and resulted in rising unemployment. Rising unemployment, along with the cost of the generous superannuation scheme introduced by the National Government in 1976 and the increasing number of recipients of the Domestic Purposes Benefit meant that welfare expenditure rose from \$4.049 billion in 1984 to \$10.320 billion in 1990. The combination of these factors enabled the incoming National Government in October 1990 to argue that they faced an economic crisis, one that justified radical action.

Conclusion

This chapter has painted a brief outline of the development of the state provision of welfare in New Zealand. In its early years the welfare state in New Zealand was characterised by a steady expansion. This expansion was gradual until the significant enhancements of the 1938 Social Security Act. This was followed by a period of little new development until the 1973 election of the Labour Government, who expanded the scope of state welfare provision. The economic downturn of the early 1970s and the seeming inability of the National Government to solve the problems of low growth and rising inflation set the stage for a restructuring of the economy by the fourth Labour Government upon its election 1984.

The economic restructuring undertaken by Labour failed to restore strong economic growth and rising unemployment, along with the increased spending on superannuation and the Domestic Purposes Benefit caused a significant increase in welfare spending. The inability of the Labour Government to resolve the economic problems it faced, and the consequential rising unemployment and public debt, contributed to their defeat in the October 1990 election. The reforms

introduced by Labour in the area of welfare provision laid the foundation for the radical reforms to the welfare state introduced by National soon after their election in October 1990. The state of the economy upon National's election set the scene for their claims of the existence of an economic crisis, one so severe that drastic measures were required.

Chapter Six

Income Support

Introduction

This chapter examines the usefulness of an orthodox Marxist theoretical framework for predicting, analysing and explaining the policies enacted by National Governments between 1990 and 1996 in the area of income support. I argue that the use of this framework allows us to better understand the actions taken by the National Governments during the period under review.

The first section of this chapter details the changes to income support policies and payments introduced by National during the period from 1990 to 1996. It focuses on the Unemployment Benefit and the Domestic Purposes Benefit. The second section outlines why the area of income support policy was a focus of reform attempts by National. The final section examines the reforms using the framework derived from orthodox Marxist theory outlined in Chapter Three.

Income Support

When referring to welfare provision the term 'income support' covers a variety of benefit types: the Unemployment Benefit, Independent Youth and Job Search Allowances, Training Benefit, Sickness Benefit, Invalids Benefit, Domestic Purposes Benefit, Widows Benefit, Miners Benefit, the Transitional Retirement Benefit and the Orphans and Unsupported Children's Benefit. I will focus on the Unemployment Benefit and the Domestic Purposes Benefit, for reasons outlined below.

Unemployment Benefits:

are payable to unemployed persons over 18 years, or married people over 16 who have dependent children, who are willing and able to undertake suitable work, and who have taken reasonable steps to find it (Department of Social Welfare Statistical Information Report Fiscal 1992, p.14).

The Domestic Purposes Benefit is payable to:

- unsupported male and female single parents over 18 years of age, or sole parents over 16 who are legally married;
- women without dependent children in some circumstances; and
- male or female applicants over 16 years of age who are required to give full-time care and attention to a person (other than a husband or wife of the applicant), who would otherwise be admitted to a hospital (Department of Social Welfare Statistical Information Report Fiscal 1992, p.3).

The reasons for choosing to focus on these benefit types are twofold. First, the Unemployment Benefit and Domestic Purposes Benefit were the focus of considerable policy activity by National Governments during 1990 to 1996. Second, in terms of expenditure these two benefit types made up approximately 71 percent of welfare expenditure (excluding superannuation) in the year (ended June 1990) that National came to power.

The period leading up to the elections of 1990

Forewarnings of the likely approach taken by the National Party to the welfare state were evident before the 1990 election. Commenting on the National Party annual conference in July, the *Dominion* reported:

A National Government would officially regard social welfare assistance as temporary, and would curtail benefits and toughen welfare eligibility criteria, senior MP's told the party conference in Wellington at the weekend (*Dominion*, 23/7/90, p.1).

Additionally, press statements by key National Party Members of Parliament such as Ruth Richardson and Jenny Shipley indicated that reform of the welfare state was being planned (*Dominion*, 10/10/90; *New Zealand Herald*, 3/5/90).

The announcement of the 'Economic and Social Initiative – December 1990'

Approximately two months after being elected National released its 'Economic and Social Initiative' on the 19 December 1990. This statement contained details on significant reforms to health, education, housing, accident compensation and the labour market, along with changes to the welfare system. The then Prime Minister, Jim Bolger, suggested that New Zealand had "one of the most generous welfare systems in the world" (Bolger, Richardson and Birch, 1990, p.7) and that such a level of provision was unaffordable (*ibid.*, p 10).

Following the Prime Minister's lead, Ruth Richardson, the then Finance Minister, stated that:

Administration of social welfare benefits is to be strengthened. A new work test will be introduced and there will be stricter eligibility criteria for all benefits. There will be significant new rules regarding stand down periods before unemployment benefit can be paid (ibid., p.24).

Richardson then announced a series of cuts in the level of many benefits. These cuts included: reducing the adult unemployment benefit by \$14 per week to \$129.81, reducing the sickness benefit for a single person aged over 25 years by \$27.04 per week to \$135.22, and reducing sole parent benefits by between \$25 and \$27 per week. Richardson also noted that there would be no inflation adjustment for benefits in April 1991 and that from 1 April 1991 the Family Benefit¹ would be abolished as a universal payment. Richardson argued that:

These measures, taken together, will generate savings in social welfare spending of \$245 million in 1990/91 and \$1,275 million in 1991/92 (ibid., p.27).

The 1991 Budget and 'Welfare that Works'

The reforms announced in December 1990 were followed by more changes in the July 1991 Budget. Emphasising the importance of the welfare reforms, Ruth Richardson announced:

¹ Family Benefit was a universal benefit of six dollars per week for each child of eligible age.

The redesign of the welfare state is integral to our strategy for growth. We cannot make economic progress without reforming our social systems, nor can social and economic policy be divorced from one another (Richardson, 1991, p.7).

Richardson's comments provided a backdrop for the detailed reforms to welfare announced by the then Minister of Social Welfare, Jenny Shipley, in a separate document titled 'Welfare that Works'. Shipley noted that:

The Government's social and economic objective is to provide an environment where New Zealand families are able to take control of their own lives, freed from dependence on state welfare that currently traps so many of our people (Shipley, 1991, p.1).

Shipley justified the previously announced cuts to benefit levels by arguing that in the past:

Benefit payments have been high enough compared to wages that for many people there has been little financial encouragement to take on paid work (Shipley, 1991, p.12).

Shipley identified the new principle underlying state provided welfare as constituting a 'safety net'. She stated that:

The state will continue to 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 (Shipley, 1991, p.13).

In addition, Shipley announced the introduction of tighter criteria for eligibility to benefits. These criteria were required she argued:

to encourage people to move as quickly as possible from dependence to independence and to protect the integrity of the benefit system (Shipley, 1991, p.23).

The criteria:

were designed to decrease the attractiveness of moving from work to welfare by creating a greater margin between benefit income and workforce earnings (Shipley, 1991, p.26).

The tighter eligibility criteria included:

- extending the age range covered by youth rates for benefit payment from 20 to 25 years of age;
- introducing stricter 'work readiness' requirements in situations where both partners in a relationship were receiving the Unemployment Benefit;
- extending the high earner stand-down provisions to recipients of the Domestic Purposes Benefit, Widows Benefit, Sickness Benefit, Invalids Benefit and Training Benefits from 1 August 1991;
- increasing the minimum qualifying age for Sickness and Invalids Benefits from 15 to 16 years from 1 August 1991; and
- increasing the minimum qualifying age for entitlement to the Domestic Purposes Benefit from 16 to 18 years as of 1 August 1991, except for those who were legally married (Shipley, 1991, p.27).

These two statements, the 'Economic and Social Initiative – December 1990' and the July 1991 Budget document 'Welfare that Works', provided the framework for National's policy in the area of income support. Some aspects of the announced changes proved difficult, if not impossible, to implement and were subsequently modified or abandoned. The key change in policy was the decision to abandon the introduction of family accounts for welfare provision when their implementation became impractical, and work on them was discontinued early in 1993.²

Why was National so intent on reforming income support?

National's desire to reform income support was underpinned by New Right beliefs about its impact on the operation of the market, particularly the labour market. For New Right proponents, the unfettered operation of the market produced the best outcomes for all involved. The presence of any distortions was alleged to reduce the efficiency and hence the potential output of the market. Pierson notes that New Right theorists argue that:

The welfare state is uneconomic. It displaces the necessary disciplines and incentives of the market place, undermining the incentive (of capital) to invest and the incentive (of labour) to work (Pierson, 1998, p.45).

The presence of the welfare state was alleged to distort the efficient operation of the market by requiring capitalists to pay higher wages than necessary to attract labour, therefore making them less competitive and reducing their profits. For example, the availability of the Unemployment Benefit made individual capitalists pay a wage some degree above the level of the benefit in order to attract labour. The higher the benefit level, the more the capitalist has to pay in wages to attract workers and

² For a detailed history of the family accounts project see Boston, 1994.

conversely, the lower the level of the benefit the less a capitalist has to pay in wages.

The significance of the unfettered operation of the labour market for capital is seen in the fact that at the same time National announced its reforms of the welfare state, it also announced radical reforms to the labour market.³ New Right theorists saw the presence of unions as having a distorting effect. This distortion was introduced because unions were able to bid wages up to a higher level than the free operation of the labour market would have paid, thus reducing profitability. In summary, the reforms introduced under the Employment Contracts Act, removed statutory regulation with:

Trade union registration, monopoly membership and bargaining rights, blanket award coverage and the right to negotiate a closed shop (being) no longer matters of statutory regulation (Walsh, 1993, p.187).

These reforms to the labour market lessened considerably the ability of unions to act to pressure employers for wage increases.

National's approach to reform in the income support area was based on two themes. The first was the reduction of expenditure and the second was the reduction of welfare dependency.

When first elected in October 1990, National emphasised the economic argument against the welfare state, although the issue of welfare dependency was referred to in briefings from Treasury (1990), the 'Economic and Social Initiative – December 1990' and the July 1991

³ See Harbridge, 1993, for an introduction to the reforms and an examination of their impact.

Budget. This emphasis on the economic approach had behind it the belief in the actions of the market.

The moral argument came to the fore in what could be seen as the second strand of National's reforms. This second strand arose as the overall number of benefit recipients continued to rise, with the exception of the year ending 30 June 1994. This occurred despite improvements in the economy and a fall in the number receiving the Unemployment Benefit. This trend is shown in Table 6.1 below.

Table 6.1: Number of benefit recipients for the period 1984 to 1998

Year	Number receiving benefits (excluding superannuation and Family Benefit)
1984	147224
1985	139980
1986	150153
1987	180856
1988	213554
1989	267480
1990	309151
1991	322555
1992	343878
1993	355055
1994	351942
1995	342089
1996	343856
1997	359050
1998	374746

Source: Table 3, Historical Summary – Number of Benefits and Pensions, Department of Social Welfare Statistical Report 1998, p.8.

The second strand of reforms was characterised by a change in the perception of the status of beneficiaries. Stephens notes:

traditionally, being on a benefit was viewed as a consequence of adverse economic conditions or a rigid labour market. The

new perception was that individuals were on a benefit as a result of their own lack of motivation (Stephens, 1999, p.239).

Given the alleged superiority of the free market and the reforms enacted to allow it to operate more efficiently, the failure to decrease the number of benefit recipients was not seen as the fault of the market. Rather, New Right proponents saw it as the fault of the benefit recipients themselves, who had chosen to live off welfare payments from the state rather than to find paid work.

The term used to describe this supposed 'lifestyle' choice was benefit dependency.⁴ As Fraser and Gordon note, the term dependency "carries strong emotive and visual associations and a powerful pejorative charge" (Fraser and Gordon, 1999, p.123). Speaking in a New Zealand context, O'Brien notes:

The term has almost universally carried with it an implicit and explicit criticism of beneficiaries themselves and of their reliance on the state for their income support (O'Brien, 1997, p.107).

Furthermore, he notes that the term has been targeted at particular groups of beneficiaries, predominantly "sole parents and on the unemployed" (ibid. p.107), while other groups reliant on the state for their income were spared this description.

The viewpoint that being on a benefit had become a lifestyle choice for some people had its foundation in the 'rational, utility maximising behaviour' underpinning neo-classical economics. Green argues that because "the welfare system makes payments if people fulfil certain

⁴ For a comprehensive discussion of the concept of benefit dependency see Dean and Taylor-Gooby, 1992.

behaviour... some people alter their behaviour to qualify for welfare” (Green, 1996, p.67). Richardson makes a similar point:

To a low-skilled, low-motivated individual, taking the unemployment benefit in preference to a low-paying, perhaps unpleasant job may seem rational at the time the choice is made, but it can trap them into a cycle of poverty, dependency and continued low motivation (Richardson, 1995, p.210).

Assessing the reforms within a Marxist framework

I argued in Chapter Three that orthodox Marxist theory provides a useful framework for assessing the reforms introduced by National. It also provides a guide to the strategies likely to be used by National to achieve its aims. These strategies include:

- reducing the level of benefit payments;
- reducing the overall level of expenditure on income support;
- tightening eligibility for benefits;
- introducing measures favouring those in paid work;
- stigmatising those receiving benefits; and
- aligning benefit receipt more closely with the labour market.

These strategies provide the link between my theoretical approach and the empirical data in the following way. The orthodox Marxist approach argues that National will attempt to retrench or roll back the state provision of welfare because it is seen as damaging to the economy. The strategies identified above support the interests of capital in a number of ways. These strategies reduce state expenditure, which acts to reduce interest rates; lower benefits, which acts to reduce wage costs; and deter people from seeking state welfare provision and ‘encourage’ them to participate in the paid work, which increases the pool of available low wage labour.

Reducing the level of benefit payments

The 'Economic and Social Initiative – December 1990' announced cuts to both the Unemployment Benefit and the Domestic Purposes Benefit. The justification for these cuts was that the level at which they were paid was too high in relation to wages and therefore cutting benefits levels was seen to act as an incentive to find paid employment. The cuts were also seen as a means of making a significant reduction to state expenditure on welfare provision.

Unemployment benefit

Table 6.2 below shows changes in the level of Unemployment Benefit payments for various categories of recipients over the period under review.

Table 6.2: Unemployment benefit rates

Date in force	Single 20-24 years	Single 25+ years	Married couple – no child	Married couple – one child
1/4/90	\$143.57	\$143.57	\$223.22	\$255.08
1/4/91	\$108.17	\$129.81	\$216.34	\$229.88
1/4/92	\$109.25	\$131.11	\$218.50	\$232.18
1/4/93	\$110.69	\$132.84	\$221.38	\$235.24
1/4/94	\$112.23	\$134.69	\$224.46	\$238.52
1/4/95	\$115.37	\$138.46	\$230.74	\$245.20
1/4/96	\$118.74	\$142.50	\$237.48	\$252.36
1/4/97	\$121.77	\$146.13	\$243.54	\$258.80

Note: Figures are for net benefit rates as 'G' tax rate

Source: Various Department of Social Welfare Statistical reports.

For a single person aged between 20 and 24 years, the cuts in 1991 reduced their benefit by approximately \$35. Additionally, the benefit rate for those aged 20 to 24 years had not risen back to the pre-reduction level of \$143.57 (at 1/4/96 it was increased to \$118.74) by the end of the period

under examination. For a single person aged 25 years and over, the cuts in 1991 reduced their benefit by approximately \$14 per week. The benefit level for a person aged 25 years and over did not return to its pre-cut level of \$143.57 until April 1997.

The impact of the benefit cuts can be analysed by calculating replacement rates, which show the gap between wages and benefits.⁵ Whiteford notes that:

it is usually conceded that net benefits and net earnings are more appropriate indicators of the living standards of benefit recipients relative to those of workers (Whiteford, 1995, p.27).

Table 6.3 below shows the impact of the benefit cuts in 1991 on the replacement rate and its failure to rise in the period following the cuts. This indicates that National were able to impose a sizeable increase in the gap between benefits and wages during the period under review.

Table 6.3: Replacement rates for the Unemployment Benefit

Period	Net average weekly ordinary earnings for male and female	Unemployment Benefit rate for 25 year old	Replacement rate
May 1990	\$387.60	\$143.57	0.37%
May 1991	\$404.15	\$129.81	0.32%
May 1992	\$418.71	\$131.11	0.31%
May 1993	\$422.56	\$132.84	0.31%
May 1994	\$431.54	\$134.69	0.31%
May 1995	\$443.28	\$138.46	0.31%
May 1996	\$456.01	\$142.50	0.31%

Source: Derived from Statistics New Zealand and Department of Social Welfare data.

⁵ Whiteford notes that: "replacement rates are usually calculated by comparing the levels of statutory entitlements with some measure of incomes in work, thus showing what percentage of earnings is replaced by benefits" (Whiteford, 1995, p.3).

Domestic Purposes Benefit

Table 6.4 below shows the impact of the introduced benefit rate cut on those receiving the Domestic Purposes Benefit in April 1991. A single person with one child had their Domestic Purposes Benefit reduced by approximately \$27 in the 1991 cuts, and the payment level had not risen to its pre-1991 level by the end of the period under review, 1996. Similarly a single person with two or more children whose benefit was cut by nearly \$26 in 1991, had not yet seen their benefit level, in nominal terms, reach the pre-cut level by the end of 1996.

Table 6.4 below provides evidence for the claim that National was able to impose significant and ongoing reductions to the payment levels of those receiving the Domestic Purposes Benefit.

Table 6.4: Domestic Purposes Benefit rates

Date in force	Single adult	Single + 1 child	Single + 2 children (or more)
1/4/90	\$162.26	\$213.14	\$228.87
1/4/91	\$135.22	\$185.93	\$202.83
1/4/92	\$136.57	\$187.79	\$204.86
1/4/93	\$138.37	\$190.27	\$207.56
1/4/94	\$140.29	\$192.91	\$210.45
1/4/95	\$144.22	\$198.31	\$216.34
1/4/96	\$148.43	\$204.10	\$222.66
1/4/97	\$148.43	\$209.30	\$228.34

Note: Benefit rates are net at 'G' tax rate

Source: Various Department of Social Welfare Statistical reports.

Table 6.5: Replacement rates for Domestic Purposes Benefit

Period	Net average weekly ordinary earnings for male and female	Domestic Purposes Benefit rate for single person + 1 child	Replacement rate
May 1990	\$387.60	\$213.14	0.55%
May 1991	\$404.15	\$185.93	0.46%
May 1992	\$418.71	\$187.79	0.45%
May 1993	\$422.56	\$190.27	0.45%
May 1994	\$431.54	\$192.91	0.45%
May 1995	\$443.28	\$198.31	0.45%
May 1996	\$456.01	\$204.10	0.45%

Source: Derived from Statistics New Zealand and Department of Social Welfare data.

Table 6.5 indicates that National was able to impose an increase in the gap between wages and the Domestic Purposes Benefit, through the benefit cuts of 1991 and changes in the indexation of benefit adjustments.

Reducing the overall level of expenditure on benefits

National's intention to reduce the level of welfare expenditure was clearly spelt out in their early post-election policy statements. High expenditure on state welfare provision was seen as damaging the economy because of the higher interest rates, which arose as governments borrowed to fund welfare spending.

Unemployment benefits

Table 6.6 below indicates that during the first term of the National Government (1990 to 1993) expenditure on the Unemployment Benefit rose, despite the cuts made to benefit rates in April 1991, and it was not until the year ended June 1994 that a decrease in expenditure occurred. The increase in expenditure was due to the increase in the number receiving the Unemployment Benefit shown in Table 6.7 below. However,

by the end of National's second term in office (1993 to 1996), expenditure was higher than when they took office, despite the cuts made in April 1991.

Table 6.6: Expenditure on Unemployment Benefits

Year (1)	Expenditure on Unemployment Benefits (\$000)	Change in expenditure (\$)	Annual percentage change
1990	1235056	-	-
1991	1401628	166572	13.5%
1992	1445248	43620	3.1%
1993	1560669	115421	8.0%
1994	1498545	-62124	-4.0%
1995	1313682	-184863	-12.3%
1996	1276540	-37142	-2.8%
1997	1370882	94342	7.4%
1998	1496701	125819	9.2%

(1) Expenditure figures are for the year ending June

Source: Table 4, Expenditure on Main Benefits and Pensions, Department of Social Welfare Statistics Report 1998, p.9.

Table 6.7: Numbers in receipt of the Unemployment Benefit

Quarter ending	Standard Unemployment Benefit
June 89	119,587
June 90	128,548
June 91	138,697
June 92	153,105
June 93	150,359
June 94	139,426
June 95	119,895
June 96	111,270
June 97	116,230

Source: Table 15, Unemployment Benefit Trends, Department of Social Welfare Statistics Report for the year ending 1998, p.21.

Domestic Purposes Benefit

Table 6.8 below shows the level of expenditure on the Domestic Purposes Benefit. In the years immediately following their election, National were able to reduce overall expenditure on the Domestic Purposes Benefit before it resumed its pattern of increases in 1993/94. The decline in expenditure can be attributed to two factors – the cuts to benefits introduced by National in April 1991 and the reduction in numbers in receipt of the Domestic Purposes Benefit. While National were not able to reduce the level of expenditure over the whole of the period from 1990 to 1996, they were able to slow the rate of increase in expenditure. This was a notable achievement, given the previous history of large annual increases in spending

Table 6.8: Expenditure on Domestic Purposes Benefit

Financial Year	Expenditure (1) (\$000)	Percentage change
1983/84	380,836	14.2%
1984/85	460,385	20.9%
1985/86	603,878	31.2%
1986/87	709,568	17.5%
1987/88	808,787	14.0%
1988/89	962,871	19.0%
1989/90	1,136,718	18.1%
1990/91	1,207,856	6.3%
1991/92	1,161,191	-3.9%
1992/93	1,159,737	-0.1%
1993/94	1,228,054	5.9%
1994/95	1,300,173	5.9%
1995/96	1,440,122	10.8%
1996/97	1,563,488	8.6%
1997/98	1,654,035	5.8%

(1) Prior to 1990 expenditure is for the year ended March, whereas from 1990 onwards expenditure is for the year ended June.

Source: Table 4, Expenditure on Main Benefits and Pensions, Department of Social Welfare Statistics Report 1998, p.9.

Table 6.9 below gives the numbers of those receiving the Domestic Purposes Benefit at the end of the June quarter for each year from 1980 until 1998. Under National the rate of increase in the number receiving the Domestic Purposes Benefit slowed considerably between 1990 and 1996. Over the six years prior to the election of the National Government (that is, between 1984/85 and 1990/91), the number of recipients had risen by approximately 72 percent. Over the six year period National was in office the increase was approximately 12 percent. Indeed, while National were in office the number of Domestic Purposes Benefit recipients declined for three consecutive years and did not resume an upward climb until 1993/94. National saw this decline in the number of recipients as a significant achievement given the previous rates of increase.

Table 6.9: Number of recipients of the Domestic Purposes Benefit

Financial Year (1)	Numbers current at end of June quarter	Percentage change (from previous year)
1983/84	53,144	10.4%
1984/85	56,548	6.4%
1985/86	62,570	10.6%
1986/87	69,146	10.5%
1987/88	74,862	8.3%
1988/89	85,615	14.4%
1989/90	94,823	10.8%
1990/91	97,000	2.3%
1991/92	96,722	-0.3%
1992/93	96,335	-0.4%
1993/94	100,256	4.1%
1994/95	104,027	3.8%
1995/96	108,798	4.6%
1996/97	112,395	3.3%
1997/98	113,029	0.6%

(1) Prior to 1990, the year ended 31 March. From 1990 onwards, the year ended 30 June.

Source: Table 4, Expenditure on Main Benefits and Pensions, Department of Social Welfare Statistics Report 1998, p.9.

Tightening eligibility for benefits

Tightening eligibility criteria for benefits is an immediate way of reducing the numbers entitled to assistance, and hence reducing government spending on welfare provision. National introduced measures to tighten eligibility in the 'Economic and Social Initiative – December 1990' and the 1991 Budget. The measures included increasing the stand-down periods before beneficiaries were entitled to receive benefits, the introduction of work tests for some categories of beneficiaries, and raising the age of eligibility for some benefits.

The stand-down period for those on higher incomes was increased for those applying for the Domestic Purposes, Sickness, Invalids and Training Benefits from 1 August 1991. Additionally, the qualifying age for Sickness and Invalids benefits rose from 15 to 16 years of age from 1 August 1991.

Two significant changes in eligibility rules were introduced for those receiving the Unemployment Benefit. The first of these changes was the denial of access to the Unemployment Benefit for those aged 16 and 17 years from 1 December 1990. The second change was the extension of the age at which youth rates were paid. This change was announced on 19 December 1990 and implemented in April 1991. All those aged between 20 and 24 years faced a significant drop in benefit payments of approximately \$35 per week when they were paid at the lower rate.

The age at which a person was eligible to receive the Domestic Purposes Benefit was increased from 16 to 18 years and took effect in August 1991. Those already under 18 years who were already receiving the Domestic Purposes Benefit were not affected by this change.

The tightening of benefit eligibility rules resulted in a reduction in the numbers of recipients entitled to assistance, an immediate saving of welfare expenditure for National.

Introducing measures favouring those in paid work

In its 'Tax Reduction and Social Policy Programme 1996' National introduced measures that favoured those in paid work and excluded beneficiaries. These measures were needed, National argued, to provide incentives for beneficiaries to seek paid work. New Right proponents suggested that such incentives were needed because many beneficiaries had chosen to live off a benefit rather than engage in paid work.

The incentives announced in the:

Tax Reduction and Social Policy Programme which favoured those in paid work over beneficiaries were reductions in tax rates for those in employment and the introduction of the Independent Family Tax Credit (Birch, 1996).

The tax reductions involved changes in the rates of tax paid and the threshold levels at which different rates applied. The lowest tax rate, the one which most beneficiaries would be included under, was not changed. The Independent Family Tax Credit was payable to low income families in full-time work only, thus excluding beneficiary families.

Stephens argues that: "The work-incentive argument was given as the reason why low-income earners and beneficiaries received no gain" (Stephens, 1996, p.457), from the 'Tax Reduction and Social Policy Programme'. Stephen's view is supported by Sheldrick, who notes that:

The creation of new systems of tax credits that benefit only those in work, ...is seen as providing a series of incentive structures that will compel individuals into the labour market (Sheldrick, 2000, p.110).

Sheldrick further notes that:

The logical integrity of the new system (of tax credits) depends both on the validity of the monetarist claim that the benefits system creates labour market rigidities, and on the availability of jobs for people to take up (Sheldrick, 2000, p.110).

Stigmatising beneficiaries

Beneficiaries were stigmatised in two main ways during the period under review. First, the concept of benefit 'dependency' was used to describe certain groups of beneficiaries. Second, a well-publicised campaign was mounted against benefit fraud. Both strategies painted an unfavourable picture of beneficiaries.

These two strategies helped to create an environment where certain groups of beneficiaries could be penalised, evoking little fear in National of a publicity backlash. The mainstream media contributed to this negative stereotyping of beneficiaries with stories such as the one published by the monthly magazine, *North and South* (1992), titled: 'The Welfare Burden: The Choking of our Country's Spirit'. This story alleged that the presence of the Domestic Purposes Benefit created more problems than it solved and therefore that it should be abolished. Other headlines, typical of the media's reporting and contributing to the perception of a significant benefit fraud problem, included: 'Fraud to go unchecked' (*New Zealand Herald*, 2/12/92), and 'ACC plans matching to cut fraud' (*Dominion*, 14/11/94).

Aligning benefit receipt more closely with the labour market

For both the Unemployment Benefit and the Domestic Purposes Benefit changes were introduced that aligned their recipients more closely to the labour market. In the case of the Unemployment Benefit stricter work readiness requirements were introduced in the 1991 Budget for situations where both partners in a relationship were receiving Unemployment Benefit. Additionally, National introduced a stand-down period of 26 weeks:

for those who have lost their job through misconduct, and those who refuse an offer of suitable employment or training (Bolger, Richardson and Birch, 1990, p.55).

For those receiving the Domestic Purposes Benefit, the 1996 'Tax Reduction and Social Policy Programme' introduced increased obligations and responsibilities for beneficiaries with regard to work-seeking practices.

From 1 July 1997, people who receive Domestic Purposes or Widows Benefits, with no children or a youngest child aged 14 or over, will be required to look for part-time work (Birch, 1996, p.30).

These changes need to be seen in light of the structural changes made to the economy. Both the National and previous Labour Governments were committed to restructuring the economy from one based on high internal demand to one based on export-led growth. The former requires high wage levels to sustain internal demand and protection from outside competition to allow domestic import-substituting firms to flourish. The latter regards high wages as a cost, which reduces the competitiveness of New Zealand products in overseas markets. Therefore, there is a need to keep costs and particularly wages as low as possible in order to compete

in overseas markets. Maintaining the pressure on beneficiaries to participate in the labour market through incentives, penalties or stigmatisation assists in reducing the pressure for wage increases.

Stephens notes the role welfare provision plays in this process:

The introduction of the Family Support Tax Credit and Guaranteed Minimum Family Income can be seen either as a method for reducing poverty among low paid workers or allowing employers to reduce pay rates for competitive advantage reasons in the knowledge that the government subsidy will maintain take home pay (Stephens, 1996, p.456).

Additionally, Bill Birch, the then Minister of Finance, announced an increase in the incentives for beneficiaries to take up work, particularly part-time work in the 'Tax Reduction and Social Policy Programme'. To assist this process, changes were made to the benefit abatement system. Those beneficiaries receiving a Domestic Purposes, Widows or Invalids Benefit were allowed to earn \$180 per week (previously \$80 per week) before abatement rates rose above 30 cents in the dollar. For those receiving other types of benefits, the abatement rates remained unchanged.

The purpose of the dual system was to encourage those receiving Domestic Purposes, Widows or Invalids Benefit to participate in part-time work, which was considered to better suit their circumstances (Birch, 1996, p.15). For other beneficiaries, encouragement into full-time work was seen as more suitable. Birch noted that:

The programme encourages participation in paid work by:

- increasing the financial margin between work and benefit incomes;
- lowering benefit abatement rates for people on Domestic Purposes, Widows, or Invalids Benefits;
- reducing tax rates for people in employment; and
- introducing the Independent Family Tax Credit (Birch, 1996, p.19).

These National policies had the purpose of more closely linking benefit receipt to the labour market.

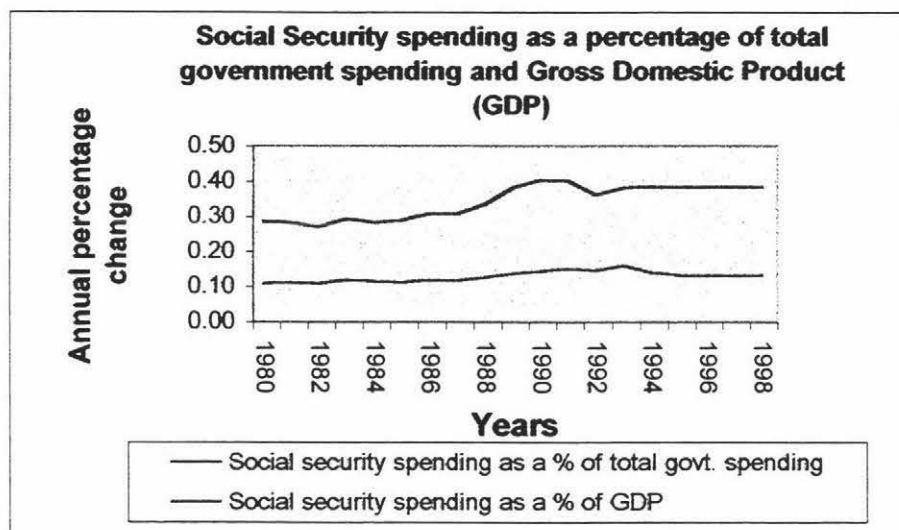
Analysis of the changes from an orthodox Marxist viewpoint

Orthodox Marxist theory argues that during times of an economic crisis the state will act in the interests of the capitalist class to restore profitability to the economy. The strategies implemented by National in the area of income support clearly support this argument in several ways.

First, National attempted to reduce the overall cost of welfare provision by directly cutting the level of benefit payments and by tightening benefit eligibility criteria. Second, the benefit reductions and tightened eligibility criteria increased the pressure on welfare beneficiaries to seek work. This increase in the number of people seeking work, especially in the low wage labour market, acted as a downward pressure on wage levels and helped reduce costs to capitalists as they sought to participate in an export-led economy. Third, the stigmatising of particular groups of beneficiaries through the use of the pejorative term 'welfare dependency' allowed the state to impose 'incentives' upon them to force their participation in the labour market, with reduced fear of public criticism of such moves. Beneficiaries became labelled as 'lazy', 'dole-bludgers' and such like.

The impact of National's reforms on the level of state spending on welfare provision is seen in Figure 6.1 below. This figure shows social security spending as a percentage of both total government spending and as a percentage of Gross Domestic Product in nominal terms. Over the period under examination, 1990 to 1996, social security spending as a percentage of government spending reduced only slightly, but social security spending as a percentage of Gross Domestic Product exhibited a slightly stronger downward trend. Thus, the measures introduced by National did succeed in reducing expenditure on state welfare as they had intended.

Figure 6.1: Social security spending as a percentage of total government expenditure and Gross Domestic Product



Source: Dalziel and Lattimore, 1999, p. 126.

Conclusion

The changes introduced by National during 1990-1996 in the area of income support represented a break with the principles that previously underpinned social policy. According to the 1972 Royal Commission on Social Security, beneficiaries were to enjoy "a standard of living consistent

with human dignity and approaching that enjoyed by the majority” (Royal Commission on Social Security 1972 quoted in Cheyne, O’Brien and Belgrave, 1997, p.52). However, under National rule between 1990 and 1996 this situation changed. The principles underlying state welfare provision became those of preparing and ‘encouraging’ beneficiaries to participate in the labour market. This shift, orthodox Marxists argue, ultimately served the interests of capital. It helped to keep downward pressure on wages and served to ensure a ready pool of generally low paid workers who needed to find paid work to supplement inadequate benefit levels. Additionally, at the level of the economy as a whole, it assisted in keeping state expenditure low, thus helping to keep both tax and interest rates low and making conditions more conducive to profitable capital accumulation. Sheldrick notes:

The welfare state, rather than insulating and protecting people from the harshest aspects of capitalism, must prepare and discipline people for participation in capitalist wage-labour relations (Sheldrick, 2000, p.103).

Chapter Seven

Pensions

Introduction

When the National Party came to power in October 1990 spending on National Superannuation (or Guaranteed Retirement Income as it was then known) amounted to approximately 59 percent of expenditure on main benefits and pensions for the year ended June 1990 (Department of Social Welfare, 1998, p.9). Given this high level of expenditure on state pension provision (and its projected continued growth due to demographic changes), it was an obvious target for reform by a National Government intent on reducing the cost of funding the welfare state.

This chapter outlines the National Party's pre-election statements on superannuation, the policy changes they introduced in the July 1991 Budget, the aftermath of these changes and the signing of the Accord on Retirement Income Policy in 1993. This chapter also uses the strategies derived from the end of Chapter Three to assess the usefulness of Marxist theory in assessing the reform process in the pension area.

National on the campaign trail

While National had given some indications prior to the 1990 elections that they intended to undertake a comprehensive overhaul of the welfare state, superannuation was not identified as one of the areas under consideration for reform (*National Business Review*, 26/10/90, p.9). Prior to the 1990 election National stated their intention to repeal the superannuation surcharge imposed by the Labour Government in 1985.

Along with the pledge to remove the surcharge,¹ National's superannuation policy contained commitments to protect the living standards of those in retirement and raise the age of eligibility for National Superannuation from age 60 to 65 years. This rise in the age of eligibility was to occur gradually over a period of 20 years.

Treasury officials, however, were of the view that: "The sheer size of the Guaranteed Retirement Income² programme demands that it contribute to fiscal savings and its entitlements be limited" (Treasury, 1990, p.112). Treasury identified three areas for potential reform: reductions in the amount of superannuation payments; tighter targeting of payments; and a more rapid increase in the age of eligibility. Given National's post election emphasis on the seriousness of the economic crisis they faced once taking power, it is little surprise that they considered cuts to superannuation as one of a range of expenditure reducing measures.

The 'Economic and Social Initiative – December 1990'

Upon their election in October 1990, the National Government moved to address the economic problems it saw itself facing.³ On 19 December National released its 'Economic and Social Initiative'. The document announced major changes in the labour market and the state provision of welfare, including reductions in the level of payments for many benefits and tighter targeting of assistance to those identified as most in need.

Superannuation received little attention, but the then Prime Minister, Jim Bolger, stated:

¹ The surcharge had been introduced by Labour in 1985 and was unpopular. Under the surcharge policy: "A special tax of 20 percent was applied to each dollar of other income above an exemption of \$7,202 for a single person and \$12,012 for a married couple until all of the net superannuation was recovered" (St John, 1992, p.126).

² Guaranteed Retirement Income was the name given to the superannuation payment.

³ See Chapter Five for an outline of these economic problems.

My party has clear views on the path for reform in regard to the abolition of the surcharge on State superannuation payments and the increase in the age of eligibility from 60 to 65 (Bolger, Richardson and Birch, 1990, p.13).

Bolger was keen to forge a bi-partisan agreement among all political parties and he announced plans to hold an all-party conference early in 1991 to discuss the future provision of retirement income. The conference was to:

use the 1988 Royal Commission on Social Policy recommendation for superannuation as a starting point. Reform will be based on principles that the scheme be state-funded and include an element of universality, with a gradual raising of the entitlement age from 60 to 65 (*National Business Review*, 20/12/90, p.2).⁴

The then Finance Minister, Ruth Richardson, in her section of the 'Economic and Social Initiative' statement, noted the potential for fiscal gains (savings) from reviews of all areas of social provision by the state, including that of superannuation. After announcing reductions to many benefit levels, she noted that:

Given the state of the economy, and the income restraint applying to the rest of the community, there will be no inflation adjustment in April 1991... for Guaranteed Retirement Income (Bolger, Richardson and Birch, 1990, p.26).

⁴ The Royal Commission advocated income-tested superannuation at a flat rate and universal superannuation at a later age and a lower rate (*New Zealand Herald*, 20/12/90, p.4).

The decision not to adjust Guaranteed Retirement Income payments for inflation was estimated to “save \$43 million in 1990/91 and about \$200 million in 1991/92 (ibid., p.58). Given the levels of cuts to benefit payments, recipients of Guaranteed Retirement Income appeared to have escaped lightly from the announced reforms.

National’s reluctance to cut superannuation spending appeared to stem from its pre-election position in favour of abolishing the surcharge. Having made much political capital from the previous Labour Government’s surcharge and their promise to remove it, National realised the negative impact of failing to do so. However, as St John notes, National also recognised that:

If they implemented their election promises, they could be criticised for their unseemly generosity to the better-off retired at a time when they were making it so much harder for low-income families and beneficiaries (St John, 1992, p.137).

Ruth Richardson, the then Finance Minister, and one of the key drivers of the reforms, noted in her autobiography that she thought that the most politically difficult aspect of social policy reform would be that of national superannuation. She noted that while she did not seriously consider cutting the levels of payment, she did favour eventually raising the age of eligibility to 68 or 70 years (Richardson, 1995, p.109).

There was debate within the National Government on the exact shape and form the changes to superannuation should take. Opinion polls had shown a considerable loss of political support for National since the introduction of benefits cuts and National Members of Parliament were wary of further alienating the public (*National Business Review*, 31/5/91, p.7).

Among the policy options considered by National prior to the release of the 1991 Budget was the reduction of superannuation payments to the level of other benefits. However, this option was considered too risky politically, and:

the emphasis fell on achieving fiscal savings through a tight abatement regime coupled with a low rate of abatement (St John, 1992, p.138).

The 1991 Budget

In her July 1991 Budget speech, the then Minister of Finance, Ruth Richardson, introduced the reforms to superannuation by stating:

the changes that will be announced tonight are not as generous as this Government promised they would be before the last election (Richardson, 1991, p.16).

Basing her argument on the unaffordability of superannuation in its current guise, she announced the abolition of the existing surcharge and the replacement of Guaranteed Retirement Income with an income-tested National Superannuation. The income test would exempt the first \$80 per week of income received by a couple or single superannuitant and above that amount extra income would be abated by around 65 cents for each additional dollar of income. Else and St. John note that:

These changes meant that, in practice, extra income over \$4160 a year would effectively be 'taxed' at 93 cents in the dollar (Else and St John, 1998, p.66).

Along with the income test, the age of eligibility for National Superannuation was scheduled to rise incrementally to 65 years by the

year 2001. This policy represented a considerable shortening of the previously announced timeframe of 20 years for the increase in the age of eligibility.

Richardson also announced that the first increase in National Superannuation payments would be made on 1 April 1993, a delay of nearly two years. The adjustment would be based on increases in the cost of living over the previous calendar year and not linked to movements in wages. She noted that:

The adjustments we are making with the new National Superannuation scheme will generate annual fiscal savings of more than \$650 million in 1993/94 and \$1 billion by the turn of the century (Richardson, 1991, p.18).

Following this Budget speech, the then Minister of Social Welfare, Jenny Shipley, provided more detail on the changes to superannuation in a document titled 'Welfare that Works'. She announced that the changes:

represent a fundamental shift in the way society views the balance between the state's obligations and the individual's responsibilities in providing retirement income (Shipley, 1991, p.36).

Echoing Richardson's arguments about the unaffordability of the current Guaranteed Retirement Income scheme, she detailed the options examined by the Government in its quest to reduce expenditure. These were:

- continuing with the status quo and borrowing to fund superannuation;
- increasing taxation to fund superannuation;

- imposing harsh cuts on the level of Guaranteed Retirement Income payments;
- setting Guaranteed Retirement Income at the same level as other welfare benefits; and
- a combination of progressively increasing the age of eligibility, decreasing the fiscal cost by holding the Consumer Price Index increase, and introducing a greater element of targeting” (Shipley, 1991, pp.37-8).

In announcing the Government’s choice of the last option, she argued that:

it offers protection for all low income retired people and gives an element of universality at the age of 70 in recognition of the contribution the retired continue to make to society (Shipley, 1991, p.38).

She concluded that: “The new approach encourages self-reliance, particularly among those who have yet to retire” (Shipley, 1991, p.42).

The aftermath of the 1991 Budget

The nature of the changes announced in the Budget provoked considerable outrage amongst pensioners throughout the country. St John notes that the measures announced effectively transformed: “the public pension into a tightly targeted welfare benefit” (St John and Willmore, 2000, p.4). Some National Party Members of Parliament were unhappy with the reaction to the changes, and Richardson notes:

Many in the organisational wing of the National Party, and much of the National backbench, were among those most opposed to the high abatement rate (Richardson, 1995, p.122).

The harshness of the measures provoked calls for changes to reduce the impact of the superannuation reforms. The pressure for change came to a head early in October, when the then Prime Minister, Jim Bolger, announced the abandonment of the income test for superannuation. The detail of the changes in provision was announced on the 7 Nov 1991, four months after the 1991 Budget was released. National Superannuation became:

an individually-based pension with a surcharge operated through the tax system. The rate of surcharge was raised from 20 percent to 25 percent, and the exemption was lowered to \$6,240 per annum for a married couple and to \$4,160 per annum for an individual (St John, 1992, p.127).

These changes represented a significant departure from the reforms announced in the 1991 Budget and the financial cost of these amendments, in terms of lost savings, was estimated by Ruth Richardson at approximately "\$400 million on a full-year basis" (Richardson, 1995, p.123).

In October 1991 the Government also announced the formation of a Task Force on Private Provision for Retirement. It was appointed "to report on policy options to encourage greater self-reliance of retired people" (Interim Report, 1991, p.10). The name given to the Task Force indicates its purpose was to shift people towards providing for their own retirement, rather than relying on the state. St John (1999) suggests that it was formed to give the Government advice on how to encourage people to make their own provision for retirement and hence "reduce the state's role in the provision of retirement income" (St John, 1999, p.284).

The Accord

In August 1992 the Task Force on Private Provision for Retirement released its reports, providing an opportunity for the then Prime Minister, Jim Bolger, “to make another attempt to reach a multi-party accord on the long-term shape of superannuation” (Richardson, 1995, p.172). After negotiation, an Accord on Retirement Income Policies was agreed to by the main parties in Parliament: National, Labour and Alliance; and signed in August 1993 (St John, 1999, p.284).⁵

The main elements of the Accord were:

- an ‘adequate and equitable amount’ of income for every eligible retired New Zealander, provided from public funds, supplemented by voluntary private tax-neutral provision;
- the state pension to be called New Zealand Superannuation (NZS), and to be indexed to the Consumers Price Index, as long as the net rate for a married couple was within a band of 65.00 and 72.5 per cent of the net average ordinary-time earnings;
- the amount provided from public funds to reduce, through either the surcharge or a progressive tax, as the person’s total income increased;
- an environment of enhanced education and information about saving;
- political consensus obtained through the Accord process; and
- periodic reviews at six-yearly intervals (St John, 1999, p.285).

⁵ Myles and Pierson (forthcoming) note pension reform seldom occurs “through a process of unilateral legislation by the government of the day. All-party agreements, referenda requiring the consent of the “people”, or corporatist “social pacts”... are the rule rather than the exception so that “negotiated settlements” are the usual political mechanism for redesigning pension policies” (Myles and Pierson, forthcoming, p.2). They suggest this process is followed in order to reduce blame for the introduction of unpopular pension reforms.

Beaglehole suggests that the Accord was:

intended to create an environment which will encourage greater individual savings towards retirement, reducing the fiscal responsibility of the government (Beaglehole, 1993, p.40).

As a consequence of the Accord superannuation was not a significant issue during the 1993 election. St John notes that for the following two years (1994 and 1995) superannuation issues were largely dealt with via the Accord (St John, 1999, p.285). The Accord came under pressure during the run up to the 1996 election particularly after Labour released its superannuation policy, which contained plans to abolish the surcharge.

Why was the provision of public pensions a problem for National?

Under a New Right or neo-liberal regime the ideal form of pension provision is a:

privatised, market-based, model of retirement savings with the state retaining only the residual responsibility of meeting the income needs of the most impoverished (Myles and Pierson, forthcoming, p.2).

From a New Right perspective, universal state funded superannuation as the primary source of retirement income was a problem for both economic and moral reasons. The economic argument had two strands. First New Right theory argues for the superiority of the market over public provision. Second, the high level of expenditure needed to pay for superannuation was seen as requiring funding from higher levels of taxation or borrowing, meaning higher costs for business.

The moral argument rested on the belief that publicly funded superannuation would discourage self-reliance by reducing the incentive for people to save for their retirement. The problem the New Right have with public pensions is best encapsulated in the viewpoint of David Green, a British academic brought to New Zealand by the Business Round Table. In his book 'From Welfare State to Civil Society' Green argues:

The duty of self support also means that we should retire only when we can afford to do so. People who have not saved enough to live on, or to buy an annuity of sufficient size, cannot afford to retire, and should carry on working as long as possible (Green, 1996, p.185).

This view hardly accommodated for those unable to find suitable paid employment or unable to engage in paid work through no fault of their own.

Assessing the reforms within a Marxist framework

I argued in Chapter Three that orthodox Marxist theory provides a useful framework to assess the reforms introduced by National. I also argued that National was likely to use a variety of strategies in order to reduce state expenditure, and furthermore, that these strategies contribute to a programme designed to retrench the welfare state.

Among the strategies used by National in the area of state funded pensions were:

- attempting to reduce the expenditure on pensions, both immediately and in the long term;
- encouraging people to provide for their own retirement; and

- educating or warning people to prepare for their retirement due to the possibility that the state pension may not be at an high enough level to allow a comfortable standard of living.

The remainder of this chapter uses the above strategies to examine how using an orthodox Marxist framework illuminates the retrenchment process undertaken by National.

Attempts to reduce expenditure

National explicitly stated their intentions to reform and, indeed, redesign the welfare state in the 'Economic and Social Initiative – December 1990' and in the 1991 Budget. The reforms were designed to reduce state expenditure on welfare provision and reduce the dependency of people on the state.

Expenditure on state funded superannuation constituted a significant portion of state spending on welfare, approximately 59 percent in the year ended June 1990. The reforms introduced to the existing superannuation policy made a sizeable contribution to the reduction of welfare expenditure by the state. The reductions in expenditure were a consequence of:

- the failure to adjust the level of superannuation payments until 1 April 1993; and
- the acceleration of the rate at which the age of eligibility would rise to 65 years (Previously under the Labour administration the age of eligibility was to rise gradually to 65, over 20 years, starting in 2006.).

Table 7.1 below shows that as the measures introduced in the reforms began to impact, especially the raising of the age of eligibility, in nominal terms actual expenditure on superannuation began to fall. Between 1991/92 and 1992/93 spending fell reduced by 3.6 percent or nearly \$199 million. The reductions in spending continued over the next two years,

when expenditure fell by 4 percent or \$213 million for the year ending June 1994 and 0.48 percent or \$19 million for the year ending June 1995. It was only in the last financial year of the period under review (the year ended June 1996) that expenditure began to rise again.

Also noteworthy is that the reforms introduced by National resulted in a significant reduction in the rate of increase in superannuation spending. In the six years prior to 1990 superannuation expenditure increased by approximately 90 percent, whereas over the six years to 1996, (from 1990/91 to 1995/96) the increase was approximately eight percent.

Table 7.1 Expenditure on New Zealand Superannuation

Financial year (year ending June 30)	(\$000)	Percentage change (over previous year)
1983/84	2,526,031	4.4%
1984/85	2,743,512	8.6%
1985/86	3,341,211	21.8%
1986/87	3,650,165	9.2%
1987/88	3,986,544	9.2%
1988/89	4,314,259	8.2%
1989/90	4,774,676	10.7%
1990/91	5,173,859	8.4%
1991/92	5,514,482	6.6%
1992/93	5,315,899	-3.6%
1993/94	5,102,551	-4.0%
1994/95	5,083,119	-0.4%
1995/96	5,170,506	1.7%
1996/97	5,239,129	1.3%
1997/98	5,259,198	0.4%

Source: Table 4, Expenditure on Main Benefits and Pensions, Department of Social Welfare Statistics Report 1998, p.9.

The drop in expenditure on superannuation as a percentage of the Gross Domestic Product is shown in Table 7.2 below. As a percentage of nominal Gross Domestic Product, superannuation declined from 7.58 percent in the year ending 30 June 1992 to 5.52 percent in the year ending 30 June 1996.

Table 7.2: Expenditure on National Superannuation as a percentage of Gross Domestic Product

Financial year (year ended June 30)	Gross Domestic Product (\$billion)	Expenditure on New Zealand Superannuation (\$billion)	New Zealand Superannuation as a percentage of Gross Domestic Product
1991	72.137	5.173	7.17%
1992	72.276	5.482	7.58%
1993	74.578	5.118	6.86%
1994	80.824	5.037	6.23%
1995	86.556	4.982	5.76%
1996	91.461	5.051	5.52%
1997	95.206	5.102	5.36%
1998	98.205	5.106	5.20%

Source: Table 1, Gross Domestic Product and Social Welfare Expenditure, Department of Social Welfare Statistics Report 1998, p.3.

The reduction in expenditure resulted from the two measures introduced, the freezing of pension levels and the rise in the age of eligibility. The impact of the latter in terms of the number of recipients of New Zealand Superannuation can be seen in Table 7.3 below. Over the period of the two terms of National Government (1990 – 1996), the number of people receiving New Zealand Superannuation dropped by 35,559, between the year ending June 1990 and the year ending June 1996.

Table 7.3: New Zealand Superannuation trends – number of recipients

Financial year (year ending June 30)	Current at end of June Quarter	Percentage change (over previous year)
1989/90	495,500	-
1990/91	506,507	2.2%
1991/92	504,561	-0.4%
1992/93	488,893	-3.1%
1993/94	477,400	-2.4%
1994/95	469,239	-1.7%
1995/96	459,901	-2.0%
1996/97	452,759	-1.6%
1997/98	447,487	-1.2%

Source: Table 44, New Zealand Superannuation trends, Department of Social Welfare Statistics Report 1998, p.53.

One of the arguments that National advanced was that benefit levels were high in relation to wage levels, that is replacement rates were high.⁶ They argued that this discouraged recipients from seeking work and instead encouraged them to remain on benefits. While superannuation payments are less closely linked to the labour market than other sources of income support, lower levels of superannuation payments relative to wage levels may act as an incentive for people to remain longer in the workforce. Table 7.4 below shows that the ratio of pension payments as a proportion of average wages declined between 1991 and 1996; over the period under examination.

⁶ See Chapter Six for a definition of replacement rates.

Table 7.4: New Zealand old-age pension (married rate) as a proportion of average wages

Change Date	Superannuation
Apr 87	80%
Apr 88	80.48%
Apr 89	76.45%
Apr-90	75.87%
Apr-91	72.18%
Apr-92	69.64%
Apr-93	69.58%
Apr-94	70.29%
Apr-95	70.17%
Apr-96	70.24%
Apr-97	67.09%

Source: Goodger, K. quoted in Krishnan, V., 1997, p.159.

The declining ratio of superannuation payments to average wages was a signal to those still in the labour market that they would need to provide for themselves if they wished to maintain their living standards upon retirement.

Increasing private provision

National were very concerned to reduce what they saw as an increasing level of dependency upon the state in all areas of welfare provision. For some categories of beneficiaries, such as those on the Unemployment Benefit, economic growth was supposed to result in a decrease in the number of recipients. However, in the case of pension provision, economic growth would only have a marginal effect in reducing numbers of National Superannuitants as they had already largely retired from the workforce.

Reducing dependency was particularly an issue in the area of superannuation given the expected increase in the number of elderly (see Table 7.5 below). The number of people aged 65 years was forecast to increase over the early and middle part of this century and estimates of the

expected rise in the share of those aged 65 years and over in the total population are given in the table below. The table shows the “highest and lowest of the eight alternative projections of the Government Statistician, published in Key Statistics” (Preston, 1999, p.36).

Table 7.5: Projected share of the population aged 65-plus

Year	Lowest projection	Highest projection
1996 (actual)	11.6%	11.6%
2001	11.6%	11.7%
2011	12.8%	13.5%
2021	16.1%	17.8%
2031	20.0%	22.9%
2041	22.4%	26.7%
2051	23.1%	28.3%

Source: Preston, 1999, p.36.

National attempted to increase the number of people making provision for at least part of their own retirement to combat the expense of this increase of recipients. The main focus of the approach was to establish a public perception of the need for private provision of retirement income.

The establishment of the Task Force on Private Provision for Retirement in 1991 began this process. In a series of reports published in 1991 and 1992, the Task Force reported on “policy options to encourage greater self-reliance of retired people” (Interim Report, 1991, p.10). The reports emphasised the need for certainty and stability in retirement income provision and examined future options for encouraging private provision. The Task Force also noted that there was still a strong public belief that the government had a “fundamental role to play in the provision of retirement income” (December 1991, Interim Report, p.15).

The Task Force recognised the impact of the level of payment for National Superannuation, noting:

The level of the state pension has important implications for private provision. If the level of benefit is considered a bare minimum, there is a strong incentive to self-provide for retirement (December, 1991, Interim Report, p.50).

Encouraging people to provide for their own retirement

The Task Force on Private Provision for Retirement (the Todd Task Force) recommended that the government establish a body to educate and inform New Zealanders of the importance of planning for their retirement. Signatories to the Accord agreed to this recommendation in 1993. The Office of the Retirement Commissioner was established by the Retirement Income Act 1993 and came into being in 1994. The website of the Office of the Retirement Commissioner states that its role is:

to raise New Zealanders' awareness and understanding of the importance of making private provision for retirement, and to encourage them to take action (Office of the Retirement Commission web site, October, 2000).

Additionally, the Retirement Income Act 1993 required the regular publication of reviews of retirement income policies by a body called the Periodic Review Group. In its 1997 report, the Periodic Review Group noted the importance of changing people's attitudes towards providing more for their own retirement. The report stated:

Much work remains to change people's ingrained attitudes, and our work of the last 10 months should be seen as the beginning of a long and steady process of change. Indeed it is our view that the process of changing people's attitudes is as important as the process of changing the structures currently in place for

providing income in retirement (Report of the Task Force on Private Provision for Retirement, Wellington, 1997, p.113).

Retrenching superannuation – impediments to reform

National imposed significant and immediate cost reductions on New Zealand Superannuation expenditure. This policy was achieved by both failing to adjust the level of payment and increasing the age of eligibility. In the long run, however, their goals of reducing expenditure and dependency were difficult to achieve. This was due to the rising number of people eligible for New Zealand Superannuation and the high level of public attachment to publicly provided pensions.

The difficulty National had in imposing their objectives can be explained in several ways. First, Pierson claims that radical reform of welfare states is extremely difficult due to their political strength, namely:

the electoral incentives associated with programmes which retain broad and deep popular support and the institutional 'stickiness' which further constrains the possibilities for policy reform (Pierson, 2000 p.1).

The strength derives from a range of sources including the large number of recipients of superannuation, traditional sources of support such as trade unions and social democratic political parties, and interest groups that have arisen as a consequence of the expansion of the welfare state. (Pierson, 1994, 1996, 2000).

The latter source of strength posits that there are "two features of developed politics that reinforce the electoral obstacles to radical reform" (Pierson, 2000, p.2). The first of these obstacles is the presence of

existing policy arrangements, which influence the choices open to those wishing to make reforms. Pierson, notes that:

previous pension-policy choices provided the raw material from which retrenchment advocates had to try to design successful strategies. Existing policies influenced the setting of political agendas and the prospects for demobilising opponents of pension cutbacks (Pierson, 1994, p.54).

This 'path dependence'⁷ of policy in contemporary welfare states is evident in the area of superannuation provision. Myles and Pierson suggest that 'pay-as-you-go' pension schemes are very difficult to change because:

Shifting to private funded arrangements would place an untenable burden on current workers, requiring them to finance the previous generation's retirement while simultaneously saving for their own (Myles and Pierson, 1997, p.347).

The second of these obstacles is the existence or otherwise of 'veto points', which allow political parties with an agenda of radical reform to impose their policies on the electorate. 'Veto points' are those elements of an institution which allow for a group to either block or advance policies being proposed. For example, in New Zealand the presence of a unicameral Parliament is seen as having few 'veto points' which might allow policy to be blocked. Once a political party has a majority they are generally free to introduce and implement the policy they wish.

⁷ Pierson notes that path dependence refers to the process whereby: "Certain courses of political development, once initiated, are hard to reverse. It is not just that institutional veto points may make a reversal of course *difficult*. Individual and organizational adaptations to previous arrangements may also make reversal *unattractive*" (Pierson, forthcoming, p.5).

The second explanation for the durability of public provision in New Zealand lies in the universal nature of the provision of New Zealand Superannuation. Korpi (1980) suggests:

that universal social programmes benefit both the middle and working class and therefore have a strong constituency in their favour. As a result they are less vulnerable to retrenchment policies (Korpi, 1980 quoted in Mishra, 1990, p.41).

This view is also supported by Boston and St John, who note that:

Politically it is much more difficult to reduce expenditure on social programmes that benefit a large proportion of the population particularly if the beneficiaries are well equipped to defend their interests. Well-educated, middle class citizens are generally better at such tasks than the poor. Thus in New Zealand, the retired population succeeded in reversing the 1991 Budget proposal to cut the state pension for middle and upper-income people, while the more severe cutbacks affecting beneficiaries remained in place (Boston and St John, 1999, p.96).

Pierson disagrees with the proposition that those programmes which are provided universally are more resistant to retrenchment, and argues instead that because they are generally large (because of their universality) and hence expensive, such programmes are more likely to be attacked. After their election in 1990, National initially resisted imposing significant cuts to Guaranteed Retirement Income. However, the size of the programme and therefore its potential to provide savings offered too great a temptation.

Myles and Pierson argue that:

Successful efforts to trim public sector pension obligations often take the form of long-term revisions that phase in very gradually and primarily affect future retirees (Pierson and Myles, 2000, p.16).

This was the path chosen by the National Government after its election in 1990 and is seen in its emphasis on educating people to begin providing for their own retirement and its repeated messages of the unaffordability of New Zealand Superannuation unless changes were made.

Aligning benefit provision more closely with the labour market

This aspect of welfare retrenchment is less likely to impact on those receiving pensions due to recipients being at or near the end of their involvement in the labour market. Still National introduced measures that would encourage the elderly to participate in the labour market. These measures were contained in the document, 'Tax Reduction and Social Policy Programme 1996'. The announced changes included increases in the amounts that superannuitants could earn before the additional income was taxed. For single superannuitants the threshold was increased from \$80 per week to \$90 per week from 1 July 1997, and then to \$100 per week from 1 July 1997. For couples the surcharge of \$120 per week was to be raised to \$135 per week from 1 July 1996, and then to \$150 per week from 1 July 1997.

The desire to encourage older people to work longer was indicated in the Department of Social Welfare Ministerial Briefing Papers in 1996. These noted that:

Employment and labour reforms are also necessary to encourage continued contributions of older people in society

and continued self-reliance. At the present time, eligibility for New Zealand superannuation precipitates withdrawal from the labour force. Policies are required to change attitudes to ageing and implement employment practices which support older workers and encourage older people to remain in the work force (Department of Social Welfare, 1996, p.54).

The suggested reforms to encourage such continued participation included raising the age of entitlement:

and the removal of legislative impediments to the employment of older people through provisions of the Human Rights Act 1993 which prohibit compulsory retirement on the basis of age (Department of Social Welfare, 1996, pp.55-56).

To assess whether any change in labour market participation was made by the reforms, the participation rates of those aged over 65 years in the work force are given in Table 7.6 below.

Table 7.6: Labour force participation rates for those aged over 65 years

Year and Quarter (June)	Participation rate
1990	6.8%
1991	6.4%
1992	5.7%
1993	5.2%
1994	5.9%
1995	5.7%
1996	6.6%
1997	6.8%
1998	6.1%
1999	7.3%

Source: Household Labour Force Survey, Statistics New Zealand, 1999.

From the above table it is clear that there was no change in the labour force participation rates of those aged over 65 years during the period under review, that is, from 1990 to 1996. However, the period after that shows a small but continued increase in these labour force participation rates. This is a good example of a policy which, once put into place, has an impact over the longer term.

From an orthodox Marxist perspective encouraging people to stay in the workforce longer is another way of signalling that people need to take care of themselves and not rely upon the state for assistance, or at least to only expect a low level of assistance.

Conclusion

In their first budget in July 1991 National introduced reforms that significantly changed the nature of public superannuation provision. After substantial public protest they retreated from their most radical proposals. Despite this set back, National managed to substantially reduce both the numbers receiving superannuation and the expenditure on it. Additionally, they began the process of altering public perceptions of the need for private provision for retirement.

From an orthodox Marxist perspective the strategies adopted by National to retrench the welfare state are what would be expected of the state as it responds to an economic crisis. National reduced expenditure and more particularly, the rate of growth of expenditure on superannuation by freezing payments levels for two years, by changing the way payments were increased and by rapidly increasing the age of entitlement.

An orthodox Marxist approach also draws attention to the ideological dimensions of National's strategies. National attempted to create an environment where future expectations of the level of superannuation

payments by the state are reduced and where people are encouraged to provide for themselves. The outcome of this process is to begin a shift in superannuation provision by the state towards that identified as conforming most closely to a New Right model, that of privatised provision for retirement with a state payment for those unable to provide for themselves.

Chapter Eight

Conclusion

Introduction

In the conclusion to this thesis I will evaluate the usefulness of an orthodox Marxist theoretical framework in examining the reforms introduced by National between 1990 and 1996 in the areas of income support and pensions. Additionally, I will outline potential areas of further research arising from this thesis.

An assessment of the orthodox Marxist approach

In Chapter One I introduced the questions that this thesis sought to answer. The questions were:

- are orthodox Marxist understandings of the response by the state to economic crisis useful in explaining the actions of National during the period 1990 to 1996?
- is an orthodox Marxist theoretical framework useful in explaining the retrenchment process that National undertook in the areas of income support and pensions?

I have argued that both questions can be answered in the affirmative. National reacted to the presence of an economic crisis largely as orthodox Marxist theory predicted it would. Protecting the interests of capital, it sought to reduce state expenditure, the level of which the then Minister of Finance, Ruth Richardson, had argued “resulted in growing debt, punitive

tax levels and intolerable pressure on interest rates” (Bolger, Richardson and Birch, 1990, p.17).

National implemented a range of measures to reduce expenditure on welfare provision. Orthodox Marxist theory argues that these measures were imposed by the state to assist in restoring profitability to the economy. First, National attempted to reduce the overall cost of welfare provision by directly cutting the level of benefit payments, by freezing the levels of payments for some time, by changing the means by which they were increased and by tightening benefit eligibility criteria. Second, the result of the benefit reductions and tightened eligibility criteria was to put increased pressure on beneficiaries to seek work. These measures did increase the number of people seeking work, especially in the low wage labour market, and consequently acted as a downward pressure on wage levels. These measures also helped to reduce costs to capitalists as they sought to participate in an export-led economy. Third, the stigmatising of particular groups of beneficiaries through the use of the pejorative term ‘welfare dependency’ and a campaign against benefit fraud allowed the state to impose ‘incentives’ upon them to force their participation in the labour market, with reduced fear of public criticism of such moves.

Income Support

In the area of income support National were largely successful in implementing their policies. Expenditure on the Unemployment Benefit was reduced by the benefit cuts announced in December 1990 and the rate of increase in expenditure on the Domestic Purposes Benefit was curtailed. Additionally, National did not retreat from any of their original reform announcements, unlike in the area of state superannuation provision.

However, National were unable to reduce expenditure on income support by as much as they wished. Despite strong economic growth occurring for several years in the mid 1990s, the number of beneficiaries continued to grow. This failure led National to introduce the concept of 'welfare dependency' as part of an attempt to turn public opinion against certain groups of beneficiaries. This stigmatisation of some beneficiaries allowed them to be treated more punitively.

Early provision of income support in New Zealand was means- tested and required the recipient to meet certain moral standards. While a 'morals' test has not yet been reintroduced, the stigmatisation of beneficiaries through use of terms like benefit dependency and the high level of publicity given to benefit fraud has served to reintroduce the notion of the deserving and undeserving poor.

Pensions

In the area of superannuation National were largely successful in implementing their reforms. Had National not deviated from their original announcements in the 1991 Budget, then the reforms would have been even more radical. As it was they were able to raise the age of entitlement in a very short period of time. This, coupled with their freeze on any increase in pensions, resulted in considerable fiscal savings.

Additionally, National was able to begin a programme of public education aimed at promoting the notion that people should not expect a generous level of superannuation upon retirement and that they should therefore plan to save for their retirement.

Pierson (1994) argued that the expansion of the welfare state had resulted in a new constituency of interest groups who would defend the existence

of public welfare provision. Supporters of public pensions such as Grey Power and Age Concern, and National's own fears of electoral fall out, meant that these groups and their allies were able to defend public pension provision against the more extreme of National's plans.

Path dependence also played a role in pension reform. The prior existence of publicly funded pensions meant that any significant shift in policy would impose a considerable financial burden on some generations, a load that was deemed unacceptable.

Overall Impact

Assessing the overall impact of the reforms, Rudd notes:

the New Zealand welfare state (returned) firmly to the liberal category, precisely where the National Government wanted it to be (Rudd, 1997, p.254).

Indeed, with the benefit of hindsight, we can see that the welfare state in New Zealand is moving towards what Jessop calls a Schumpeterian workfare state, characterised by:

its distinctive objectives in economic and social reproduction (which) are: to promote product, process, organisational and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening in the supply side; and to subordinate social policy to the needs of labour market flexibility and/or to the constraints of international competition (Jessop, 1994, p. 24).

While there are some limitations in using an orthodox Marxist approach, it still provides an effective lens through which to view the reforms implemented by National Governments during the period 1990 to 1996. Furthermore, I argue that in light of the dominance of economic change in New Zealand in recent years, a critical understanding of capitalist economic crisis from a Marxist social theory perspective is essential to any analysis of the present crisis and future prospects of welfare states.

Areas for future research

The work in this thesis suggests several avenues for future research. These include:

- extending the study to other areas of welfare provision such as housing, health, education and accident compensation to further assess the usefulness of a Marxist approach;
- extending the period under review to include National's last term in office (from 1996 to 1999), while they were in a Coalition Government;
- extending the period under review back until 1984, when the fourth Labour Government came into office, and tracing the continuities and discontinuities between the two periods;
- examining why there was no 'legitimation crisis' when the National Government enacted such radical retrenchment policies for the welfare state; and
- conducting an across country comparative study to determine whether my argument that during a prolonged economic crisis the welfare states of respective countries tend to operate as forms of control in the interests of capital can be sustained.

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