

# Growing Apart or Coming Together? Australia and New Zealand since the Crisis

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# Overview

- Before the Crisis, setting the scene:
  - Common origins in a Wage Earners Settlement
  - Common move towards 'neoliberal' policy settings
  - Pace and extent of change differ resulting in divergent models
  - From late 1990s convergence as Australia liberalises and New Zealand moderates
- Budgets and Policy since the Crisis
  - Taxing or Spending: Australia's new 'textbook' case
  - Paying the debt: taxes, spending, work and welfare
- Explaining the Dynamic
  - Partisanship matters again: reform, civil society and voting
  - Implications of Australia's social compromise
    - Femocrats and the battle over family policy
    - Targeting the social wage and the emerging dual welfare state
- Looking forward: an increasing divide?

# Common Origins

- Both British settler societies
- Both early welfare state innovators
- Australian Settlement and New Zealand's Wage Earner institutions
  - Centralised industrial relations systems
  - Trade protection
  - Migration controls

# Common Reform Direction

- Most English Speaking countries embrace neoliberal reforms more readily than Europe/Asia
- NZ and Aust are unique in having Labour governments at the forefront of initial reforms
- Both countries move to unwind the 'Settlement', reducing trade and migration barriers, privatising and marketising state services and decentralising labour markets

# Divergence

- NZ's experiment is more radical, both in the extent of change and the pace of change
- NZ also does more to unwind progressive taxation, cut benefits, reducing redistribution
- Aust engages in a form of corporatism that sees more gradual change and a social wage dividend
- Australian unions and feminists influence the structure of the social wage trade off

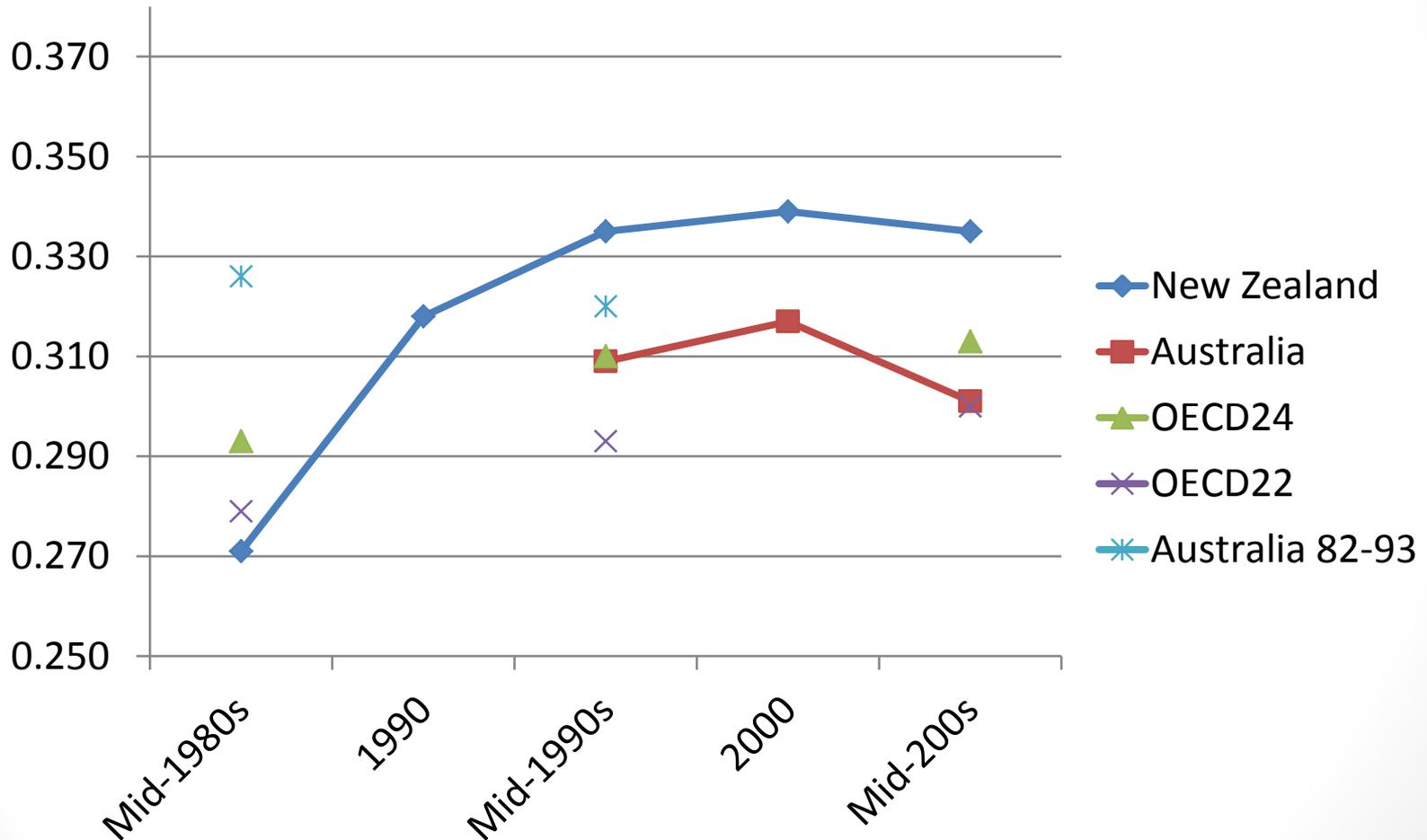
# Reflections

- Outcomes also begin to diverge
- Inequality in New Zealand increases much more rapidly than in Australia
- Poverty in Australia is higher amongst the aged, while in NZ is higher amongst families reflecting different welfare institutions and influences
- Overall growth since reform is lower and, as Hazledine & Quiggin show, this appears to be related to the effects of the different reform paths

# Convergence?

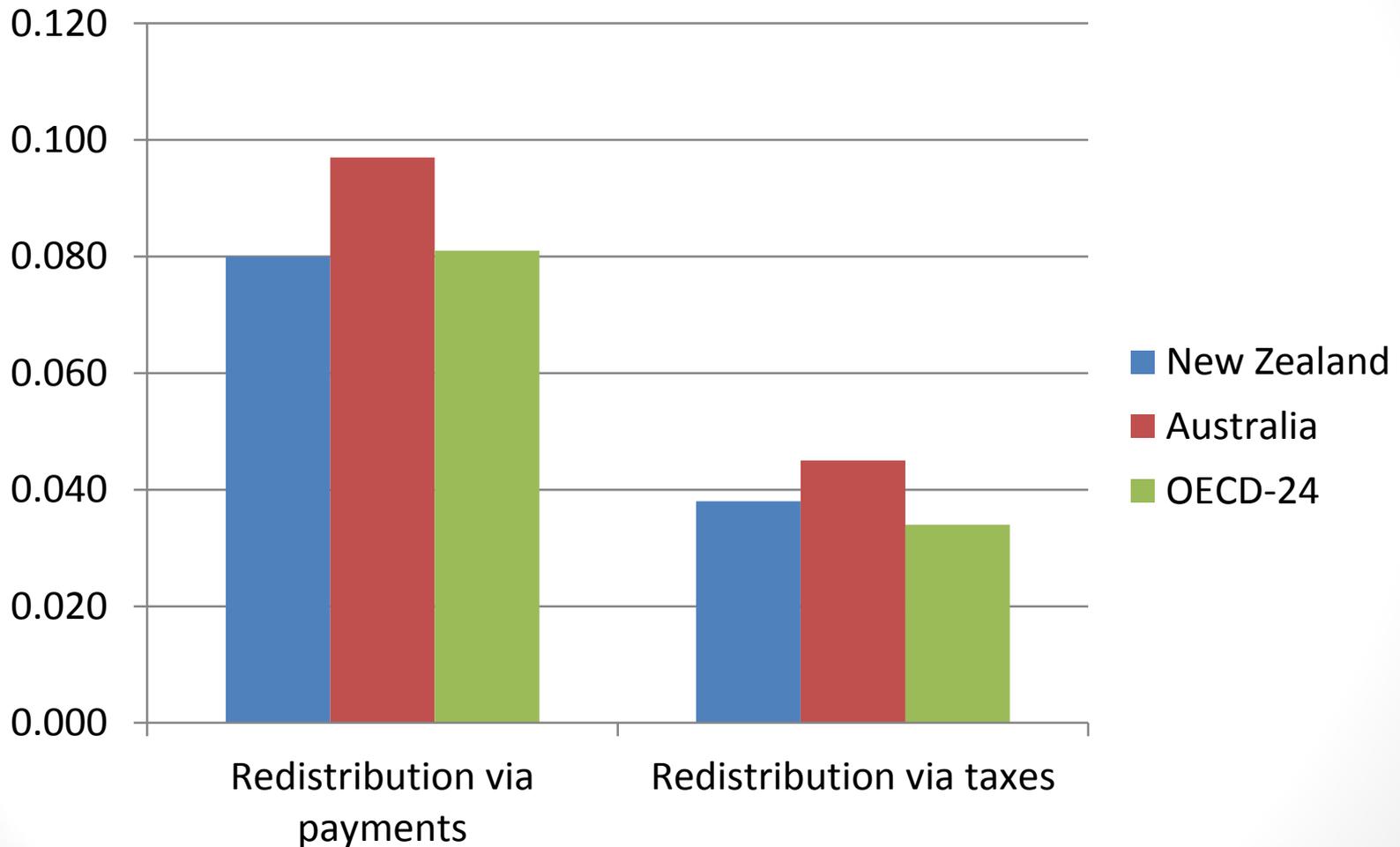
- Several analysts, including McClelland & St John, note a potential convergence from the 2000s.
- NZ saw a return to more union-friendly labour market laws, nationalisations, new welfare provisions
- Australia embraced more radical pro-business labour laws, made cuts to social services and shifted the tax base from income to consumption

# Inequality



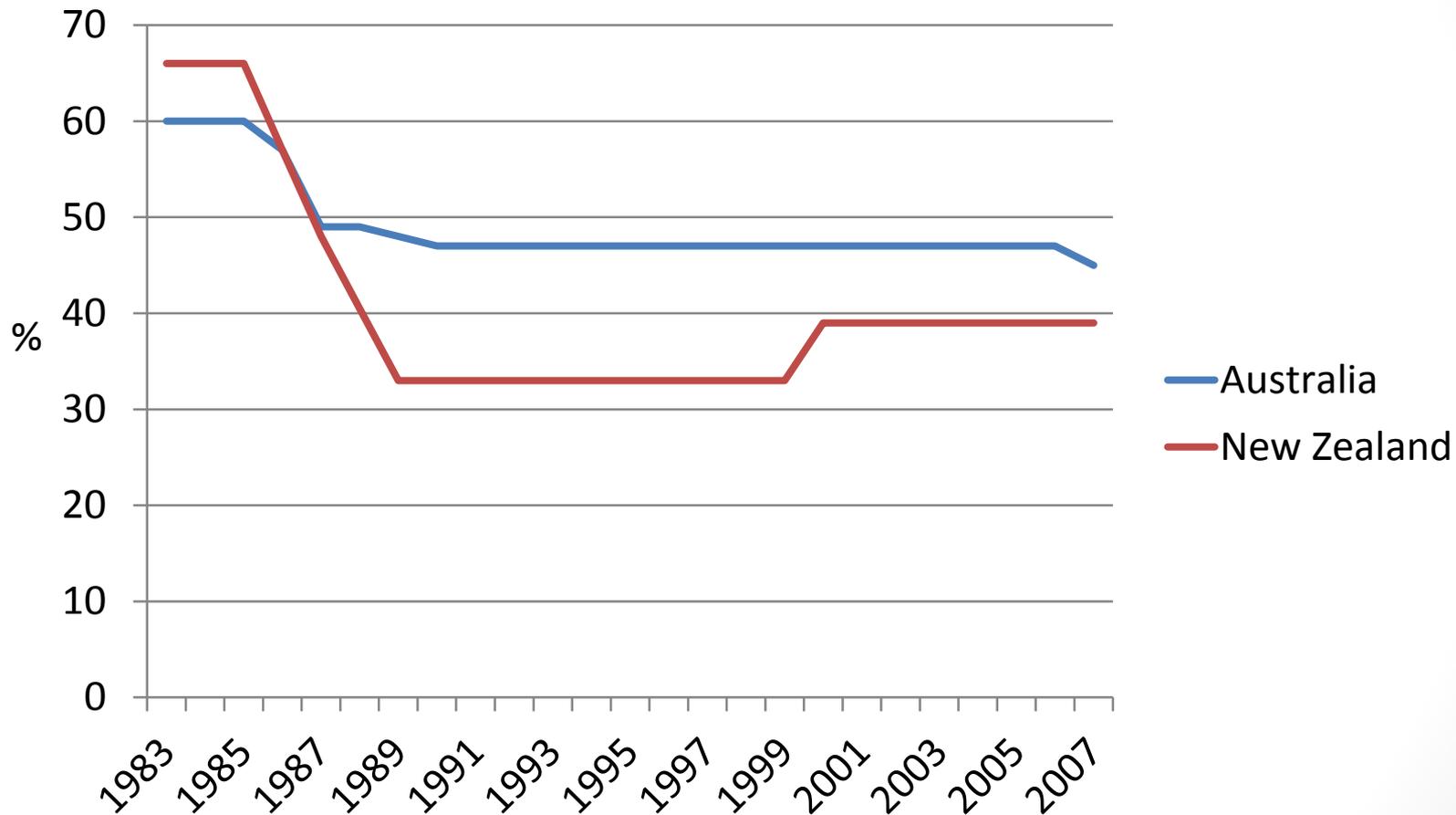
Source: OECD 2009, *Growing Unequal*, 25-27. Gini coefficient.

# Redistribution



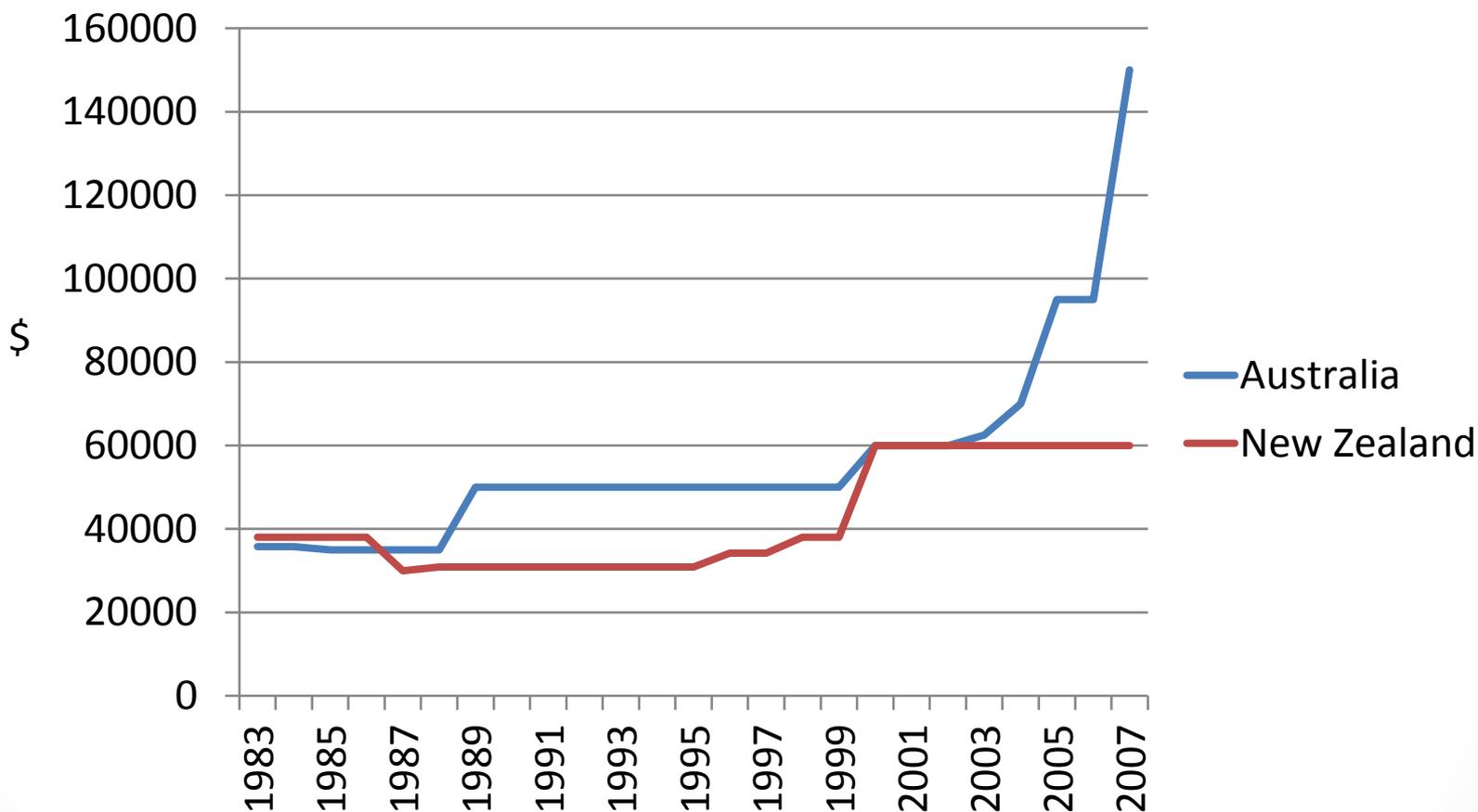
Source: OECD 2009, *Growing Unequal*, p.112. Point reduction in Gini coefficient.

# Top Tax Rates Until the Crisis



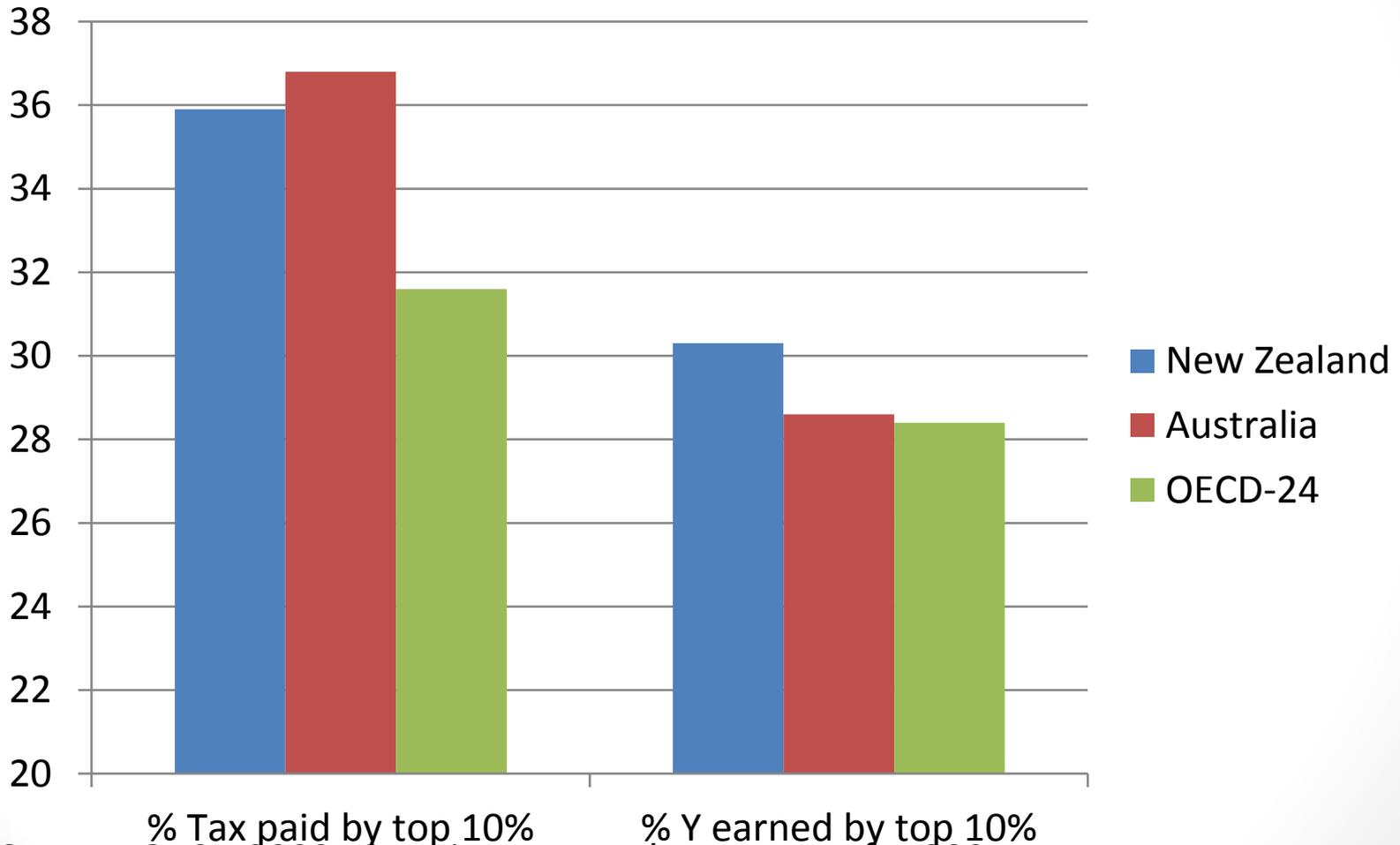
Source: OECD 2010, *OECD Tax Database*

# Changing Thresholds



Source: OECD 2010, *OECD Tax Database* (figures are in country's own currency)

# Taxes at the top



Source: OECD 2009, *Growing Unequal*, p.17. Data for 2005.

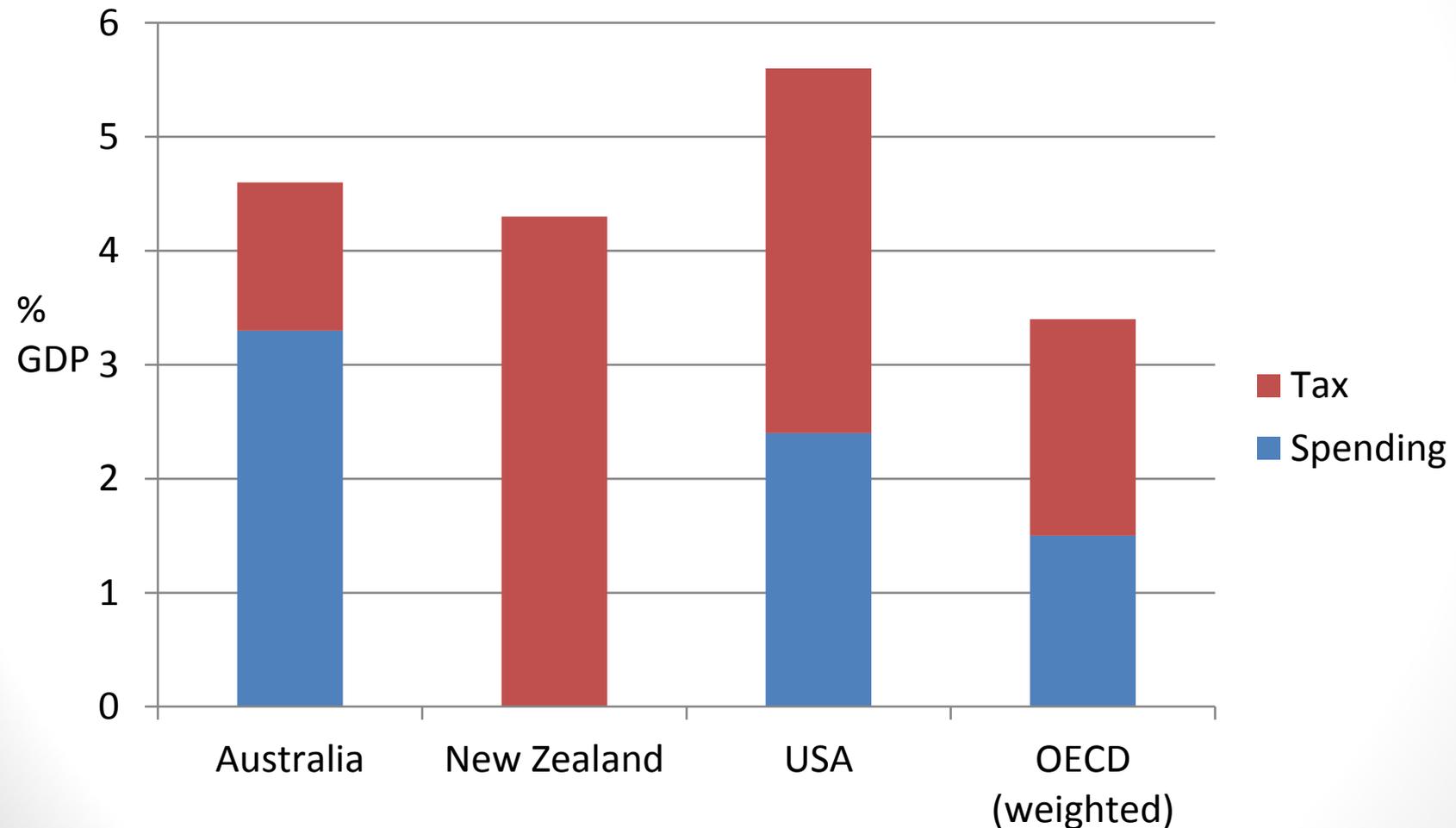
# State of Play Pre-Crisis

- Significant transformation of 'wage earner' welfare models in both countries
- New Zealand goes further becoming a 'textbook' example of market economics
- This is moderated by later reforms
- Australia pioneers a 'Third Way' based on strong targeting and modest social expansion
- Later moderated by labour market reforms and expansion of tax based welfare policies

# Budgets and Policy since the Crisis

- 2007/08 context: change of governments
- Looking at the stimulus: composition not size
- Implications for employment
- Implications for the tax base
- Returning to surplus: deficit, disaster and the tax base

# Stimulus packages



OECD 2009, *Economic Outlook*, Interim report, p.110.

# Main elements of Australian income component

- \$1,400 one off payments to pensioners (\$2,100 for couples)
- \$950 one off payment for those receiving student, farming and family benefits, including an additional \$950 per school aged child for low and middle income families
- \$900 one off payment for income tax payers earning less than \$80,000pa (with lower benefit up to \$100,000pa)
- Cuts to income tax had been announced prior to the crisis

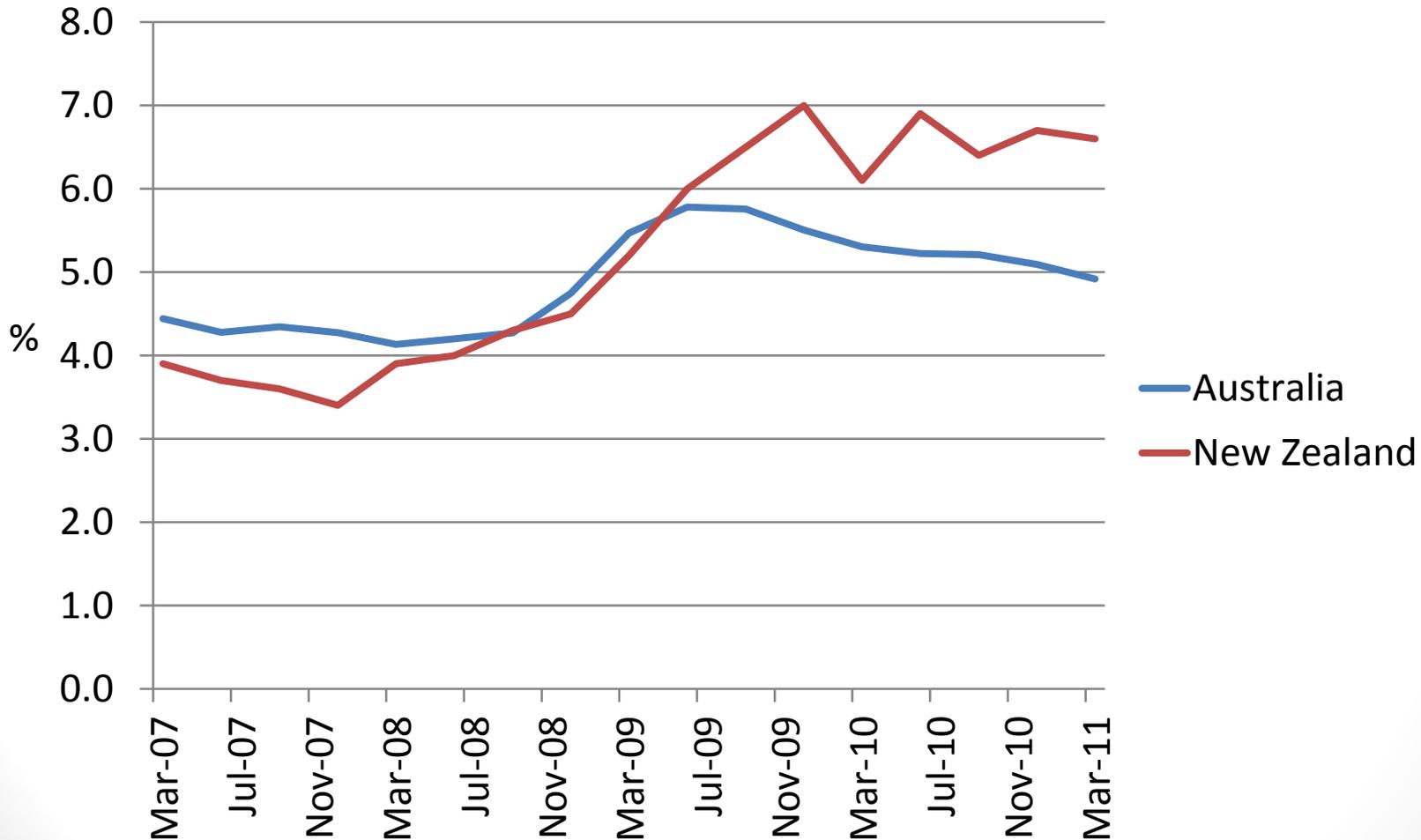
# Infrastructure

- Public investment in Australia increased by 2.6% GDP in 2008-2010 compared to 0.6% in New Zealand
- Problems were encountered in a number of elements including schools construction and home insulation
- Evaluation of school program has since identified poor value for money in 0.9% of cases, while the program created 120,000 jobs
- Evaluation of home insulation suggests that the *rate* of fires actually declined after the stimulus

# Effectiveness: a new textbook?

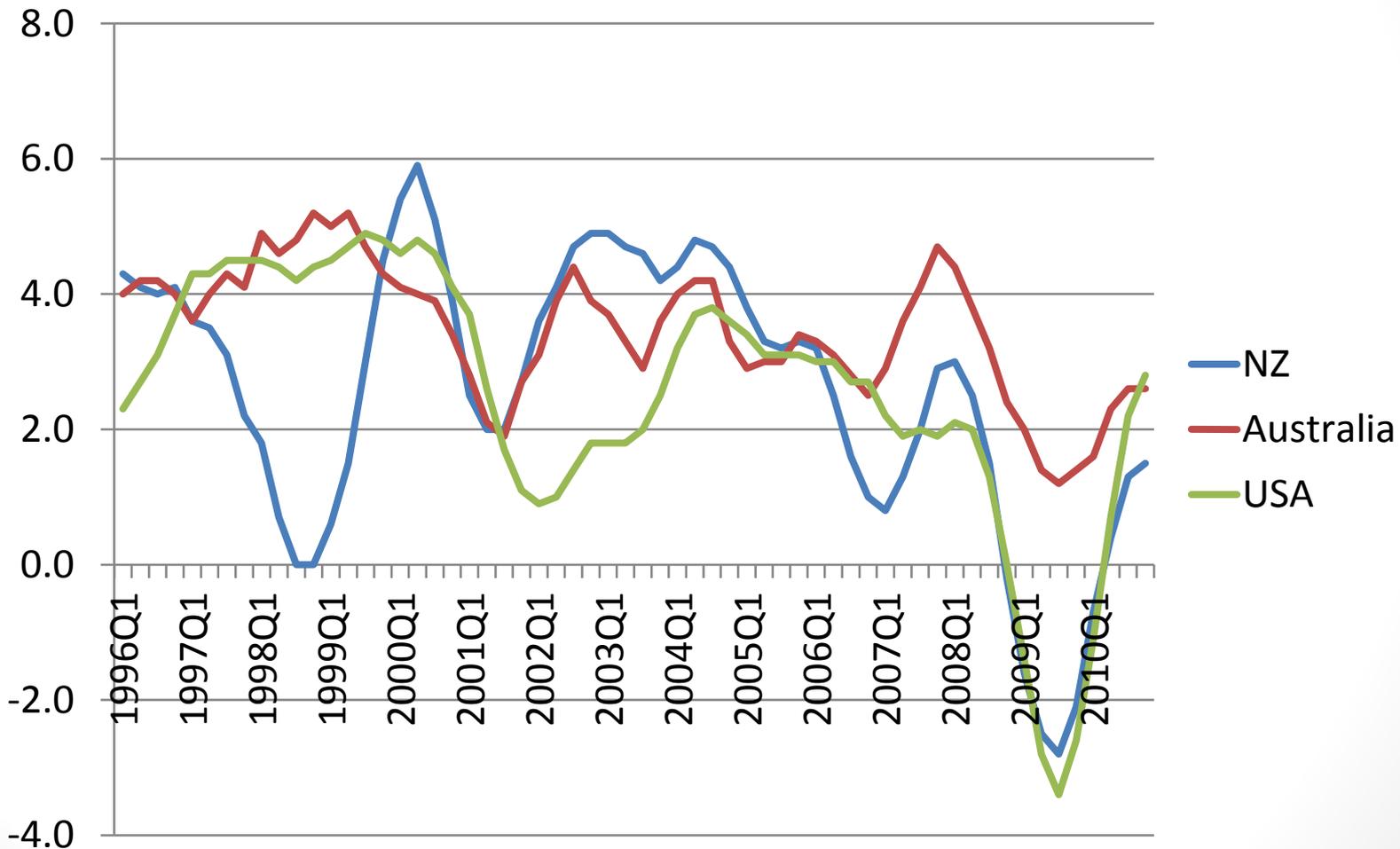
- OECD estimates that spending measures have roughly double the stimulus effect as tax measures
- Tax measures take longer to have full effect
- Australian stimulus estimated to have largest short run effect
- OECD estimates that Australia suffered less from medium term consequences of skill and capital destruction

# Unemployment



Source: New Zealand National Accounts; Australian Bureau of Statistics

# Growth and Macro Management



Source: Reserve Bank of New Zealand, Datastream, SNZ.

# Comparing the Recoveries

- Budgets in 2009-2011 look to reduce deficit
- Important elements of similarity in the types of measures used; the focus on promoting employment and growth and some of the groups targeted
- Important differences also emerge which reinforce the existing distinctions between Australia and New Zealand

# The Tax/Spending Base

- Interaction of taxes and benefits makes it difficult to treat them separately
- Important similarities:
  - Tightening tax deductions;
  - Limiting deductions being used to claim benefits;
  - Tightening targeting of means-tested family payments

# Different Paths

- Differences are also important:
  - NZ reforms promote 'neutrality' in revenue, distribution and between industries
  - Australia combines tightening eligibility with expansion of benefits and social wage (expands social provision)
  - Australian targeting is focused largely on upper income groups by restricting 'dual welfare' (redistributes income)
  - Response to natural disasters has differed, with Australia introducing a one-off levy on top incomes
  - Australia more willing to 'manage' markets

# Taxing and Spending

Taxes	Targeting spending
Mining profits tax – original est. \$9b 2013/14	Baby bonus (>\$150k)
Flood levy – \$1.7b	Family Benefits Part B (>\$150k)
Alcohol taxes - \$3b over forward est.	Private health insurance rebate (>\$80k/\$160k)
Carbon tax – unknown *	Deductions on superannuation (top 2%)
* Brings Australia into line with New Zealand	

## Targeting of new measures

- Paid parental leave (\$150k)
- Education rebate (FTBA)

## Targeting and expansion

- Pension abatement levels
- Family Benefits Part A
- Super benefits

# Welfare and Work

- Both countries have increasingly used 'mutual obligation' approaches to target some groups of benefit recipients
- Both have seen cuts to benefit levels (in Australia this has been through redefining beneficiaries onto lower payments)
- Both have reinforced the divide between deserving and undeserving beneficiaries (especially the aged and non-aged)
- Both have seen increased compliance associated with 'workfare' measures

# Some differences

- Australia has tended to combine 'stick' measures with greater 'carrots' in job creation schemes and reduced benefit withdrawal rates
- Australia's focus has been both harsher and more paternalistic for some at the margins, especially for Indigenous and young unemployed
- Australia's higher family payments, IR structure and tax free threshold can minimise impacts on many 'working poor'
- Changes to IR laws see greater rights for low paid workers
- FairWork Australia recently rules in favour of low-paid non-government care workers on gender discrimination grounds

# Assessing the Budgets

- Important similarities remain between the countries compared to other international examples
- Differences have emerged that tend to reinforce the distinct NZ and Aust models
- Australia continues to pursue a low tax relatively open market strategy, but with greater redistribution and attention to market failures

# Explaining the Differences

- 1980s saw a convergence of ideologies, however there is growing evidence of the reemergence of partisan divides
- New forms of civic engagement
- Partisanship has been transformed
  - Initial success in instituting market reforms sees NZ continue to take a more classical approach
  - Australia's gradualism sees it more open to changes in economic orthodoxy
  - Corporatism in Australia shapes ongoing policy and policy alternatives

# Ideology and Partisanship

- Majoritarian party systems anchored in class based partisanship
- Rise of post-materialist values associated with a decline in class alignment
- More recent evidence suggests class was 'buried alive' by changing orientation of those with high levels of formal education (Waal, et.al. 2007)
- In Australia, Labor benefits from traditional class based partisanship from early 1990s – limiting bipartisan support for more radical reform

# Civil Society Mobilised

- 2004 election sees Coalition win a rare Senate majority
- Strong civil society response:
  - Your Rights at Work
  - GetUp!
- Both seek to build up a popular support base
- Both use new media and advertising to influence opinion and debate
- Longer term implications with greater 'third party' involvement in election campaigns

# YR@W



- Response to *WorkChoices* labour market deregulation
- Unions funded campaign through levy on members (\$30m), it included:
  - TV advertising campaign aired during parliamentary debate
  - Web mobilisation (190,000 sign e-petition; 600,000 visitors)
  - Established local groups and targeted large worksites
  - Established 25 marginal seat campaigns, regional bus tours and 4,800 volunteers for election day
  - Opposition to laws doubles, IR second most salient issue and most crucial to swinging voters

# GetUp!

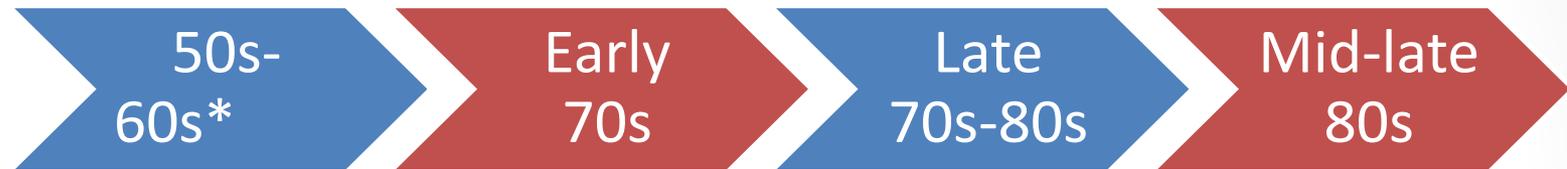


- Modeled on the US MoveOn.org site
- Officially non-partisan, but explicitly 'progressive'
- Mobilises 400,000 web based members
- Uses targeted advertising through funding [appeals to members](#)

# Transforming Partisanship

- Similar evidence of NZ Labour moving back towards its base
- Timing of electoral cycle now out of sync
- Position of conservative parties differs in approach: reflecting earlier process of economic transformation

# Marching in Step



<b>Australia</b>	<b>Menzies et.al. 1949-1972</b>	<b>Whiltam 1972- 1975</b>	<b>Fraser 1975- 1983</b>	<b>Hawke 1983- 1991</b>
New Zealand	Holland 1949- 1957 Holyoake et.al. 1960-1972	Kirk/Rowling 1972-1975	Muldoon 1975- 1984	Lange et.al. 1984-1990

# Out of Step

## New Zealand



## Australia



# Legacy of Past Changes

- NZ has a more idealistic history (on both sides) and seems more committed to that now
- Australia's pragmatic compromise has two important elements that continue to influence today
  - Social wage trade offs
  - Support choice for women to enter the workforce

# Social Wage

- Accord sees unions trade off bargaining power for protection for low and middle incomes
- Later focuses attention on effective marginal tax rates as a disincentive to work
- Coalition increasingly looks to expand this targeted assistance to higher incomes, and to favour private provision
- Leads to a Dual Welfare State where tax expenditures are used alongside targeting as partisan strategies

# Femocrats and Family Policy

- Accord is influenced by a group of feminist bureaucrats who promote gender auditing and equality
- Sees increases in family payments and child care provision through Accord
- Payments moved from tax system (directed to primary earner) to expenditures (directed to care giver)
- Sees greater pay equity and parental leave through arbitration
- Both dynamics continue in current government, although less pronounced

# Family Policy

- Coalition does not simply retrench family assistance, instead seeks to redirect to breadwinner families through the tax system
- This sees 'layering' of policy as each party adds to its preferred policy set, and mild conversion, without significantly retrenching alternatives
- Increased further by Treasury concerns over population ageing which sees more generous treatment to all family types
- Reinforced by electoral system, which sees families with mortgages in key swing seats
- Australia's spending on family payments increases rapidly, now rivaling Swedish spending

# Policy in the Future?

- One factor in the different paths taken in Aust and NZ is the centralisation of the political system
- This may remain:
  - Strong popularity of National and possibility of majority government in NZ
  - Rise of the Greens and balance of power in the Senate in Australia