Antipodean Social Policy Responses to Economic Crises

Peter Starke

Centre for Welfare State Research, University of Southern Denmark, Denmark

Abstract

In this article, I analyze the social policy reactions to economic crises in Australia and New Zealand. After the financial crisis of 2008, Australia built its crisis management strategy around a large fiscal stimulus with a significant social policy component, whereas New Zealand did not. While the government enacted fiscal stimulus measures, the social policy component was small and the government soon returned to welfare retrenchment and workfare policy. Based on a detailed account of recent crisis policies as well as a condensed overview of previous crisis responses (to the 1970s oil shocks, the early 1990s recession and the Asian financial crisis), I discuss the contribution of a number of factors to explaining this difference between Australia and New Zealand. These factors include: idiosyncratic causes such as the Australian mining boom and the Christchurch earthquakes, partisan politics, interest group structures, political institutions and policy legacies. The analysis shows that the recent differences cannot fully be explained through idiosyncratic factors, as partisan ideology was already crucial in strategic policy decisions during the first months of the crisis. The historical pattern further supports this conclusion.

Keywords

Australia; New Zealand; Social policy; Crisis; Welfare state; Political parties

Introduction

This article analyzes the politics of crisis management in Australia and New Zealand against the background of the comparative literature on crisis and the welfare state. The reason for studying the social policy responses of Australia and New Zealand to the financial crisis of 2008 are twofold. First, these countries demonstrate that even in countries – and whole regions – not affected by some of the more extreme economic repercussions (e.g. banking crisis, danger of sovereign default), significant policy change occurred that can be attributed to the global crisis. Second, these are reasonably similar countries when it comes to existing institutions, political culture and their ties to the rest of the world, but they display important differences in policy reactions. The goal is, hence, to explain which (political) mechanisms produced these differences.

Author Email: starke@sam.sdu.dk

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For various reasons, social policy is of particular importance during times of crisis as an income buffer both at the micro-level and – due to the large size of welfare state schemes – at the macro-level. However, the welfare state also represents a large fiscal burden that attracts attention when cutting back public expenditure is on the agenda. It is by no means clear which of these broad strategies – preserving and expanding existing schemes or cutting back expenditure – is most likely to prevail. In this article, I examine social policy decisions in reaction to global economic shocks. The focus will be on policy responses to the financial crisis of 2008 – the global financial crisis or GFC as it is called in Australia and New Zealand – and to its ‘aftershocks’ (Hemerijck et al. 2009). The dependent variable is thus defined as legislative changes in the area of social policy – especially in the core schemes pensions, unemployment compensation, active labour market policy, family transfers and services, and healthcare – which are introduced usually with explicit reference to a global economic shock in the years immediately following this event.

These social policy responses are, of course, not taken in isolation, but are commonly part of a larger fiscal policy strategy and may be linked to other policy responses such as financial regulation. Policy interdependence of this kind will be taken into account in the analysis. One potentially important policy interdependence is the one between automatic and discretionary fiscal policy. During downturns, much of the demand stabilization through public expenditure happens automatically via unemployment benefits and other safety net schemes (Darby and Melitz 2008; Dolls et al. 2012; in’t Veld et al. 2012). To the extent that such programmes exist, there is much less of a need to decide upon extra spending or tax cuts to buffer the fall in private demand. By international standards, automatic stabilizers are relatively small in Australia and New Zealand, not least due to low and flat-rate benefits for the unemployed. A widely used measure is Girouard and André’s semi-elasticity, which estimates the change of the budget balance, as a percentage of gross domestic product (GDP), for a 1 per cent change in GDP (Girouard and André 2005: 22). It ranges from 0.33 in Japan to 0.59 in Denmark. Australia and New Zealand exhibit below-average scores (0.39 and 0.37). This means that in case of a demand shock, there is more of a need for a discretionary fiscal response in Australia than, say, in Germany or Denmark. Such discretionary measures – including extra social spending – should therefore play a more important role for crisis management than in other countries.

In order to place recent responses into context, I will contrast them with past crisis management, namely reactions to the oil shocks of the 1970s, the early 1990s recession and the Asian financial crisis of the late 1990s. The extent and precise nature of these crises was certainly different from the most recent economic shock, but there are important similarities to consider. First, they were global events in the sense that they affected a large number of countries – perhaps with the exception of the Asian crisis, which was more geographically limited, though still transnational – and engendered global discussions about the right policy response. In addition, all were unexpected and different from ‘normal recessions’ in both their causes and dynamics. Moreover, in the context of a highly integrated global economy, the dynamics of crisis management and recovery in one country or region had repercussions on the
economic performance of other countries. This may include the role of ‘after-shocks’. The impact of the European debt crisis after 2010 on the outlook of European and non-European countries alike is a case in point.

The historical and cross-national comparison shows that the politics of crisis management in Australia and New Zealand have been significantly shaped by partisan forces. Although idiosyncratic factors sometimes played a role, the partisan composition of government to a large extent explains why the reactions diverged. I also argue that this relatively clear-cut partisan impact is what we should expect in relatively small welfare states, where crisis reactions occur to a lesser extent via large automatic stabilizers.

The article is structured as follows. The next section formulates central theoretical expectations regarding the politics of crisis responses. The empirical part begins with current developments. I first look at the way in which the economic crisis unfolded in each country after 2008 and shed some light on idiosyncratic factors that need to be taken into account. Then I zoom in on post-2008 social policy and the ways in which it was related to the crisis. The historical section gives an overview of the social policy responses to three earlier crisis episodes in a highly condensed way. The last section pulls the different pieces together and concludes.

What Explains Crisis Responses?

One central question of this article is whether social policy reactions to crisis are shaped not just by economic constraints but also by political factors. While the comparative welfare state literature has generally assigned an important role to political determinants (e.g. Castles 1982; Huber and Stephens 2001), the interaction between economic shocks and political parties remains underexplored. Will the politics of crisis responses resemble the partisan pattern during ‘normal times’? Or should we rather expect partisan convergence and crisis-related ‘rally round the flag’ effects, as can be found during foreign policy crises (Oneal and Bryan 1995)?

Australia and New Zealand are interesting cases in this respect, as the financial crisis of 2008 coincided with important changes in the partisan composition of government in both countries. In Australia, the election of November 2007, less than a year before the crisis hit, ended 12 years of conservative rule. The Australian Labor Party (ALP) government headed by Kevin Rudd came in with a list of electoral promises, especially in social policy and labour relations. In New Zealand, the change in government in November 2008 followed the beginning of the international economic crisis. What is more, in New Zealand, the 2008 election ended the nine-year reign of Helen Clark’s Labour-led government. The new conservative Prime Minister, John Key, formed a National Party minority government with confidence-and-supply support from the market-liberal Association of Consumers and Taxpayers (ACT), the centrist United Future and the Māori Party. Both governments were re-elected in 2010 and 2011, respectively. The 2010 Australian election also resulted in a minority government (for the first time in 70 years). The Green Party and three independent Members of Parliament (MPs) lend their support to the government of Julia Gillard on
matters of confidence and supply. In 2013, Gillard became victim to a leadership coup by her predecessor, Kevin Rudd. Australia’s first female Prime Minister resigned on 26 June 2013, just three years after taking office.

While the partisan composition of government contrasts strongly between the two countries, the constraints on central partisan actors’ authority need to be taken into account. Coalition partners and bicameral party differences may constitute important veto players (Tsebelis 2002) for crisis management. Such constraints arose, for example, from the minority situation – a constant feature of post-mixed-member proportional (MMP) New Zealand politics,¹ but a novel situation in Australia – as well as from the lack of a government majority in the upper house (in Australia). The Rudd government lacked a majority in the powerful Senate. It therefore had to negotiate with the Greens and independent senators to implement its plans (in addition to negotiations with state governments, e.g. in the case of healthcare reform). Multiple veto players should make policy change harder to enact, especially when the ideological distance between them is large. This is the case in New Zealand where the National Party and its three support parties span a considerable distance on both socio-economic and cultural dimensions (Boston and Bullock 2012). However, the typical issue-by-issue style of decision-making that has evolved in New Zealand probably had a moderating impact while at the same time making it possible to overcome policy gridlock.² The distance between the ALP and its supporting MPs during the post-2010 minority situation in Australia appears much smaller by comparison.

Research on past crises, especially the oil shocks of the 1970s, also stresses the impact of the relationship between the government and interest groups, as well as the structure of the industrial relations system, as crucial for crisis management (e.g. Scharpf 1991). Corporatist structures – especially when social democrats are in office – should make expansionary crisis responses more likely than a pluralist system of interest intermediation. Australia and New Zealand both have pluralist interest group systems, by international standards. However, due to a stronger integration of Australian Council of Trade Unions (ACTU) into the political arena, via close ties with the ALP, Australia used to be the more ‘corporatist’ of the two countries. Both the power of the ACTU and its links to the ALP, however, have weakened since the mid-1990s, which should inhibit corporatist crisis management.

To sum up, there are a number of theoretical reasons why we should not expect to find major differences between the crisis responses of Australia and New Zealand post-2008. Both governments have been somewhat constrained by coalition partners, small parties lending support to a minority cabinet, or (in the case of Australia) the lack of a majority in the Senate. Industrial relations are fairly pluralist by international standards, now that the links between the ALP and trade unions have weakened. As we will see, both countries were also somewhat shielded from the worst economic consequences of the financial crisis (although Australia fared better in this respect). It is, however, with respect to the partisan politics of crisis management that we theoretically expect a clear divide between the centre-left Australian and the centre-right New Zealand government. Yet whether these differences did, in fact, matter or not is an empirical question.
Like all Organisation for Economic Co-operation and Development (OECD) countries, Australia and New Zealand were seriously affected by the financial crisis of 2008 and the ensuing worldwide economic downturn. Figures 1–3 depict the development of three central macro-economic indicators, namely nominal GDP growth, unemployment rates and the budget deficit between 2007 and 2013 in Australia and New Zealand, compared to the mean of 21 core OECD countries. The comparative data reveal that both countries did better than average in the crisis year of 2009 in terms of economic growth and unemployment. In 2008, New Zealand performed worse than average, for reasons that had nothing to do with the financial crisis but, according to the OECD, with ‘domestic monetary tightening, the early stages of an overdue housing market correction and temporary drought conditions’ (OECD 2009b: 9). Australia, by contrast, did not even technically experience a recession during the financial crisis, as nominal GDP decreased only for a single quarter (Q4 of 2008), in contrast to New Zealand, where the annual growth figure was negative in 2009. In 2010, New Zealand managed to catch up a bit in growth terms, but only briefly so. Unemployment remained high and public finances worsened. Both
countries had been running fiscal surpluses for several years prior to the crisis and levels of public debt were low. This changed after 2008, as figure 3 shows. According to current medium-term strategies, Australia is expected to return to surplus by 2012/13 and New Zealand by 2014/15. Overall, the gap in economic performance between the two countries was quite large in recent years. Yet this gap predates the financial crisis and has been repeatedly discussed by policymakers and economists in New Zealand (2025 Taskforce 2010; NZIER 2008). How Australia and New Zealand fared during the crisis is, from this perspective, just another example of a more longstanding economic divergence. Some of this can be attributed to ‘luck’, in the sense of better starting positions and a trade environment that is particularly favourable to some countries. Whether and how ‘luck’ ultimately plays a role for Australia’s long-term and more recent economic performance is subject to some debate (McLean 2012; Brown and Davis 2008; Schwartz 2006; Davis and Ewing 2005). In the context of Australia, luck usually comprises factors such as geographic location and endowment with mineral resources. Without doubt, Australia’s excellent economic performance after 2008 – not just compared to its neighbour but to the rest of the world – was strongly supported by continuously high demand for natural resources (particularly from China). Middle-income countries, most

Figure 2

Unemployment rate (%), 2007–2013

Source: OECD 2012a.
Note: estimate for 2013.
notably China, only briefly experienced economic troubles and quickly returned to pre-crisis levels of demand for natural resources. World commodity prices decreased in 2009/10, but soon recovered. Of course, the resource boom is not the whole story behind Australia’s recovery, but it played an important part that cannot be ignored. In any case, this is not the first time that Australia has been considered a ‘lucky country’ (Horne 1968).

Although New Zealand is also a commodity exporter (especially of dairy products, meat and wood), it could not participate in the boom in iron ore, uranium, etc. that fuelled Australian growth especially from the mid-2000s onwards. Another particular vulnerability of the economy of New Zealand – and Australia, albeit to a much lesser extent – is the consistently high current account deficit, currently at 7.9 per cent of GDP, which is due to high levels of foreign debt. While overall public debt levels were low in New Zealand, private debt, and foreign liabilities in particular, has reached levels that are generally considered unsustainable. The OECD has already warned that the New Zealand foreign debt level is ‘close to that now found in some European countries that have experienced recent problems’ (OECD 2011: 14).

The recovery in New Zealand was significantly delayed by the Canterbury earthquakes of 2010 and 2011, New Zealand’s second deadliest

![Figure 3](image-url)

**Figure 3**

Government net surplus (% of GDP), 2007–2013


*Note:* estimate for 2013.
disaster ever recorded (after the 1931 Hawke’s Bay earthquake), killing 185 people and destroying large parts of the central area of Christchurch. The economic repercussions are enormous, with direct costs to the government currently estimated at almost NZ$13 billion by 2013 (New Zealand Government 2013: 9). The overall reconstruction cost is estimated at 8 per cent of GDP (OECD 2011: 11). Though unrelated to the financial crisis, the earthquakes must be taken into account when analyzing the recovery in New Zealand.

In other respects, there are similarities that may have shielded both countries from experiencing a deeper crisis. First of all, the banking troubles were moderate. The banking systems of Australia and New Zealand are highly interdependent but the main banks are in relatively good shape as they were only marginally exposed to ‘toxic assets’. Second, the room for manoeuvre in terms of monetary and fiscal policy when the crisis hit was high by international standards. Both countries were running budget surpluses and had the lowest overall debt levels in the OECD. Interest rates were high enough so that, unlike in Europe and the USA, the ‘zero lower bound’ did not put a constraint on monetary policy.

In sum, it is fair to say that both countries – and Australia in particular – had a relatively ‘good’ crisis after 2008, especially when compared to the USA and a number of European countries. Yet, this does not mean that the crisis did not have an important impact on social policy. In fact, it can be argued that the crisis responses were crucial in the economic recovery on both sides of the Tasman.

**Social Policy Responses Post-2008**

At first glance, the reactions of Australia and New Zealand to the financial crisis were very similar. Both implemented a large stimulus package, amounting to about 7 per cent of GDP in Australia and about 5 per cent in New Zealand, according to OECD data (OECD 2009a). This made the packages the third and fourth largest in the OECD, behind the USA and Korea. However, the stimulus package in New Zealand was almost entirely based on revenue-side measures while the Australian package relied on extra spending rather than on tax cuts (OECD 2009a: 109). As will be shown, Australia used the welfare state as ‘crisis manager’, while New Zealand quickly turned to a retrenchment strategy in social policy. I will describe the measures implemented in somewhat more detail and explain them, also with reference to earlier crises.

**Australia**

Australia indeed had a ‘good crisis’, but this was by no means foreseeable at the outset. Prime Minister Kevin Rudd even called the financial crisis ‘the economic equivalent of a rolling national security crisis’ (Rudd and Swan 2008). In response to the worsening conditions, the Labor government decided upon several large fiscal stimulus programmes in 2008 and 2009 (Gruen 2009; McDonald and Morling 2011). The first package, the so-called
‘Economic Security Strategy’ which focused on short-term transfers to low-income households and pensioners (AU$10.4 billion, announced in October 2008), was followed by a medium-term package, mainly for social services at the state level (AU$15.2 billion, November 2008), the ‘Nation Building’ package (AU$4.7 billion, December 2008) and the massive ‘Nation Building and Jobs Plan’ (AU$42 billion, February 2009), which focused on infrastructure investment. All discretionary measures announced in 2008 and early 2009 combined amounted to over AU$72.3 billion according to Treasury data (McDonald and Morling 2011: 19; see also Treasury 2009), which is very close to the OECD estimate of 7 per cent of GDP. Social policy made up a large share of stimulus spending, less because of genuinely social objectives, but rather because of the speed at which resources can be recycled in the economy via social security payments. Extra spending for low-income households is typically not saved but spent almost immediately and it does not need much planning. In terms of speed, the government also learned from its own mistakes in the early 1990s (see below).

The Economic Security Strategy was announced in October 2008, exactly a month after the bankruptcy of Lehman Brothers. The package was worth AU$10.4 billion, of which AU$4.8 billion alone went into pensions, as ‘an immediate down payment on long term pension reform’, as the government put it (Rudd and Swan 2008). The pension component consisted of a lump sum payment of AU$1,400 for each pensioner (AU$2,100 for couples, and AU$1,000 for recipients of a carer’s allowance). Families who received the means-tested family benefit were given a lump sum payment of AU$1,000 per child. To further assist young families – as well as the housing sector – assistance to first home buyers was increased. The tax component of the package also included an immediate AU$900 Tax Bonus for Working Australians.

Several activation and training measures were included in the crisis packages. A ‘Jobs Fund’ of AU$650 million (Australian Government 2009) was set up to subsidize employment and training initiatives at the local level. The government also set aside additional funding for case management for jobseekers and eased income tests for some benefits. The Productivity Places Programme (PPP) for regional development and skills was already in existence before the crisis, in April 2008. As part of the stimulus packages, additional funding for workers made redundant became available through the so-called Structural Adjustment element of the scheme. According to the government, 15,000 additional training placements were realized through the scheme until 2010 (Department of Education Employment and Workplace Relations 2010). A similar programme was set up at the level of the states and territories. However, given a long-standing skill shortage and labour market imbalances, in large part due to the mining boom, these changes had been on the agenda for some time. The states received more than AU$7 billion for healthcare infrastructure, stretched over five years.

A number of important changes coincided with, but were not caused by the crisis. This applies, for example, to the new paid parental leave scheme, which started on 1 January 2011, but had already been part of the 2007 ALP election platform. Even in the absence of an economic crisis, the Labor...
government would almost certainly have introduced some kind of paid scheme (though perhaps somewhat earlier). Furthermore, while the stimulus package contained a one-off payment for pensioners, more long-term pension plans (based on the so-called Harmer Review [2009]), as well as changes to superannuation, the mandatory occupational pensions scheme (based on the Henry Review of tax policy [2009]), were announced. These pension changes, which, among other things, included higher pension levels and a higher retirement age, did not have a direct causal connection to the crisis, either. Nor did the healthcare reform, based on a crucial funding deal between the federal and the state level, the National Health Agreement, reached in 2011.

To sum up, the Australian social policy response to the 2008 financial crisis clearly followed the advice of Ken Henry, the Secretary of the Treasury, to ‘go hard, go early, go households’ (quoted in Garnett and Lewis 2010: 183). Not only did Australia introduce one of the largest fiscal stimulus packages in the OECD, but the social security share of the stimulus was also significant, totalling about a quarter of the whole package. It is important to note, however, that no fundamental reforms formed part of the response and that the fundamental reforms in areas such as parental leave and pensions were not a crisis response (see also Saunders and Deeming 2011). The government funnelled transfers to families and pensioners in a rather incremental manner. By contrast, it did not expand the unemployment benefit (Newstart Allowance), despite its extremely low level by international standards, which was criticized even by the OECD (2010).6 The only concession to the unemployed was a temporary relaxation of the asset test – with the saving threshold being doubled in 2009 until 2011. In fact, the expansionary crisis response was generally a temporary policy. Both Rudd and his successor as Prime Minister, Julia Gillard, were keen to portray themselves as fiscal conservatives and framed their stimulus measures as a highly exceptional decision to carry the economy through the storm (Johnson 2011).

New Zealand

Fiscal expansion in New Zealand had started even before it became clear that the subprime crisis in the USA would develop into an international financial shock. Due to domestic problems, economic growth had halted in early 2008 and the Labour-led government reacted with an expansionary budget in May 2008, mainly based on personal tax cuts and extra spending on healthcare. The May 2008 budget, however, must be seen as separate from the subject of this article, that is, the response to the global economic crisis. After the Lehman brothers collapse and the general election of November 2008, the new conservative government of John Key by and large continued the fiscal strategy of its predecessors, but now under the influence of a global economic shock. However, contrary to Australia, there were no high-profile social policy components in the fiscal stimulus packages of 2008 and 2009. The discretionary expansion of benefits to the unemployed (see details below) represented
only 1.3 per cent of the whole fiscal stimulus in 2009 and 0.6 per cent in 2010 (calculation based on OECD 2009b: 40). The lion’s share was made up by tax cuts and public investments.

In the 2009 Budget Policy Strategy of December 2008, the government clearly spells out the overall anti-cyclical crisis response as follows: ‘[T]he appropriate response is, for a time, to allow the Government’s fiscal position to bear its share of the burden of the economic downturn, rather than raising taxes and cutting expenditure in response. This entails running an operating deficit and therefore increasing Crown debt’ (New Zealand Treasury 2008: 4). The first social policy response to the financial crisis of the new government – and part of the larger fiscal stimulus – was ReStart, a benefit for workers made redundant due to the downturn. ReStart provided family and housing cash assistance as well as extra employment services, yet for up to 16 weeks only. Between December 2008 and May 2011, when the scheme was ended, a total of 7,096 people had received assistance (Ministry of Social Development 2011b). Tax cuts promised during the election campaign were also reframed as a crisis measures and announced for April 2009, although the second and third tranches of the planned tax cuts in 2010 and 2011 were delayed until the economy improved. The rest of the stimulus money was to be spent in the area of infrastructure investments (New Zealand Herald 2008).

Further crisis measures were discussed at a high-profile ‘Jobs Summit’ with trade unions and business – but excluding the opposition – in February 2009. Despite having been labelled by the prime minister as ‘a “do-fest” not a “talk-fest”’ (New Zealand Herald 2009), the results were relatively small. One of the more prominent ideas was the so-called ‘9-day fortnight’, a short-time work (STW) scheme that would allow employers to reduce working hours by one day in two weeks and employees to take up training in exchange. In March 2009, this was introduced – without the training requirement – in the form of the Job Support scheme. Job Support was available at first only to businesses with 100 or more employees, but later also to those with 50 or more. The government paid a subsidy to participating employers at the level of the minimum wage for every employee. Take-up rates, however, were low7 and STW remained marginal in New Zealand, as in other English-speaking countries (Hijzen and Venn 2011). Another measure in response to the crisis was to loosen employment protection. Companies with fewer than 20 employees were allowed to hire new staff on a trial basis for up to 90 days. In April 2011, the new trial period was extended to all businesses.

In the May 2009 budget, the emphasis was clearly on infrastructure spending and support for businesses rather than lump-sum payments as in Australia. The government also decided to cut back contributions to KiwiSaver, the occupational pension programme that had been introduced in 2007 as an automatic enrolment scheme (with voluntary opt-out). The Labour opposition criticized these measures and called for higher investment in jobs and training measures. Labour leader Phil Goff later criticized the distributive consequences of the government’s policies and stated that ‘[i]f you want a stimulus to get the economy going, to keep businesses going, to get people into work, you would have given a helping hand to the strugglers, the battlers, who were really finding it hard’ (New Zealand Press Association 2010).
In August, the government unveiled the Youth Opportunities package to combat youth unemployment which stood at 16.6 per cent in 2009 and further rose to 17.3 per cent by 2011 (OECD 2012b). Although this level appears about average by current international standards for young people, it can be considered high given New Zealand’s better-than-average performance when it comes to overall unemployment. By far the most important element of the package was the Job Ops scheme which consisted of generous six-month subsidies to businesses who offered entry-level jobs to young unemployed. According to the government, by July 2011, 11,902 positions had been filled via Job Ops (Ministry of Social Development 2011a). A number of smaller training and community work schemes for young people were also part of the package. Some of these schemes were extended beyond 2011 as it became clear that youth unemployment remained stubbornly high.

Soon after these first crisis measures, however, the government returned to restrictive social policies. In contrast to the Labour governments more inclusive ‘social development’ agenda of the mid-2000s (Lunt 2009), the National Party government rediscovered its anti-welfare rhetoric and stressed the danger of ‘welfare dependency’, a notion that had been dominant in the early 1990s (see below). The turning point came in 2010 with the Future Focus programme which required the unemployed to re-apply for benefits every 12 months. The government prides itself on reducing beneficiary numbers by 12,500 during the first year through this measure alone (Bennett 2012a).

A comprehensive policy review of working-age benefits, the Welfare Working Group, reported in 2011 (Welfare Working Group 2011). The Group’s recommendations centred on a simplification of the range of benefits available, stronger work requirements and increased monitoring of beneficiaries, including sole parents and the sick and disabled (subject to work ability tests). The government started to introduce changes based on the review in 2012 and announced further reform for 2013. On the one hand, the causal link to the 2008 financial crisis is unclear. The government’s stated aim is to change a welfare state which ‘created a cycle of dependency’ and to bring ‘the system out of the dark ages and into the light of modern day New Zealand’, according to the Minister of Social Development (Bennett 2012b). On the other hand, the legacy of the crisis in terms of high beneficiary numbers and increased public debt – exacerbated by the reconstruction costs after the Canterbury earthquakes – could be used by the government as demonstrating a problem of dependency. Despite the conservative government’s larger-than-life rhetoric, it is fair to say, however, that the system was already highly work-centred prior to these reforms (O’Brien 2008).

In sum, the crisis in response in New Zealand was based on a number of smaller labour market schemes which, perhaps with the exception of the youth package, were marked by rather low participation. In contrast to Australia, individual payments to beneficiaries did not play an important role in the stimulus which was overwhelmingly based on tax cuts, infrastructure spending and business subsidies. When the immediate crisis was over, the government put workfare reform back on the agenda, although the causal link of this initiative to the crisis is unclear.
Revisiting Earlier Crises

The oil shock(s) of the 1970s

The Australian social policy response to the first oil shock was effectively a non-response. The Labor government of Gough Whitlam was busy expanding the welfare state when the first oil shock hit in 1973. Yet these expansionary reforms had already been on the agenda and were implemented despite rather than because of the crisis (Saunders and Deeming 2011). The conservative Fraser government, in office from 1975, followed the motto ‘Fight Inflation First’ and enacted some cutbacks, most importantly the ‘death of a thousand cuts’ strategy to roll back the universal healthcare system introduced by Whitlam. Other benefits were cut, too (Manning 1985: 127). While this was not a radical anti-welfare government, it nonetheless stands in contrast to the successor ALP government of Bob Hawke (in office from 1983). The centrepiece of the Hawke government’s crisis response was the Accord, a quasi-corporatist deal with the trade unions, negotiated amidst the deepest recession since the Great Depression which was caused by second oil shock of 1979 and made worse by a severe drought and subsequent bushfires in Victoria and South Australia. The Accord was negotiated even before the new government came into office. Bob Hawke, a former trade union leader, managed to get the trade unions to agree to wage moderation in exchange for selective welfare state expansion, including various benefit hikes and the reintroduction of a universal healthcare system. However, the Accord could probably not have been achieved by a conservative government, as it was based on the close relationship between the ALP and the ACTU.

During the time of the oil shocks, New Zealand was governed first by a Labour government and, from 1975 to 1984, by a National Party government. The Labour government introduced a number of important social policy reforms, including a new benefit mainly for single mothers, a new accident insurance scheme and a supplementary pensions scheme. None of the reforms, however, was meant as a response to the first oil shock and some of them had actually been planned prior to 1973 (Palmer 1977). Labour’s overall fiscal policy was accommodating. The National Party under Prime Minister Robert Muldoon, which took over in 1975, bore little resemblance to the radically market-liberal party it later became. Muldoon’s economic policies were an uneasy mixture of liberalization and direct economic intervention. In terms of social policy, Muldoon’s time in office had started off with a massive expansion of the universal old age pension – mainly the result of a pre-electoral ‘bidding war’ with the Labour Party. But soon the economic crisis and the dire fiscal situation became impossible to ignore. In the latter half of the 1970s, the government tried to contain growing social expenditure by changing the pension calculation formula, by making unemployment benefits for some groups subject to income tax and through cutbacks in the accident insurance scheme (Starke 2008: 69–73). Taken together, these cutbacks were rather modest, however. The policy of selective cutbacks in response to the oil shocks was continued under the Labour government which assumed office in 1984 in the midst of a currency crisis, prompting a devaluation of the
New Zealand dollar. This event kicked off the ‘Rogernomics’ era of radical economic liberalization (Easton 1989). In the social policy area, however, the 1980s were not a time of radical reform. The most significant (and most unpopular) decision was the superannuation surcharge, a claw-back tax on higher-income pensioners, introduced in 1985. Cutbacks were accompanied by additional expenditure in health and education.

The early 1990s

At the heart of the Australian crisis response to the early 1990s recession stood a renewed Accord with the trade unions. Now, the main concession to trade unions was making occupational pensions (superannuation) mandatory which allowed for a non-inflationary rise in the ‘social wage’ (Saunders and Deeming 2011: 381). But the Labor government also implemented a considerable fiscal stimulus package (One Nation) with an important social policy component and introduced active labour market policies at a large scale (Working Nation). The effectiveness of the stimulus was limited, however, as the bulk of it came into effect when the economy was already back on track (Gruen and Stevens 2000: 65). This policy mistake was the reason why, in 2008, the Australian government enacted a largely consumer-based package as early as October 2008. In sum, the Keating government, despite being known for microeconomic liberalization and generally market-friendly policies (Quiggin 1998; Pusey 1991) reacted to the 1990s crisis by expanding the welfare state. The opposition, meanwhile, launched Fightback!, an anti-welfare policy platform that took inspiration from what happened in New Zealand at the time rather than from demand-side stimulus.

In New Zealand, the change in office to a National Party government in 1990 ushered in a wave of radical welfare state retrenchment. Like Australia, the country suffered from a deep economic downturn. The cutbacks were announced in two steps: in a ‘mini budget’ only weeks after the election and in the regular budget in May, dubbed the ‘Mother of all Budgets’ by the Minister of Finance. Virtually all benefits were cut back, by up to a quarter in nominal terms, waiting periods were lengthened, eligibility tightened (including the retirement age) and price indexation cancelled for up to two years (Boston et al. 1999; Starke 2008). The cutbacks caused significant hardship (Stephens 2000) and the government’s radicalism probably contributed to the decision – reached via referendum – to change New Zealand’s electoral system from plurality to MMP. The cutbacks of 1990/91 were prompted by the economic crisis, but driven at least as much by the anti-welfare convictions of crucial National Party politicians, including Minister of Finance, Ruth Richardson, and Minister of Social Welfare (and later prime minister), Jenny Shipley.

The Asian financial crisis

Overall, the impact of the Asian financial crisis of 1997 was much milder than that of the other economic shocks. The Australian economy was almost entirely shielded from the fallout, largely thanks to high growth in domestic
consumer demand (OECD 1999). New Zealand, due to unfavourable weather conditions, experienced a recession in the first half of 1998. After the first election based on the new MMP system in 1996, the country was governed by a coalition of the National Party and the populist New Zealand First party. During its first year in office, the centre-right coalition had reversed some of the benefit cuts and welfare restructuring policies. But the relationship between the partners was tense and a National Party leadership change in late 1997 to the market-liberal Jenny Shipley – one of the main advocates of the 1991 cutbacks – did not make things any easier.\textsuperscript{8} Nor did the recession in 1998. The Shipley government returned to cutbacks in response to these conditions and introduced the Community Wage workfare scheme. Among the initiatives included were sickness benefit cuts, notably for childless and/or young beneficiaries. Moreover, in order to generate fiscal savings in the medium term, pension indexation was made less generous (Starke 2008: 123). These cutbacks were much smaller than the ones introduced in the early 1990s, yet they were explicitly related to the Asian crisis and concentrated in the social policy area. This shows that even more limited external shocks can have an impact on social policy change.

**Conclusion**

The goal of this article has been to empirically assess and explain the different policy responses to the financial crisis (and to earlier shocks) in Australia and New Zealand. Why did Australia use the welfare state for Keynesian crisis management in 2008 to a much larger extent than New Zealand? The most obvious potential reason for this difference is the difference in the depth of the crisis. After all, Australia benefited from the mining boom and was therefore less affected by the downturn than New Zealand. This explanation is not fully convincing, however. First of all, when looking at the chronology of responses, it becomes clear that in the last quarter of 2008, that is, at the moment when the stimulus decisions were made, the Australian economy was also shrinking and nobody could foresee the relatively favourable development in 2009. Moreover, it is true that New Zealand was already in recession in early 2008. But the room for manoeuvre was still relatively large in both countries. After all, New Zealand did not altogether refrain from fiscal stimulus – as a share of GDP, it was the third largest in the OECD – but was clearly reluctant to spend it on social matters.

This policy divergence is, moreover, not just a feature of the most recent crisis but goes back several decades, as I have briefly shown. History certainly does not repeat, but neither is it a series of incomparable phenomena. In the 1970s, both countries started to selectively cut back benefits. In New Zealand, this continued after the second oil shock, while Australia turned towards corporatist crisis management, in which welfare state expansion played a part. The difference between the two countries’ policies was largest in the early 1990s. On the one side, we find stimulus spending and active labour market policies under Keating, against radical retrenchment under Bolger, on the other side. The Asian crisis of the late 1990s only affected New Zealand to a significant extent, but the policy responses by the centre-right government
again centred on welfare cutbacks. While the policies of Australian and New Zealand governments are much closer today, this article has shown that policy differences persist. They result from the politics of crisis management.

The factor that explains a large part of this divergence is the partisan composition of government. Left governments almost invariably chose expansionary responses—the only partial exception being the New Zealand Labour government of the 1980s—while conservative governments tended to introduce cutbacks in response to crises. Granted, the National Party government in New Zealand expanded some social policy schemes in 2008/09, but this expansion was marginal relative to the overall size of the stimulus and relative to the Australian response. Would responses have looked the same if the same type of party had been in office on both sides of the Tasman? Perhaps not entirely so, but there is evidence that each time the opposition would have reacted differently to the crisis. This is particularly the case in Australia in the early 1980s and the early 1990s, when the conservative opposition either did not have the political means for fiscal expansion or followed a wholly different recipe (laid down e.g. in the Fightback! paper). Even today, the stimulus spending was criticized by the Australian opposition as ‘wasteful’.9 In New Zealand, there is some evidence that the 2008/09 stimulus would have looked more like the Australian package under a centre-left government.

Another possible objection to my interpretation is that the policies may have diverged because the advice coming from the respective Treasury departments differed. It is true that the general line of the New Zealand Treasury since the 1970s represents a particularly pure version of free market thinking, more so than the Australian counterpart (Goldfinch 1998). Perhaps policies differed because policymakers received different input from their advisers? However, governments in New Zealand have regularly diverged from the Treasury line. The centre-right government in the 1970s as well as various Labour governments, at least in the social policy area, are cases in point (Starke 2008). Moreover, New Zealand did implement demand-side measures in 2008 and 2009, which clearly goes against the grain of neoclassical thinking. All this indicates that political factors did, in fact, play a much larger role than the ideological bent of the Treasury departments on both sides of the Tasman.

It is difficult to assess to what extent the veto player structure influenced crisis responses in Australia and New Zealand. Certainly, the pre-1993 political system in New Zealand gave the government considerable leeway in shaping their policy responses, such as the radical cutbacks of 1990/91. The more difficult minority situation today is harder to judge. The National Party needs to compromise with several parties that—with the exception of ACT—are further to the left in social policy matters. This may have eased the anti-welfare stance somewhat but, as more recent reforms show, does not preclude anti-welfare policies altogether. Similarly, the nearly continuous lack of a government majority in the Australian Senate and, after 2010, even in the House of Representatives, potentially restricted the government’s policy scope. Yet, regarding the most recent crisis period, the bicameral situation lacked major conflicts in social policy (Evans 2010).
With respect to interest group politics, there is evidence that, indeed, the stronger institutionalization and centralization of trade unions in the Australian case has allowed for quasi-corporatist policy-making and, at least up to the early 1990s, explains the different degrees of liberalization and welfare state retrenchment (Ahlquist 2011; Castles et al. 1996). Moreover, the Accord was possible only with a Labor government in office. This points to a possible causal interaction between partisanship and interest group structure (see Garrett 1998 for a similar argument). The 2008 response, however, was not based on corporatist policy-making, and the relationship between the ALP government and trade unions is much looser today. The interest group structure in New Zealand is even more clearly pluralist, which is why the only serious attempt at corporatist crisis management, the Economic Summit Conference in 1984, failed (Dalziell 1989). This may explain the only important exception to the partisan pattern of crisis responses, the New Zealand Labour government in the mid-1980s.

Taken together, idiosyncratic factors, especially the Australian mining boom and quick recovery and the 2010/11 earthquakes in New Zealand, explain part of the divergence in social policy decisions after the financial crisis of 2008, especially in the medium term. Much of this divergence, however, was already decided upon in late 2008 and early 2009. In other words, the timing of policies provides a clue for the explanation. Partisan ideology, as I have shown, is an important factor in explaining the different approach on both sides of the Tasman. Moreover, this is not the first time that party politics plays a role, as the pattern of previous crisis responses demonstrates. Yet, this conclusion about the partisan politics of crisis management appears to contradict some findings from cross-national studies which fail to find partisan influences (Vis et al. 2011; Armingeon 2012). It is possible, however, that the importance of politics is magnified when automatic stabilizers are small – as is the case in the Antipodes (Starke et al. 2013). After all, much of the macro-economic stabilization in large welfare states such as Sweden and Germany in 2008/09 did not even have to enter the legislative arena but took place ‘behind the backs’ of policymakers. Hence, the importance of partisan crisis politics may well be conditional on welfare state context (i.e. the policy legacy). Testing this hypothesis on a larger number of different countries presents a promising avenue for future research.

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Notes

1. In 1993, the electoral system in New Zealand was changed from a simple-member plurality to a mixed-member proportional (MMP) system. The system was used for the first time in the 1996 election.
2. In fact, in 2008, the National Party and ACT alone had a majority of seats (either as a majority coalition or a minority government). Yet National nonetheless opted for the presumably more flexible minority arrangement with two further (and thus arithmetically unnecessary) parties, United Future and the Māori Party (Malone 2009).

3. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK and the USA.

4. See the discussion by the Treasury of the different causal factors relevant for Australia’s recovery (Treasury 2009).

5. The OECD data is, to my knowledge, the only source that includes information about both the size and the composition of fiscal stimulus packages across the industrialized world. It uses a consistent methodology across its member states, which means that ‘data referred to in the OECD documentation may depart from those widely communicated by national governments and the media’ (OECD 2009a). The data counts only discretionary fiscal measures ‘implemented and/or announced in response to the crisis up to 24 March 2009’ (OECD 2009a). There are clear problems with this measurement, which is why I additionally rely on national statistics and qualitative descriptions of policy responses.

6. Following an initiative by the Australian Greens, a Senate inquiry looked into the issue of Newstart adequacy in 2012 but recommended against a benefit increase (Senate 2012).


8. The Coalition eventually split in August 1998 and the Shipley government continued as a minority government until the regular elections in 1999.

9. It should be mentioned, however, that social policy during the ‘Howard years’ prior to the crisis had been quite expansionary, especially towards families and seniors, against the background of high revenue growth due to the mining boom.

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