Globalization and the ‘Wage Earners’ Welfare State’: Australia and New Zealand in Comparative Perspective

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Abstract: ‘Globalization’ has frequently been invoked as a sound-bite explanation of changes to the welfare state in Australia and New Zealand since the early 1980s. This view typically over-states the degree of convergence between the two countries, and neglects the role that national institutions play in mediating and filtering globalization. This paper offers a corrective to this perspective, by describing and explaining the differentiating effects that national institutions have played in the restructuring of the wage-earners’ welfare state in the two countries.

The history of the Australian and New Zealand settler colonies has been a history of accelerating global enmeshment. Indeed, the origins of both countries’ welfare systems in the so-called social laboratory period (1890-1914) can be viewed partly as a response to what is today routinely referred to as globalization. The growth of world-wide economic, diplomatic and cultural interconnections, the compression of time and space on a planetary scale, and the stretching of social relations across political boundaries – in a word, the globalization of social relations – had profound affects on the seven Australasian colonies that would become two national states.

The development of refrigeration and faster ocean-going shipping in the 1880s, for example, bound Australasia firmly to the rhythms of European, especially British, economic growth. Consequently, the domestic economic and political crises of the 1880s and ‘90s had causes that stretched far beyond the shores of the Tasman Sea. In turn, domestic crises provided stimuli to the growth of liberal protectionists and labour movements in Australia and New Zealand. Their cooperation was instrumental in
securing a class compromise between manufacturing capital and labour and the first tentative steps towards state-sponsored welfare provision (Macintyre, 1989). This compromise was based on state-led industrial arbitration and mutual protection from external, global forces: on the one hand, from cheap imported commodities that risked overwhelming nascent manufacturing; on the other hand, from cheaper sources of labour in Asia and the Pacific Islands which were perceived as threatening the privileged position of white workers. Thus tariffs and racist immigration policies provide a paradoxical confirmation of the extent to which global enmeshment was a reality in the Australasian colonies more than a century ago. They were nationalistic measures to be sure, but ones that should be thought of as aspects of and responses to a broader globalizing dynamic, rather than repudiations of that dynamic.

Given this, it is clearly misplaced to view globalization and its impacts on the Antipodes as beginning in the 1970s, as is often posited (cf. Kelsey 1999; James 1992; Kelly 1992). Nevertheless, it should be acknowledged that the 1970s represented an intensification of globalization. The breakdown of the Bretton Woods system of international financial regulation and the resulting increase in cross-border capital flows, interstate trade and foreign direct investment, combined with the thickening of cultural traffic in the wake of innovations in communications infrastructures and the political trend towards neoliberalism, all magnified the impacts of global processes. While this is true, however, in itself it tells us little if we are unable to specify the ways in which globalization is mediated by and filtered through national institutions, agents and conditions.
On the basis of these premises, this paper provides a preliminary account of the differential ways in which globalization was and is filtered through national institutions in Australia and New Zealand, with striking contrasts in outcomes for the wage-earners’ welfare state.

**The Decline of the ‘Wage-Earners’ Welfare State’?**

In a seminal contribution to the literature on welfare and class, Francis Castles (1985) once labelled Australia and New Zealand as ‘wage-earners’ welfare states’. Castles (1996 & 1998), and Castles and Mitchell (1993) subsequently elaborated this thesis, contra Esping-Andersen (1990), arguing that Australia and New Zealand were part of a distinct ‘fourth world’ of welfare capitalism. This can be distinguished from liberal, social democratic and corporatist models by a number of defining features.

Most importantly, the wage-earners’ welfare state functions in the interests of men as workers rather than as citizens, which underlines its frequently noted masculine and labourist bias. It is characterized by high levels of wage regulation, with industrial arbitration and guaranteed minimum wages for workers and their dependents ensuring relative wage stability and a compressed wage structure. For those who fall outside of the wage-labour sphere, a relatively modest and targeted welfare safety net has developed (until the 1980s, more modest and more targeted in Australia than New Zealand), funded out of direct taxation rather than wage-related social security contributions. As such, the wage-earners’ welfare state discharges its welfare functions effectively where
unemployment is very low, as was the case in Australia and New Zealand in the three
decades following the Second World War (Castles, 1996: 89-92).

During this period, the Antipodean welfare states were abutted by a high degree of
Keynesian demand management and protection of local industries which, it is argued, had
the effect of preserving employment and thereby enhancing welfare. In addition, the state
was the main player in the development of infrastructure and also a very large employer
(Castles and Mitchell, 1993: 108). Finally, Australian and New Zealand governments had
extended the state’s welfare role with a raft of social policies in housing, health and
childcare, which that supplemented the labour market as a source of social security.
These provisions were extended in the 1970s, especially under the reforming Labour
administrations of Kirk and Rolling in New Zealand and Whitlam in Australia. But this
occurred at precisely the time that the wage-earners’ welfare state was coming under
increasing pressure from global and local sources.

It is now widely accepted that the decisive moment in the initiation of welfare state
restructuring in Australasia occurred with the election of Labour governments in 1983
and 1984. The Hawke and Lange governments initiated programmes of transformation
whose broad direction was similar in substance, if not in form and intensity. Although the
available evidence suggests that restructuring has gone further and faster in New Zealand
than in Australia (Mulgan, 1997), the commonalities are nevertheless striking.
The accelerated commodification and privatization of welfare services, the growing
emphasis placed on the obligations and responsibilities of welfare recipients as opposed
to their rights and entitlements, and increased means-testing and targeting of welfare
provision have all been important trends in both countries since the 1980s (Mendes, 2003; Boston et al., 1999). These changes have been coupled with a general shift from a Keynesian to a neo-liberal macroeconomic orthodoxy, and the implementation of regressive tax reform policies and labour market deregulation. Taken together with higher rates of structural un- and under-employment, these changes have constituted a veritable revolution in the wage-earners’ welfare state. Whether or not this revolution signals the demise of that model or merely its refurbishment, however, needs to be examined in the context of differential national responses to intensified globalization on either side of the Tasman.

**National Responses to Globalization**

The proximate causes of welfare state transformation have been the subject of fierce controversies in Australia and New Zealand. To simplify greatly, the architects and defenders of neo-liberal restructuring typically argue that the changes were an overdue response to the failings of the Keynesian-framed welfare state (James, 1992; Kelly, 1992), while its critics reject such arguments as self-serving rationalizations that obscure the political and economic interests that have been served by welfare reform (Frankel, 2001; Stilwell, 2000; Kelsey, 1999). Despite their many difference, they share the conviction that welfare state restructuring is bound up with globalization (Porter & Craig, 2003; Galligan et al., 2001; Saunders, 1998).

For its defenders, restructuring has been a necessary and desirable response to globalization. Paul Kelly expressed this sentiment most forcefully in his book *The End of*
Certainty (1992), which celebrates the virtues of economic deregulation and welfare state restructuring. His central thesis is exceedingly simple and, for the uncritical reader, seductive. It amounts to the claim that a more open global economy has rendered the ‘Australian Settlement’ (read, the wage earners’ welfare state) redundant. The Hawke and Keating governments had no choice but to dismantle a ‘Fortress Australia’ that was out of step with new global realities, and to make moves to improve international economic competitiveness (1992: 386). This entailed deregulating the labour market, and rolling back protectionist policies and state intervention into the economy. Increased inequality and social insecurity, in so far as they are acknowledged, are presented as the unfortunate but necessary corollaries of such a transformation. Similar arguments have been advanced in the case of New Zealand by Collin James (1986 and 1992). Like Kelly, James views the transformations of the 1980s in the context of changing global realities and the weaknesses of the Keynesian welfare state. That model, James claims, had by the 1970s outlived whatever positive attributes it may have once had. It now only served to exacerbate the very economic and social problems that it was designed to overcome – unemployment, social insecurity, and economic instability – because of its inherent promotion of economic inefficiency and dependence on the state.

Although opponents of welfare restructuring are at odds with the normative evaluation implicit in Kelly’s and James’s position, they nonetheless accept that globalization has been an important determinant in welfare state transformation. Jane Kelsey (1999), for instance, has been a representative voice who is critical of globalization and its consequences for the welfare state. She views globalization as part of a realignment of
capital accumulation on a global scale, which impels a ‘race to the bottom’ as national states outbid each other to erode wages and welfare in order to attract mobile capital (Kelsey, 1999: 10-16). National political economies, especially relatively small and dependent ones like New Zealand and Australia, are increasingly constrained by forces beyond their borders. This results in national governments doing the bidding for global capital by deregulating labour and other commodity markets, freeing up barriers to trade and foreign direct investment, and generally commercializing welfare and the state sector more generally, with deleterious effects for equality and social exclusion. In this view, one shared by many Australian commentators (Mendes, 2003; Frankel, 2001; Stilwell, 2000), the commercialization of welfare services is seen to have reinserted the callous cash nexus between social needs and the satisfaction of those needs. If this transformation has domestic causes as well as domestic beneficiaries, they are also, we are reminded, crucially over-determined by globalization.

This necessarily schematic portrayal of some representative positions on globalization and welfare state restructuring in the Antipodes, reveals one important commonality: namely, that both adherents and critics of welfare redesign assume a high degree of convergence between the two countries, stemming from similar global constraints. While this assumption has some validity as a sound-bite description of changes in the Australasian wage-earners’ welfare states since the 1980s, more detailed comparison suggests that responses to globalization on either side of Tasman have been far more variegated and contradictory than the above accounts imply. This confirms more recent international analyses of the relationship between globalization and welfare, which
suggests that while all countries do have to respond to global pressures, they do so in very different ways and with very different outcomes (Panic, 2003; George and Wilding, 2002; Mishra, 1999).

The Filter of National Institutions

In a recent article (Cox 2003), I outlined in some detail the key differences in the form of welfare state restructuring between Australia and New Zealand. To sum up, there are three main differences, which imply the destruction of the wage earners’ welfare state in New Zealand but not in Australia. The first difference was the greater intensity of restructuring in New Zealand, as revealed in the scope of reform and the greater speed with which it was accomplished. The New Zealand Labour government had, by the end of its second three year term in 1990, already achieved many of the decisive changes that would have to wait for another decade in Australia. They had implemented a comprehensive goods and services tax by 1986, had made sweeping market-driven changes to the public service, had separated out (public) welfare funding from (private) welfare delivery, and privatized twice as many state assets in six years as Australian Labor had in thirteen years ((Easton and Gerritsen, 1996: 40).

The second main difference was the institutional structuring of the process. In Australia up until 1996, welfare reform was accomplished under the auspices of an Accord between the ALP and the union movement, which ensured wage restraint in return for maintenance of the welfare provision. In New Zealand, by contrast, the union movement was not consulted about reform and was largely excluded from its formulation, which
freed the executive to more vigorously pursue its liberalizing agenda than it otherwise would have been able to do.

Finally, there were and are very important differences in the political and economic consequences of welfare state transformation. Politically, the extent of Labour’s rightward trajectory in New Zealand in the 1980s necessitated that the incoming National Party in 1990 move even further in that direction, in order to distinguish itself from Labour. This was reflected in the 25 per cent reduction in the monetary value of many welfare benefits in December 1990, and the 1991 Employment Contracts Act which comprehensively demolished New Zealand’s 100 year old system of industrial arbitration. At a stroke this destroyed one of the main planks of its wage earners’ welfare state, which has still not been accomplished in Australia. Economically, commentators have provided a wealth of empirical evidence showing that New Zealand has lagged relative to Australia. Gregory, for instance, has calculated that New Zealand lost around one and a quarter years of GDP per person relative to Australia between 1984 and 1997, while its employment growth contracted sharply as Australia’s grew in the second half of the 1980s (2000: 112-119); a picture that is confirmed by the Paul Dalziel (2001) and the contributions in Castles et al. (1996).

So what is it that explains these very different responses to globalization? Elsewhere I have emphasised the differences in the political and economic starting point, and differences in the balance of social and political forces, between the two countries (Cox
Here I want to concentrate on differences in the institutional context of political decision-making through which globalization was and is filtered.

The first key difference is in the Parliamentary systems in the two countries. New Zealand’s unicameral parliament and the first-past-the-post electoral system that it maintained until 1996, concentrated power and facilitated rapid economic and political change in a way that the Australian Parliamentary system did not (Mulgan, 1997: 8-11). Until 1996, New Zealand’s liberalizing parliamentarians did not have to soften their policies by doing deals with smaller parties in order to get elected. Once in power, they were unrestrained by the political demands of an Upper House. In Australia the situation was reversed, with its federated and bicameral political structure typically impeding the possibility of radical policy change of the sort that occurred in New Zealand.

Commonwealth governments usually have to negotiate with other parties to get their legislation through a hostile Senate, which has the effect of diluting legislation so that policy is only implemented in incremental steps and modified form. The preferential-voting system in Australia has also demanded that the major parties do deals with minor ones, which further mitigates the possibility of radical shifts in policy direction. The other main difference filtering the effects of globalization in the two countries has been the relative autonomy of Labour governments from their constituencies and broader labour movements (Bray and Neilson, 1996: 70; Castles et al., 1996: 10-14). More specifically, the trade union movement had and has a far greater organizational role with the ALP that it does in the NZLP. When welfare state transformation was first
implemented under the 1980s Labour governments, union delegates controlled considerably more than half of the votes at ALP conferences, while their New Zealand counterparts controlled considerably less than half. Moreover, ALP conferences had significantly more authority in determining policy than NZLP conferences. In fact, NZLP policy at the time was determined by a less representative ‘policy council’, in which the executive and MPs were predominant. The lack of formal factions within the NZLP abetted this dominance. By contrast, the ALP factional system acted as a fetter on executive power, institutionalizing compromise and making it difficult for individuals or cliques to realize their ‘maximum programme’. The Accord was the expression of this compromise, restricting the scope and speed of restructuring and ensuring that the Australian wage-earners’ welfare state was, as Castles argues, refurbished rather than subject to wholesale retreat, as it was in New Zealand (1996: 106).

**Globalization and National Institutions**

The different ways in which Australia and New Zealand have responded to the challenges of globalization draw into sharp relief one of the main weaknesses of much recent discussion about the imputed consequences of global change. This is, namely, the tendency to speak at such a high level of abstraction about the impact of globalization on the *state in general* and *state capacities in general*, that differences between *particular states* and *particular state capacities* are effaced and the mediating influences of national institutions are ignored. Authors such as Linda Weiss (1998) and Michael Mann (1999) are correct to emphasize the continued importance of politics and states in a globalized world. States differ enormously in terms of their size, power, and degree of autonomy in
the face of supranational, global sources of change and constraint. It cannot be assumed, therefore, that the same global causes will have the same local and national effects, irrespective of the filtering effects of national institutions.

This is born out in the comparisons of changes to the Antipodean wage-earners’ welfare states in the era of accelerated globalization. As I have shown above, the undoubted similarities in the trajectories of Australian and New Zealand welfare policy since the 1970s tends to obscure important differences. These are centred on the extent and speed of restructuring, the manner in which it was accomplished, and its broader political and economic ramifications. A more considered analysis of these ramifications than offered by proponents of sound-bite globalization explanations, suggests that the wage-earners’ welfare state is dead in New Zealand but only in retreat in Australia. A key part of the explanation for that difference, I have argued, lays in the institutional peculiarities that have filtered globalization on either side of the Tasman.

References


