

***RADICAL WELFARE STATE RETRENCHMENT:
A COMPARATIVE ANALYSIS***
BY PETER STARKE

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The 1980s and 1990s saw “political decisions to reduce the level of social protection guaranteed by the state” in many OECD countries. In his book *Radical Welfare State Retrenchment: A Comparative Analysis*, Peter Starke, from the University of Bremen, Germany, uses New Zealand as his major case study of welfare retrenchment, and compares the level, form and causes of retrenchment in New Zealand with Germany, the United Kingdom (UK) and Sweden. He uses New Zealand as his base because the 1991 benefit cuts and “Mother of All Budgets” were “perhaps the most dramatic example of welfare state retrenchment not just in New Zealand but the OECD as a whole”.

The book is not just an excellent description of the New Zealand social security system along with a history of its development and changes post World War II, but is set within an international socio-economic/political framework in order to investigate how and why retrenchment occurred. The overall conclusion is that the welfare state has shifted from its heyday in the 1950s/1960s based on rights and entitlements, to one based on need and fiscal cost savings. The welfare state is on the defensive, and has been damaged, but is not obsolete or dismantled.

In the author’s view, New Zealand probably “tested the limits” of how far a democracy can go in this “dark art of downsizing”. But the combination (to use local vernacular) of Ruthanasia and Rogernomics, at significant variation to electorate expectations and wishes, resulted in a change from FPP to MMP to curb the excessive powers of majoritarian government. The subsequent shift to a far more benign regime based on social investment and social development (similar to Sweden and the UK after Tony Blair) demonstrates the political resilience of the welfare state.

Chapter 2 looks at the theories and measurement of retrenchment. Measurement of welfare state retrenchment is more than just the size of welfare effort as measured by the proportion of GDP spent on social security. It covers reductions in benefit levels and thus replacement rates, the tightening of eligibility criteria, the coverage and duration of benefit receipt, and the number of people affected. These changes all come from deliberate political decisions.

Most of the political theories of the welfare state try to explain its expansion, but Starke shows that, post-1980, changes in the explanatory variables could explain retrenchment. Functionalist theories considered the impact of industrialisation and spread of democracy, but the fiscal cost of ageing populations combined with de-industrialisation and globalisation could result in a race to the bottom. Conflict theories relate to the balance of power between capital and labour, with the rise of left-wing trade union-oriented parties leading to welfare state expansion. Although the Employment Contracts Act 1992 is not raised here (it is a theory chapter), local readers will immediately recognise where it fits into the retrenchment process. Institutionalism looks at the concentration of political power, and the ability of the executive to pursue its own objectives, New Zealand is recognised as the prime case, with the shift from FPP to MMP altering the extent of executive power, but the debate can go both ways, with issues of path dependency (as Winston Peters found in his referendum on changing from a mature pay-as-you-go pension scheme to a funded scheme) and accountability at the next election limiting the degree of change.

Chapters 3, 4 and 5 start putting some New Zealand flesh on these theories, using a comparative framework. New Zealand had not moved to earnings-related social insurance like many social democratic nations, and so did not have significant reliance on rights or middle-class support. All countries faced the changed economic situation after the 1973 oil crisis, and New Zealand's large increase in social spending – from both increasing unemployment and the election bribe by Muldoon over National Superannuation – may have been the trigger for subsequent cut-backs. The economic reforms post-1984 took away the foundations of the wage-earners' welfare state, removing the social wage and protection, but Starke fails to show how exchange-rate overshooting prevented new growth industries from developing to counteract the removal of protection. However, he clearly shows the steps in the economic reform, and how unemployment and social spending grew, although the (unmentioned) tax reform had placed government revenue collection on a sound footing. But factional fighting within Labour ranks plus a "cuppa tea" prevented New Right economic policies from affecting social policy.

The description of the "Mother of all Budgets", where the story of retrenchment really began, has been told elsewhere. Starke provides an excellent synopsis and shows how an economic crisis was used as a smoke screen for a New Right agenda. The political reactions with the shift to MMP, resulting in some backtracking combined with new dimensions of sanctions and work-for-the-dole, are well linked back to the theoretical discussion on institutionalism. Starke recognises that post-1999 there has been a major policy reversal, with a social development framework and improvements in family policy. He argues that there has only been a marginal change in workfare, however, missing the attitudinal change from enforcement to enabling.

The last three chapters link the empirical description of social security cuts with the theory and hypotheses of Chapter 2. His starting point is that economic problems are the trigger, but that the extent of cuts depends on the government and the political system. Chapter 6 restricts attention to New Zealand. He starts by showing that retrenchment cut across the theoretical expectations, applying to pensions as well as income-tested benefits, to both universal and targeted benefits, and included the full spectrum of benefit rules on indexation, conditionality and coverage.

Although there is a close correlation between economic performance, fiscal balance and the welfare state, Starke indicates the central role of political ideology, but not how retrenchment itself can exacerbate a recession, as the New Zealand experience post-1991 showed. Interest group pressure was important, with both Labour and National beholden to business, but trade union strength prevented Labour from altering social policy. Institutional factors, with a lack of checks and balances, were a major factor. But he then contrasts this with 1975, when the economic conditions were similar but there was a degree of expansion in social security.

Chapter 7 investigates whether the New Zealand results can be generalised by adding Sweden, Germany and the UK to the mix. He draws attention to the different political and social policy institutional arrangements in each country, and provides a brief synopsis of the retrenchment in each country. Germany, with MMP government and social insurance for workers, had hidden cuts in the 1970s, but the combination of reunification and recession led to budget pressures. Pension formulas were revised and entitlement rules for unemployment benefit were tightened, with a change in emphasis from status preservation to activation.

Although the Swedish social insurance scheme is noted for its generosity, the residual social assistance scheme is not, and has strict entitlement rules. Proportional representation constrains radicalism in Sweden, but the severe economic crisis of the 1990s led to retrenchment. Benefit replacement rates were reduced from 90% to 80%, then 75% and back to 80%, of former earnings for sickness and unemployment benefits, stand-down periods were introduced, and pension formulas tightened. The economic crisis triggered a process whereby all welfare programmes came under scrutiny, but the cuts were small and the size dependent on the partisan balance of power.

The UK was labelled the motherland of retrenchment due to Margaret Thatcher, and while there were cuts in the benefit replacement rates, they were less than she wanted, and undertaken gradually and piecemeal. The UK system has changed from a mixed social insurance, earnings-related approach to flat-rate social assistance with substantial cuts in replacement rates, but mainly through indexation to price rather

than wage inflation. Tony Blair's term of office resembles that of Helen Clark: no restoration of benefit cuts, but social development, positive labour market activation and improvements in child assistance.

The final chapter considers whether conclusions relating to New Zealand in regard to triggering and structuring causes hold in a wider range of countries. Economic crises were a major trigger in each case, but not all recessions led to cuts: crises were used to justify and legitimise an ideological desire for retrenchment. Globalisation is not a trigger because it has been a constant development. Demographic impacts have alerted politicians to future issues, but do not explain the extent and timing of retrenchment.

Both left- and right-wing parties have initiated change, but the right has been more anti-welfare, especially in the single-party majority governments of the UK and New Zealand. The welfare burden thesis had little explanatory power, but the lack of "middle-class capture" and universal provision provided some explanation, especially the lack of contributory rights in New Zealand, but the cuts to the earnings-related UK State Earnings Related Pension Scheme (SERPS) is a contradiction. Although there were elements of "blame avoidance", or hiding the nature of the cuts via cutting benefit adjustment formula, the big-bang cuts in New Zealand and the removal of earnings-related benefits in the UK were both done openly. The policy orientation and ideology of the political actors seems to dominate the nature and extent of the cuts.

As somebody who has been working in social policy for many years, I found this well-written book gave me many new insights. It provides an excellent outsider's view of the strengths, weaknesses and development of the New Zealand social security system. Through the use of cross-country (and some intra-country) comparisons, using indicators of change and testing hypotheses raised in the wider welfare state literature against empirical evidence, the author shows the causes of the 1991 benefit cuts in a new light. The book also indicated the resilience of the welfare state against ideological attacks, rather than providing a formula for welfare cut-backs.