

Coming together or drifting apart?

Income maintenance in Australia, New Zealand and the United Kingdom:

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There is a long-standing debate in the comparative welfare state literature as to whether social policy regimes come to look more alike over time (Kerr 1962; Wilensky 1975; Brooks & Manza 2006) or else retain their distinctiveness, either because of the path dependent nature of institutional change (Esping-Andersen 1990; Pierson 2001) or because of the financial and electoral costs of restructuring (Taylor-Gooby 2001; Van Hooren 2014). Also of longstanding is the question of whether 'regime-types' or 'families of nations' tend to cluster together, even in periods of considerable change (Esping-Andersen 1990; Castles 1993). In more recent times, there has been added the question of whether partisan identity has ceased to matter in the social policy arena as *all* governments are driven to adopt similar policy reforms under largely external imperatives over which they have little or no control, a process which may or may not be subsumed under the general logic of 'globalization' or the more particular circumstances of 'permanent austerity' following the Great Financial Crisis (GFC) of 2008 (Pierson 1994; Pierson 2001; Kwon and Pontusson 2010; Finseraas and Vernby 2011).

In this paper, we test out each of these questions by exploring the trajectory of income maintenance policy in the United Kingdom (UK), Australia and New Zealand over a twenty-year period (from 1996).¹ We are especially interested to see if the ‘dynamics of convergence’ have actually changed and whether an accelerating process of ‘globalization’ and/or the consequences of GFC have really made a difference. To do this, we deploy Colin Hay’s (2004) six-stage framework for analysing convergence in a detailed examination of changes and continuities in three key policy areas: ‘welfare-to-work’, child-contingent support and pensions. Overall, we find that the social/economic pressures faced by all three countries are more similar now than they were two decades ago and that each has sought to legitimize its policy response to the GFC in similar ways. In terms of the three areas we have explored in some detail, we find that convergence is much more substantial in ‘welfare-to-work’ than in either child-contingent support or pensions. But we also find that any straightforward convergence story is unsustainable, despite the GFC and accelerating ‘globalization’, and partisan effects remain important.

Convergence and Partisanship

In their sixteen-state comparative survey, Achterberg and Yerkes (2009) report three common explanations for welfare-state convergence: the dynamics of European

¹ On the comparative experience of these three states in an earlier period, see Castles and Pierson, 1996; Pierson and Castles, 2002)

economic integration (Cornelisse and Goudswaard, 2002; Caminada, Goudswaard and van Vliet, 2010); domestic drivers such as demographic, economic and cultural pressures, including increasing unemployment and social inequality, which make universalist welfare states unaffordable (Pierson, 2001; Taylor-Gooby, 2001); and the financial imperatives of globalization and the inter-related project of political and economic liberalization, which force all welfare states to engage – more or less comprehensively – in a ‘race to the bottom’ in social provision standards, largely irrespective of partisan incumbency (see Castles, 2004; Korpi, 2003; Starke et al., 2008; Jensen, 2011). The former is not relevant to this article, since neither Australia nor New Zealand are part of the European Union, but arguably all three countries have been challenged by the latter two. In regard to globalization, Hay (2004) reports two key arguments: first, that capital mobility and competition under open economy conditions generate common inputs or pressures, so that states and/or political-economic regimes have no independent mediating role, minimizing partisan differences and leading to common outputs. A second thesis argues that globalization produces a variety of common pressures to which competing models of capitalism are differentially exposed, promoting a dual process of convergence accentuating historically-embedded differences between liberal market economies and coordinated market economies due to their institutional differences. Given our focus on three countries which have traditionally adopted ‘liberal’ market economies, we concentrate on the former hypothesis.

In practice, few empirical studies have found definitive evidence of general

welfare state convergence (Bouget 2003; Starke et al. 2008; Jensen 2011). Indeed, empirical findings are often contradictory; for instance, while Cornelisse and Goudswaard (2002) found some degree of convergence among European Union member states, other studies of Europe have found the opposite (Ferrera et al. 2001; Castles 2004). Shared patterns of incremental change are possible and, in some cases, this may be significant in the long term (Korpi 2003; Korpi & Palme, 1998) but, as Hay (2004) has argued, common trends across countries do not necessarily imply cross-national patterns of convergence. As Achterberg and Yerkes (2009: 192) note, 'researchers often look only at general measures for divergence while simultaneously sweeping aside differences between countries, and the direction in which countries are moving is not shown'.

Evidence on welfare state convergence after the GFC is also ambivalent. A number of scholars have investigated the impact of the post-2008 recession on welfare states (including Armingeon 2013; Hermann 2014; Obinger and Starke 2014). But there is limited agreement on its real impact. For some, it is an impetus to further and more general retrenchment; for others, it heralds a period of greater differentiation as some especially vulnerable states (Greece is a favourite exemplar) are left behind, with a peculiarly acute crisis of public indebtedness driving them to abandon much of their existing public welfare apparatus (van Kersbergen et al. 2014; Petmesidou and Guillén 2014). More generally, there is surprisingly little evidence that international economic crisis has led to sudden and fundamental welfare state reform (Armingeon 2013; Blyth 2013; Van Hooren et al., 2014).

The claim that partisan differences are now of limited importance for policy outcomes is well-established in the literature (Pierson 2001; Streeck 2014; Chwalisz and Diamond 2015). It tends to focus on the idea that, through a mixture of internal and external dynamics (globalization, 'permanent austerity', 'partisan dealignment', societal ageing), governments have been left with very limited scope to do things differently in the welfare state arena – especially in regard to income maintenance. Our extended analysis of three states, all of which have seen multiple changes of governing party, provides an empirically-informed challenge to this view.

Cases and Methods

Our three cases were selected because they have been widely classified as similar, 'liberal' welfare states with comparatively market-oriented and ungenerous social policy regimes (Esping-Andersen 1990). They share a single language, a common history, a common legal system and broadly similar political systems and public policy heritage (both practically and intellectually). We might thus expect them to belong to a 'convergence club', where countries cluster together because of shared features or institutional/ historical background (Knill 2005; Schmitt and Starke 2011).

Generating a more nuanced – and empirically sustainable – account of convergence/divergence in the three countries is complicated by the concept itself being so 'notoriously slippery' (Hay 2004, 244). Here we are influenced by the work

of Knill (2005), who distinguishes between four different types of convergence: *sigma*, *beta*, *gamma* and *delta*. We focus primarily upon *sigma*-convergence (a decrease in variation of policies amongst countries studied) and *beta*-convergence (where laggard countries catch up with leader countries over time due to their policies changing faster than the latter). We also heed Van Hooren et al's (2014) call to distinguish between the *direction* of change (retrenchment or expansion) and the *quality* of change (such as how basic principles of benefit eligibility and entitlement rules are affected). A further useful distinction (Hay 2004) is that between *causal factors* which bring about convergence (independent responses to a parallel problem, pressure from international organisations or international law, regulatory competition emerging from increasing economic integration, transnational communication and so on) and *facilitating factors* which affect triggering mechanisms (e.g. institutional similarity of countries studied, type of policy, particular policy dimensions studied).

More specifically, we draw upon Hay's (2004) six-fold typology:

1. Convergence in the pressures and challenges to which political-economic regimes are exposed: *input convergence*
2. Convergence in the policy paradigms and cognitive filters in and through which such pressures and challenges are identified and understood: *paradigm convergence*
3. Convergence in the policies pursued in response to such pressures and challenges: *policy convergence*

4. Convergence in the ideas used to legitimate such policy choices: *convergence in legitimacy rhetoric*
5. Convergence in policy outcomes, usually gauged in terms of indicators of policy performance: *output convergence*
6. Convergence in the process in and through which challenges are translated into policy outcomes: *process convergence*

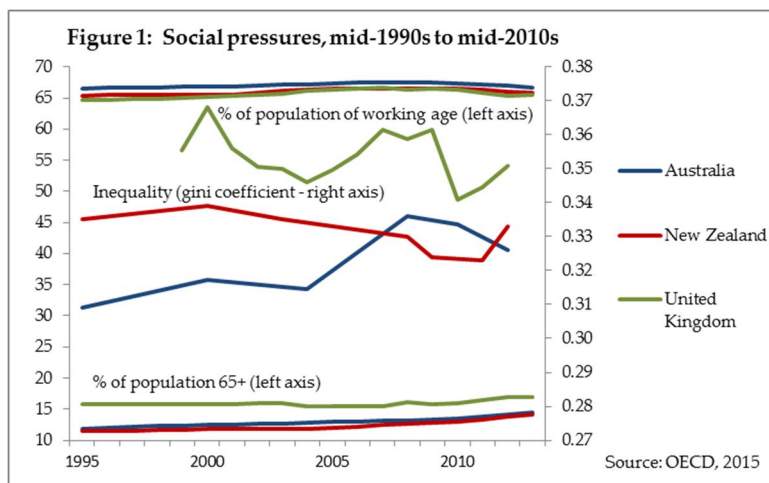
Following Hay (2004), we first evaluate whether our three cases faced similar pressures and challenges since the mid-1990s and how these shaped political rhetoric. We then analyse whether convergence (and/or partisanship) was manifest across our chosen period by focusing on three key areas of income maintenance: 1) welfare-to-work initiatives which target the working-age population, where we might be most likely to see convergence given the intense pressure to reform in almost all developed countries over the past twenty years; 2) child-contingent support targeting children, both because this is a policy area where what were once non-work-related benefits have been drawn closer to work conditionality and because evidence suggests that this is an area where governments of varying political persuasions have chosen to focus increased spending effort; and 3) state pension provision focused on the elderly population, one of the largest areas of social expenditure and one where established programmes are regarded as especially path-dependent and, consequently, resistant to (converging) reform. Drawing on policy documents, secondary literature and Organisation for Economic Cooperation and Development (OECD) data (limited in many cases by the age or

extent of data available across all three countries), our qualitative analysis identifies *sigma*-convergence as having occurred when the cases have moved closer together in at least two of the three different stages of convergence we examine for each policy area.

For brevity's sake, we do not address Hay's (2004) concept of process convergence here. Our analysis does however show that policy convergence does not necessarily mean that countries are following a common trajectory, while policy divergence does not mean that states may not be following the same broader trajectory. Shared direction of travel and convergence are not the same thing. Looking not only at different *stages* in the policy process but also at *multiple* policy areas and *over time*, what emerges is a complicated picture.

Shared pressures, challenges and rhetoric

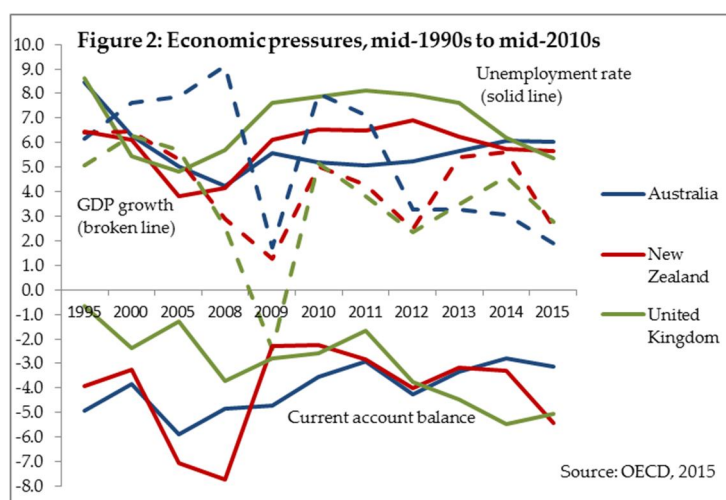
Figure 1 shows that all three countries have faced similar social and economic pressures since the mid-1990s: the working age proportion of the population stayed fairly static (around 65-66% in each country), while that aged over 65 grew by almost 1% in the UK and around 2.5% in Australia and New Zealand. In 2013, the elderly as a percentage of the working-age population was 29% in the UK compared to 23% in the two other countries (OECD 2013), suggesting that this challenge was greatest in the UK. Figure 1 nonetheless indicates that differences between the countries generally decreased between the mid-1990s and mid-2010s.



Similarly, all three countries faced growing income inequality in the late 1990s, with some relief in the 2000s. Again, this challenge was greater for the UK overall, while New Zealand appeared to have better and Australia lesser success in reducing inequality across our time period. However, differences in levels of inequality in each country again reduced over the period. As numerous OECD (2009; 2014a; 2014b; 2015) reports attest, all three countries were under pressure to address such issues and later discussion highlights how they adopted a fairly uniform set of *rhetorical* tools to legitimate policy action aiming to improve the ‘sustainability’ of welfare systems (English 2015; Hockey 2015; Osborne 2015).

Figure 2 helps to explain why the post-GFC recession was severe in the UK, milder in New Zealand and (at least technically) non-existent in Australia (UNICEF 2014; Van Hooren et al. 2014). GDP growth declined in all three countries around 2009 but only the UK reported *negative* growth and it rated more poorly than the

other two countries in both the mid-1990s and the mid-2010s. The UK's current account balance also dropped most significantly overall (meaning a higher level of debt), although New Zealand's experience was particularly volatile in the mid-2000s. In contrast, Australia moved from having the greatest to the least debt across the period. On both indicators, however, the economic positions of the three countries were more similar (poor growth, significant debt) than in the mid-1990s. There was also greater convergence in unemployment rates but, having declined in all three countries through the late 1990s, unemployment was lower in New Zealand (just under 4%) than either of the other countries (around 5%) in the 2000s. Rates increased following the financial crisis, peaking at just over 8% in the UK in 2011, while New Zealand's remained under 7% and Australia peaked at just over 6%. Australia's levels of unemployment grew more slowly following the GFC but continued to climb until 2014.



Although the extent to which the three countries faced these economic pressures was more similar than two decades earlier, they were clearly not in the same economic position when the GFC hit. Given this, the political rhetoric used to frame the financial crisis and its repercussions did not vary as much as one might expect. Alluding to the period of enforced austerity between 1940 and 1955 to invoke nostalgic sentiment about being 'in this together', the British Conservative-Liberal Democrat coalition government elected in 2010 adopted a strong 'austerity' discourse to justify radical reforms, including reducing government spending by an average of 20% over four years, eliminating 490,000 government jobs, cutting benefits, abolishing 'unnecessary' programmes and freezing public employee salaries. There was also an emphasis on the 'Big Society' and social action at the local level, which framed civil society and the voluntary sector as supporting the kind of values that would counter 'welfare dependency' and justified devolution, for example in healthcare (Clarke and Newman 2012; Levitas 2012).

In New Zealand, the GFC was also interpreted through the language of both economic austerity and reducing welfare dependency, but the National government's communicative discourse did not need to be as multi-layered or as powerful as that of the British Conservative-Liberal Democrat government: although National ran zero budgets two years running, made significant public sector job cuts and renewed efforts to (partially) privatise state assets, these moves allowed new operating initiatives totaling \$5.8 billion between 2008-2009 and 2012-2013. Tax cuts were central to this but there was also additional spending on health, education and

even relatively generous redundancy and wage supplement packages to individuals affected by the recession and the Canterbury earthquakes in 2010-11. Indeed, these and other national disasters were used to provoke a sense of national solidarity that justified reduced spending in some areas (Humpage, 2015).

Van Hooren et al. (2014, 612) note that although Australia did not technically enter a recession, this was not clear at the onset of the financial crisis and the Labour government elected in 2007 emphasised the need for a quick, decisive response. There was some reference to austerity, but Australia's stimulus spending was well above the OECD average (New Zealand sat around the average and the UK was below it) and focused on key areas such as education and health infrastructure, as well as pension rates (UNICEF 2014). Labour's political rhetoric around poverty and the unemployed was also less moralising than in the other two countries, with a new Minister for Social Inclusion and a Social Inclusion Unit reflecting a commitment to assist the most disadvantaged geographic areas and communities to re-enter mainstream economic and social life (Wilson et al. 2013). Once the Liberal-National government returned to power in 2013 (and Australia's economic performance weakened), however, a rhetorical focus on welfare dependency and austerity framed recessionary-like policies such as public servant salary freezes and a three-year Temporary Budget Repair Levy on incomes over \$180,000 (Hockey 2014; Meagher and Wilkins 2014). In this sense, there were not only strong similarities in the social and economic pressures faced by the three countries, but also in how these were discursively inflected by elite actors by the mid-2010s.

Significant convergence: 'Welfare-to-work'

Facing relative stability in the working-age population at a time when the proportion of elderly citizens was growing and with unemployment (particularly amongst the young) remaining a significant problem, all three countries adopted a similar policy solution: reorienting the welfare system to ensure that every working-aged person was in paid work, whatever their circumstances. While Conservative governments placed more emphasis on 'welfare dependency' and the 'cultural' component of long-term poverty and Labour governments emphasised 'social exclusion' and 'social investment' (Humpage 2015; Marston and McDonald 2007), overall there was remarkable similarity in government rhetoric stressing that '[t]he best route out of poverty is work' (Osborne 2015, n.p).

A focus on employment has always been a feature of liberal welfare states, particularly in the wage earners' welfare states of New Zealand and Australia where universalism was less prevalent but similar or better levels of societal well-being than the UK were achieved through a high minimum wage and highly-regulated labour markets (Castles and Mitchell 1992). But there has been a dramatic reorientation away from citizen *rights* to employment and social security towards citizen *responsibilities* to find work since the 1980s (Humpage 2015). Table 1 indicates significant convergence around the *types* of policies embodying this change. In particular, while in the mid-1990s the special circumstances of sole parents and those

who are sick or disabled were widely recognised, by the mid-2010s these groups were routinely subjected to the same kind of work-related obligations and sanctions as other unemployed people.

Table 1: Change in welfare-to-work policies, mid-1990s to mid-2010s

Policy	Work obligations/sanctions for sole parents/sick			'Simplified', work-focused benefit system			Significantly different entitlement/obligations for young unemployed			Work for dole		
	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2000s	Mid-2010s
Australia	x	✓	✓	x	x	✓	x	x	✓	x	✓	✓
NZ	x	x	✓	x	x	✓	x	x	✓	x	x	x
UK	x	x	✓	x	x	✓	x	x	✓	x	✓	✓

New Zealand's National government (1990-1999) made a decisive move, tightening eligibility and introducing increasingly harsh work obligations for the unemployed across the 1990s, extending these to sole parents and trialling work capacity assessment for the sick and disabled by the end of the decade. Despite some softening of this approach after 1999, the Labour-coalition gradually extended some form of work-focused assistance to *all* categories of working-age benefit claimants and promoted a 'work-first approach' (St John & Rankin 2009). The National government returned to office in 2008 further increased part-time work obligations for sole parents with young children and for sickness benefit recipients (English 2015; Humpage 2015).

Australia's conservative Liberal-National coalition government (1996-2007) also extended work obligations through the 1990s and, following a review of welfare in 2000, introduced new sanctions for 'breaching' work commitments. It also

extended workfare requirements to a wider group of welfare claimants, moving sole parents and people with disabilities onto a less generous unemployment benefit (Wilson et al. 2012). New applicants who were single parents (with a youngest child aged over eight years) or who had a disability and were deemed able to work became subject to part-time work requirements (Wright et al. 2011). The Australian Labor government (2007-2013) maintained the direction of travel, increasing work-related participation requirements, tightening eligibility for the Disability Support Pension and transferring all remaining recipients of the Parenting Payment to the lower NewStart allowance (Marston and McDonald 2007; Australian Council of Social Services - ACOSS 2014). The returning Liberal–National government’s Reference Group for Welfare Reform (2015) also called for a simpler welfare structure with fewer primary payments and fewer supplements.

In Britain, ‘New’ Labour returned to power in 1997 with a 'welfare-to-work' pledge whose principal vehicle was to be the 'New Deal'. This multi-faceted, work-activation programme initially focused on the young unemployed, then successively widened to take in other 'disadvantaged' groups: the long-term unemployed, lone parents, those with a disability, partners of the unemployed and those over fifty (Millar 2008). Across time, more groups were drawn into mandatory participation in work-readiness programmes (Lupton et al. 2013). The Conservative-Liberal Democrat coalition government (from 2010) and then the Conservative administration (elected in 2015) continued this trend towards a more work-focused welfare system with 'fewer benefits, fewer layers of bureaucracy and with financial

support firmly focused on making work pay' (Department for Work and Pensions 2010, 1).

In all three countries, economic conditions following the GFC were used to justify a 'simplification' of the benefit system and, increasingly, (a reduced number of) benefit categories became focused on work capacity rather than the cause of unemployment (Humpage 2015). The GFC also triggered an increasingly harsh approach towards the young unemployed in particular. Australia's reforms were arguably the most severe: from 2015 the Liberal-National government required new Newstart or Youth Allowance (Other) applicants under age 30 to participate in job search/employment services activities for up to six months *before* receiving the payment, then subjected them to at least 25 hours per week of work-for-the-dole activities for six months before returning them to a waiting list (Hockey 2014). In 2013, New Zealand introduced 'income management', which quarantines parts of benefit payments for essential expenses such as utilities and food, for younger claimants. In Australia, income quarantining, which was originally introduced in 2007 as part of an emergency intervention into Aboriginal communities in the Northern Territory, was later extended to benefit recipients of all ages by Labor (Saunders and Deeming 2011; Wilson et al. 2013). In 2015, under-25s in the UK were excluded from the Conservative government's National Living Wage and those aged 18-21 lost automatic entitlement to housing benefit in 2015 (Osborne 2015). By the same year, all three countries also required young people to be in work, training or education to receive a benefit. Table 1 indicates that the only significant policy

difference remaining in this area in the mid-2010s was that both the UK and Australia required some benefit recipients to work in return for their benefit while New Zealand abolished this policy in 2001.

Given the reforms described above, we might expect benefit generosity to have declined across all three countries. Table 2 shows average net replacement rates for those unemployed over a five-year period following initial unemployment. OECD data (available only between 2001 and 2013) show that generosity decreased in both Australia and New Zealand, even when cash housing and other social assistance are taken into account, although this was less evident for lone parents in Australia than New Zealand. In the UK, by contrast, the overall average for both those who are and those who are not eligible for 'top ups' actually *increased*, particularly under the Labour government (Lupton et al. 2013). British generosity, including that for lone parents, was comparatively low when extra social assistance was not available but the overall average was still more generous than the other two countries in 2013 when cash housing and other assistance *is* included, quite a turnaround from twelve years previously.

Table 2: Net replacement rates over 60 months of unemployment, 2001 and 2013, percentage¹

	No cash housing assistance or social assistance "top ups" ²			Qualify for cash housing assistance and social assistance "top ups" ³		
	Single person, no children	Lone parent, two children	Overall Average	Single person, no children	Lone parent, two children	Overall Average
Australia						
2001	34	55	54	42	58	59
2013	27	54	47	33	56	52
New Zealand						
2001	36	63	57	50	72	67
2013	30	52	47	40	59	55
United Kingdom						
2001	17	9	25	13	40	29
2013	17	31	32	45	69	61

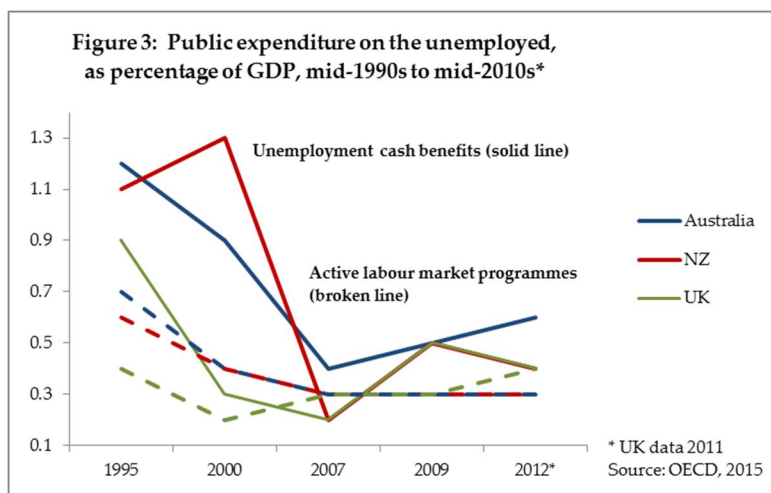
1. Unweighted averages, for full-time earnings levels of 67% and 100% of average wage 2. After tax and including unemployment benefits and family benefits 3. After tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of average wage. Source: OECD, 2015

This position has likely diminished given recent Conservative-Liberal Democrat and Conservative governments significantly reduced benefits across several years. Increases in working-age benefits were reduced first to the rate of inflation, then to 1% and subsequently to zero. From April 2013, a total benefits cap (£26,000 per year for workless families reduced further to £20,000 in 2015) explicitly demonstrated the Conservative-Liberal Democrat government's desire to both reduce costs and create incentives for paid work (Osborne 2015). The Conservative administration elected in May 2015 announced a £12 billion package of cuts, many of which were focused upon the working poor (though its tax credit reforms were delayed by the House of Lords (BBC News 2015).

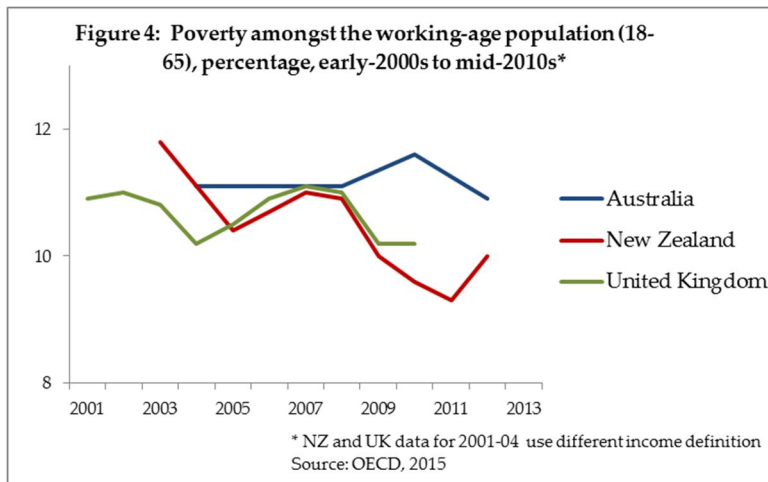
In contrast, the Australian Labor government (2007-2013) responded to the

GFC with a significant one-off payment to benefit recipients and pensioners as part of a major fiscal stimulus package but it chose not to improve the generosity of regular unemployment benefits, which are low by international standards (UNICEF 2014; Saunders and Deeming 2011). Subsequently, the Liberal-National government froze working-age benefit levels for three years (Hockey 2014). Meanwhile, New Zealand's National government introduced a range of significant welfare reforms that targeted 'welfare dependency' from 2010 but, by contrast, announced the first real increase to the value of benefits for those with children in 43 years as a way of deflecting mounting political pressure to address child poverty (English 2015).

Despite this divergence regarding benefit generosity, Figure 3 finds the level of spending on cash benefits for the unemployed and active labour market programmes in each country was more similar in 2012 than in 1995. Spending in both categories generally fell (from a low to a still lower level). In part this reflected a decline in levels of unemployment but, even following the upkick in unemployment benefit spending following the GFC, resources devoted to this area were substantially lower at the end of our period.



Overall, there was significant convergence in the general direction of welfare-to-work policies, the rhetoric used to frame it and spending patterns, but with differences evident regarding generosity. What impact did this have on *outcomes* for working-age people? Comparable data is limited but Figure 4 shows that the three countries clearly converged in regard to the level of poverty amongst this group prior to the GFC, but since then New Zealand's working age population has fared worst (although with some improvement after 2011) and Australia's the best. To date, however, the working age population was better off in the early 2010s compared to a decade earlier in the UK and New Zealand, while in Australia levels of poverty had returned to a level similar to the early 2000s.



Yet these data hide the relative position of those affected by a strengthening focus on welfare-to-work since the mid-1990s. For instance, in the mid-2000s, poverty amongst *workless* households was well above the OECD average in Australia and to a lesser degree in New Zealand, while the UK was well below the average. New Zealand was the outlier with far higher rates of *in-work* poverty than the other two countries (OECD 2009). In general, the limited data available suggests that gaps between working-age and other benefit entitlements grew over the period studied in all three countries (OECD 2014a; Perry 2014) suggesting that, despite the UK's divergence regarding generosity, convergence in the rhetorical and policy focus on work as the primary form of welfare had a similarly detrimental impact upon the unemployed everywhere.

Limited convergence: Child-contingent support

Growing inequality in all three countries affected not only those of working age but also children. In recent years, tax credits have become the main means for supporting families with children in all three countries. This has been framed by a rhetorical commitment to 'making work pay' that both acknowledges the need to ensure leaving welfare is worthwhile and that *child* poverty is linked to parental economic circumstances.

This commitment was stronger in the UK and New Zealand than Australia, particularly but not exclusively under Labour governments. The incoming British Labour administration in 1997 aimed 'to end child poverty forever' (Blair 1999, 1) and established regular reporting mechanisms to measure success against the marginally more modest intention to halve child poverty by 2010. The New Zealand Labour-coalition government also wished from the early 2000s to reduce child poverty, though without setting any specific targets, and both it and the National government regularly increased the existing minimum wage and extended tax credits for working families (Humpage 2015). In Australia, the Liberal-National government elected in 1996 also used tax credits to benefit working families but this was more focused on currying favour with the 'aspirational' middle class, reducing their anti-poverty impact (Wilson et al. 2012). Reducing child poverty only really became a part of the communicative discourse of Australian governments when Labor was re-elected in 2007.

Although the minimum wage remained significant, especially in Australia (Whiteford 2013), by the mid-2010s tax credits were the dominant means for assisting families with children in all three countries, with Table 3 showing that by the end of our period no country still offered a universal cash benefit for children. The UK had done so in the mid-1990s, abandoning this universalism only in 2010 under a Conservative-Liberal Democrat government. Labour had also considerably extended the tax credit system, conflating work incentives and child outcomes until 2003 when a loosely-targeted child-related weekly payment (Child Tax Credit) was separated from a Working Tax Credit for low-waged workers with or without children (Millar 2008). Labour’s significant redirection of resources towards (especially low-waged) families with children will be affected by subsequent governments’ reduced spending on tax credits, which from 2015 will no longer be available for more than two children, as will a general reduction in all benefits levels (CPAG 2014; Osborne 2015).

Table 3: Changes in child-contingent support, mid-1990s to mid-2010s

<i>Policy</i>	Universal child cash benefit			Child/family tax credits targeted towards low-income			Paid parental leave		
	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2010s	Mid-2010s
Australia	x	x	x	x	x	x	x	x	✓
NZ	x	x	x	✓	✓	✓	x	✓	✓
UK	✓	✓	x	x	✓	✓	✓	✓	✓

In New Zealand, the Labour-coalition government’s *Working for Families* package also targeted low- and middle-income families with dependent children

from 2005. While benefit recipients benefitted from changed abatement rates and thresholds for the Accommodation Supplement and increased childcare subsidies, the package contrasts with the UK's because it continued the previous National government's favouring of children from working households by excluding benefit recipients from a new In-Work Tax Credit and increases to Family Support. Having criticised *Working for Families* when in opposition, the newly-elected National government retained the package but used the need for recessionary cost-cutting to reduce the income threshold for payments and to increase abatement levels (Humpage 2015).

Over the long-term, lower levels of indexation (at or below the inflation rate) have a substantial impact upon the *real* value of benefits and O'Brien and St John (2014) predict that expenditure on *Working for Families* will continue to decrease through low or no indexation. However, National did make some innovations in the interests of low-waged earners with children. It introduced a new Independent Earner Tax Credit of \$15 per week targeting full-time workers receiving below-average wages, including both low earners without dependent children and those who do not qualify for Family Tax Credits (National Party 2015). It also extended the 20 hours 'free' early childhood assistance (legislated by Labour) to include under-fives and a wider range of providers and, increasing benefit levels for parents from 2016 (English 2015).

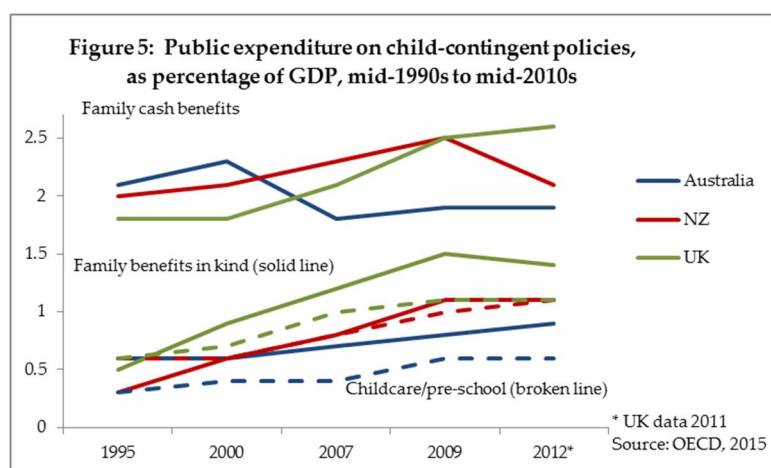
In contrast to the central (although not exclusive) focus on working, low-income families evident in the UK and New Zealand, the Australian Liberal-National

government elected in 1996 expanded child-related support to include middle-income earners, selectively abandoning means-testing and promoting 'pro-family' policies that favoured stay-at-home mothers; for example, the Child Care Tax Rebate. As elsewhere, income redistribution is determined not just by benefits but also by the rates and incidence of taxation and the Liberal-National government changed the balance between direct and indirect taxation, reducing the overall progressivity of the Australian taxation system (Whiteford 2013). Returning to office in 2007, Labor reduced some benefits for middle-income families and focused its stimulus packages on families, including a 'tax bonus for working families' of up to \$900, a 'single-income family bonus' of \$900 and a 'back to school bonus' of \$950 per child to families with school-age children receiving Family Tax Benefits A (Saunders and Deeming 2011). The new Liberal-National government's budget in 2014-15 increased *all* payments (benefits *and* pensions) but in line with *prices*, rather than incomes (Hockey 2014). As Whiteford (2013) observes, the cumulative effect of such a basis for increases when wage growth is strong is actually to widen the gap between those with and without jobs.

Australia was also an outlier for most of our period in terms of paid parental leave; the UK slowly improved provision first maternity and then paternity leave provision and New Zealand introduced then extended paid parental leave through the 2000s but the Australian Liberal-National government introduced a Baby Bonus in 2003 to avoid paid parental leave. Table 3 indicates that the policies of the three countries were more similar in the mid-2010s than two decades earlier, despite

continuing differences, after 18 weeks leave finally became available in Australia from 2011 (Stewart 2013; Wilson et al. 2013; Humpage 2015).

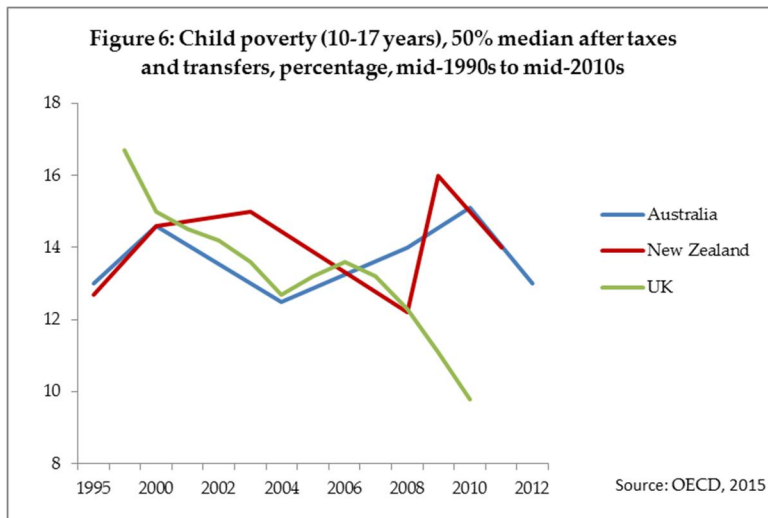
The complex nature of child-contingent support and a lack of comparable data across time make it difficult to compare generosity. Figure 5 does indicate that the UK was the laggard when it comes to spending on family cash benefits in the mid-1990s, while this was the case for New Zealand regarding benefits in kind and Australia's childcare/pre-school spending. By 2012, the UK was ahead in all three areas after significant and consistent investment, even after the GFC. Australia's cash benefit support declined overall, although it did increase marginally after 2007 and New Zealand was slightly above its 1995 figure after peaking in 2009. More generally, all three countries increased the level of benefits in kind and support for childcare/preschool but the gap between the three countries *widened* across the three types of expenditure.



Much of this difference resulted from the British Labour government's

significant investment in (poorer) children between 2000 and 2010. While many of the measures provided for new or enhanced services rather than the transfer of resources, Stewart (2013) estimates that spending on child-contingent benefits and tax credits more or less doubled across the period of Labour government. This represented an overall increase in the proportion of GDP committed to child-related benefits and credits from 1.66% to 2.73% across the same period. Although the UK had the highest level of child poverty of all three cases in the mid-1990s, by around 2010 it was significantly lower than in Australia or New Zealand (see Figure 6).

Labour fell far short of its stated ambition to halve child poverty, but CPAG (2014) reports that it lifted more than one million children out of poverty during its extended period in office. Such achievements in child well-being, however, are acutely vulnerable to reversal: the Conservative-Liberal Democrat government not only targeted the universal child benefit and reduced tax credits but froze child benefit rates then made them subject to the 1% up-rating rule from 2014/15, disproportionately impacting upon the low-income families with children. CPAG (2014) predicts another 600,000 children will live in poverty by 2015-16 as a result of reforms since 2010. Of these, around 70% will be in low-income *working* households. This trend has continued under the 2015 Conservative administration.



In New Zealand, Perry (2014, 26) believes the pro-work agenda of *Working for Families* ‘had little impact on poverty rates for children in beneficiary families (close to 75% in both 2004 and 2007), but halved child poverty rates for those in working families (22% in 2004 to 12% in 2007, and close to the same since then)’. Although returning close to pre-crisis levels in 2012-13, child poverty in New Zealand also rose in the aftermath of the GFC (Perry 2014), with UNICEF (2014) suggesting that National government’s ambitious tax cuts were not as effective as the kind of increased spending offered by Australia’s fiscal stimulus package. However, the failure to upgrade benefits in line with increases in wages in a period of sustained economic growth meant child poverty in Australia also rose through the 2000s, especially between 2003 and 2007 (ACOSS 2014). Overall, the fact that only the UK had lower child poverty in the mid-2010s compared to the mid-1990s suggests that, even if similar policies are implemented with similar rhetorical goals (as in New Zealand), differences in the level of spending led to divergent outcomes

Continued divergence: Pensions

Population ageing means significant increases to the old-age dependency ratio, with the OECD average of working-age people per retiree expected to fall from four to between one and two by 2015, at a time when life expectancy is increasing. Political rhetoric promoting pension changes since the mid-1990s in all three countries has reflected the OECD's (2014b) view that this makes present pension systems 'unsustainable'. The need to 'manage risk' by shifting it from the public to private purse was also framed as an opportunity for greater 'freedom and choice' over retirement savings (Cullen 2006; Harmer 2009; HM Treasury 2014). That all but one OECD (2014b) country reformed pensions in some way between 2012 and 2014 suggests post-GFC austerity drives provided an opportunity to accelerate reform. Yet, wary of alienating an important electoral bloc during the economic downturn (Davidson 2014), governments of various political persuasions ensured elderly citizens fared best of the three age cohorts examined across our study period.

How they did this remained relatively disparate, however. Table 4 indicates that in the mid-2010s, New Zealand was still the only country to offer a universal state pension, after it was reinstated by the National-New Zealand First coalition government (1996-1998) and restored to its former level of 65% of average wages by the Labour-coalition government (1999-2008). 'Sustainability' was to be achieved by investing government surpluses of \$2 billion a year until 2020 into a newly-established New Zealand Superannuation Fund in 2001. The National government

elected in 2008 suspended government payments to this fund until the country was back in surplus but made no other significant changes to New Zealand Superannuation (St John and Rankin 2009).

Table 4: Changes in state pension policies, mid-1990s to mid-2010s

<i>Policy</i>	Universal state pension			Reforms to encourage private retirement savings			Increased age of eligibility		
	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2000s	Mid-2010s	Mid-1990s	Mid-2010s	Mid-2000s
Australia	x	x	x	✓	✓	✓	x	x	✓
NZ	✓	✓	✓	x	✓	✓	x	x	x
UK	x	x	x	✓	✓	✓	x	x	✓

However, New Zealand did move closer to the other two countries by incentivising (previously tax-neutral) private retirement savings through the introduction of KiwiSaver in 2007. This voluntary, work-focused, auto-enrolment private savings scheme offered a government-funded cash ‘kick-start’, fee subsidies and generous tax credits which facilitated high take-up. Initially members could contribute either 4% or 8% of their salary and employers were compelled to contribute 2% then 4% (St John & Rankin, 2009). The recession gave the newly-elected National government a justification for reducing tax credits and halving member and employer contribution rates in 2009, then abandoning the cash kick-start payment in 2015 (National Party 2015).

Private employment-related contributions already played a significant role in funding retirement in the UK in the mid-1990s, when the Labour government initiated a complicated and extended reform process. State pensioners were first

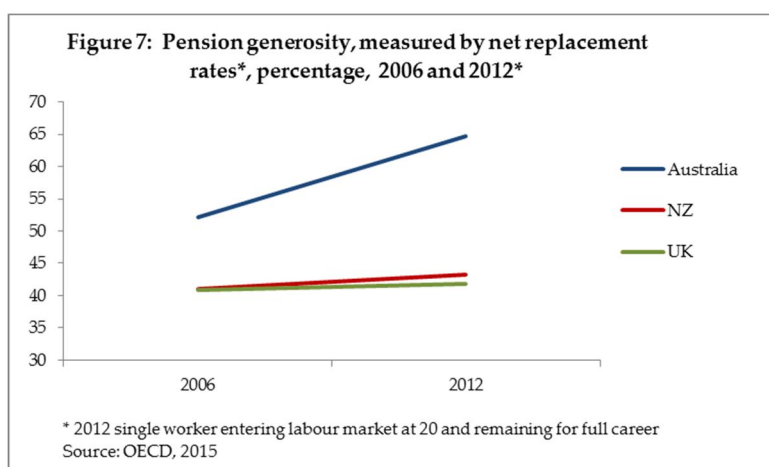
taken out of the system of Income Support, with income maintenance provided on a means-tested basis through the 'Minimum Income Guarantee' and subsequently the 'Pension Credit'. Labour also introduced a number of universal 'perks': Winter Fuel Payments, free TV licences, concessionary bus travel. The State Earning Related Pension Scheme (SERPS) was also replaced with the State Second Pension (S2P). Further substantial reforms followed in the Pension Acts of 2007 and 2008, including a return to earnings-indexation for increases in the basic pension and 'automatic enrolment' in a new defined-contribution, employer- and employee-funded National Employment Savings Trust (NEST 2014). Even in a recessionary context, the Conservative-Liberal Democrat government did not include the state pension in its welfare spending cap, protecting the elderly from its changes to housing benefit, continuing to increase pensions in line with the higher of wages, prices or 2.5% and retaining 'perks' such as concessionary bus travel. It took steps to further simplify the basic state pension and eliminate what remained of the state second pension but continued to support NEST and began to liberalise the regime surrounding annuitisation of pension funds at retirement, giving pensioners greater discretion over the investment of their lump-sum retirement payments, while also promising to consult on tax relief to incentivise retirement savings (Department for Work and Pensions 2013; HM Treasury 2014; Osborne 2015).

Considerable change was also apparent in Australia: the Liberal-National government increased employer contribution rates for the two-tier superannuation system, which combines a means-tested age pension with employer contributions to

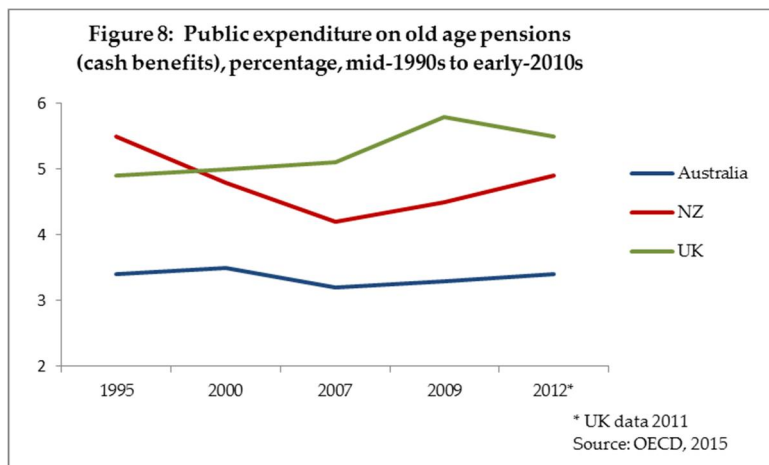
individualised accounts in a private sector superannuation fund and, by 2007, 90% of wage earners received employer contributions. Increased generosity in tax concessions for mandatory private superannuation largely benefitted high income earners, particularly after 2006, with tax expenditures peaking at around \$46 billion in 2007 (Collard 2013; Saunders and Deeming 2011; Wilson et al. 2013). In that year, the newly-elected Labor Government initiated a pension review (Harmer 2009) which reported that current pension rates did not fully recognise the costs faced by single pensioners living alone, paying *ad hoc* bonuses did not provide financial security, pension indexation should be more transparently linked to community living standards and price changes and system complexities inhibited the financial security of pensioners. The review also encouraged greater support of workforce participation over the pension age, greater targeting and an increase in the age of eligibility. Many of these measures were implemented in 2009, including an increase in the single pension rate from 61% to 67% of the married rate and a tightening of the means-test. Labor also introduced a resources super profits tax aimed at providing revenue for raising the Superannuation Guarantee Contribution to 12% between 2013 and 2019 (Saunders and Deeming 2011; Wilson et al. 2013). Although it is not mandatory for employees to contribute, since 2003 lower-income workers have been able to access government co-contributions (matched savings) up to maximum entitlement (originally 150% of savings) and further improvements for low-income workers were announced in the 2011 Budget. Labor also improved the progressivity of tax breaks (Collard 2013).

Although the three countries were arguably moving in the same direction (incentivising private saving, reducing the burden on governments in the long-term), New Zealand was again the outlier regarding the increased age of eligibility for retirement pensions. When the Labour Party proposed gradually increasing retirement ages as part of its 2011 election campaign, Prime Minister John Key pledged retirement ages would not be increased while he remained head of government (Hartevalt and Vance 2011). Australia and the UK, however, moved to increase the pension age to 67 by 2022 and 2026 respectively following the GFC, with Australia planning a further move to 70 by 2035 (Hockey 2014; OECD 2014b).

How did these differences impact upon pension generosity? Figure 7 considers the position of a single person who enters the labour market at age 20 in 2012 compared to 2006, finding that net replacement rates increased in all three countries. There was a significant increase in Australia, but little movement in the two other cases.



Given such generosity figures are predictions for *new* workers, they are not reflected in Figure 8, which shows that spending on old age pensions as cash benefits did not shift significantly between 1995 and 2012 in Australia. New Zealand saw a dramatic decline from the mid-1990s which was significantly reversed after 2007. In the UK, expenditure increased through to 2010, before falling back (Institute for Fiscal Studies 2013). No convergence is thus apparent in spending across time.



Overall, all three countries demonstrated both a shared commitment to protect elder incomes *now*, in times of pressured budgets, alongside a *policy aspiration* to make older people (particularly in the *future*) take more responsibility for ensuring their own income in retirement (especially through state-sanctioned contributory private savings schemes). But significant differences in their approaches, generosity and spending remain. Data plotting movements in the

incidence of poverty amongst the elderly are peculiarly difficult to interpret.²

Instead, we simply conclude that, alongside sustained spending on healthcare (used disproportionately by the old and young), the evidence presented indicates that the living standards of the elderly in all three countries (and the OECD generally) have been protected by discharging the costs of demographic change and economic uncertainty on the younger, working-age population generation (OECD 2014a).

Conclusion: Evidence and consequences

In their earlier survey of the same three cases, Castles and Pierson (1996) argued that, despite facing many of the same social and economic pressures, there was limited evidence of convergence in the policy settings of Australia, New Zealand and the UK though to the mid-1990s. Adopting Hay's (2004) comprehensive framework, our findings are broadly similar: these three 'liberal' welfare states have faced similar social and economic pressures since the mid-1990s and, although the

² Strange artefacts in the data make comparisons difficult: poverty levels in the UK improved in recent years, at least in part, because of a *fall* in the levels of median income (as a proportion of which elder poverty is calculated – Lupton et al, 2013). In both New Zealand and Australia, the figures fluctuated wildly, as the standard level of superannuation payments travelled back and forth across the line that marks 50% of median income. These numbers are an inadequate indicator of levels of wellbeing, notably in Australia where very high levels of home ownership among the retired constitute an under-reported aspect of their wealth, complicating poverty rankings which suggest Australia has a much higher rate of elder poverty than either New Zealand or the UK (Perry 2014; Whiteford p.c).

GFC had a far greater impact on the UK than either New Zealand or Australia, there were strong similarities in the cognitive filters used to interpret these pressures.

Overall, we do not find evidence of growing *sigma*-convergence. In some cases, policy instruments or outcomes became more similar. In others, pathways diverged.

Of the three policy areas studied, the greatest convergence was apparent in welfare-to-work, where policy in the three countries did share a common trajectory. With few exceptions (New Zealand's abolition of work-for-the-dole, the UK's failure to adopt income management), all three countries have hardened eligibility and strengthened the obligations associated with unemployment benefits since the mid-1990s, including for sole parents and those facing long-term sickness or disability. The widespread 'simplification' of benefit categories also moved many such claimants onto lower-paying (unemployment) benefits. No matter which political party was in power, attempts to get more people into paid work were presented as the key solution to poverty and reflected governmental reluctance to allocate expenditure towards the unemployed; notably, however, working-age poverty declined only in the UK (where benefit generosity increased significantly) and New Zealand (where *Working for Families* made a difference), while Australia reported the highest levels of poverty amongst workless households, despite its comparatively strong post-GFC economic position.

To a degree, a common trajectory was also apparent in child-support policies in that all three countries now increasingly rely on tax credits to deliver assistance to families. However, the rhetorical focus on addressing child poverty and 'making

work pay' saw greater targeting in the UK and New Zealand and where this was strongest (in the UK), we saw both increased spending and the greatest improvement in child poverty, at least down to 2010. Evidence that child poverty is rising again indicates how quickly the UK's divergent position may change (UNICEF 2014).

Finally, all three countries commonly sought to reallocate responsibility for income maintenance towards the elderly population of the future while protecting present pensioner populations against retrenchment. But pension regimes still looked rather different and attitudes towards one of the principal weapons in the reform armoury – raising the pension age – varied across our three cases. There were also varied trends regarding generosity and spending. These differences likely reflect the differing institutional paths of each country (e.g. New Zealand's universal pension) but it remains the case that most governments over the period studied explicitly favoured the electoral interests of the elderly over working-age people, especially young adults (Davidson 2012). As the OECD (2014a, 5) notes, 'over the past 25 years youth replaced the elderly as the group experiencing the greater risk of income poverty. The recent crisis has accentuated this trend'. It is not possible to shift all of the costs of welfare state adjustment onto young workers (who increasingly pay for their own education, are less able to buy their own homes and have less secure and less well-paid jobs than their parents).

Our evidence also enables us to draw some relatively robust conclusions, both about the actual outcomes of social policy change in the past twenty years, but also about the ways in which we may choose to study it.

First, any straightforward convergence story is clearly unsustainable. What we see is not a simple process of convergence (or its absence), but rather ‘a complex and *contingent* pattern of convergence and divergence’ (Hay, 2004, 244-5). Often the direction of travel is the same, as is the language through which this trajectory is justified, but this is not enough to establish *sigma*-convergence. While some indicators look much closer at the end of our period than they were at the start (for example, expenditure on unemployment benefits; see Fig 3), in other areas they have moved further apart or the rank-ordering of our states has reversed or *both*, (as in the incidence of child poverty down to 2010; see Fig 6 above). Notably, this means we should reject one frequently articulated claim about welfare state policy under the duress of globalization, that is the idea that states are engaged in a “race to the bottom” in terms of standards of social policy provision; (for an effective account and critique, see Castles, 2004). We have also to reject any straightforward claim about the retrenching impact of the GFC. While a context of extended global recession has clearly had an impact upon welfare (and other public) budgets everywhere, the nature of the impact has varied according to local circumstances, across time and, significantly, in response to partisan identities. To take just one indicator, total public expenditure as a percentage of GDP grew across all three

countries in the period between 1995 and 2013/14, from 18.4% to 20.8% in New Zealand, from 16.1% to 19% in Australia and from 19.2% to 21.7% in the UK (<http://stats.oecd.org/>).

It is also important to stress that current retrenchment was preceded by significant investment (mostly but not entirely under Labour governments). In particular, the UK moved significantly up the OECD's 'league table' of social policy spenders (from an initially lowly position) between 1997 and 2010, in relation to health, education and family policy. It remained close to the foot of the table in relation to social security spending and overall income inequality increased during Labour's tenure in office (Lupton et al, 2013). Although Labour governments in New Zealand and Australia also spent more and spoke less of 'welfare dependency' than their conservative counterparts, the shift was less dramatic suggesting that policy not rhetoric matters most. The differential impact of similar economic pressures also played a role in justifying the Conservative-Liberal Democrat government's wholesale cuts towards the very end of our period in the UK which evidence suggests will not only reverse the significant improvements seen in child poverty but also further weaken the position of working-aged citizens, particularly those aged under 25.

Our fine-grained analysis also suggests that the prevailing typologies – in this case, the idea of ‘liberal welfare states’ - are of limited value. Of course, this is a criticism that goes back a long way with Castles and Mitchell (1992) insisting that this classification missed things that were distinctive about the antipodean experience. But it is clear that a persistent emphasis upon *redistribution* and *decommodification* misses important components of the distributive mix. And while we have pointed towards the commonalities across our three cases, there are important differences too. Although New Zealand adopted Mixed Member Proportional Representation in 1996, somewhat unseating the logic that was said to allow a few highly-motivated men and women in Treasury to turn around national social policy at a moment’s notice, its unicameral system still affords far fewer veto points compared to the bicameralism of the UK and bicameralism plus federalism in Australia (Castles, 2005; Humpage, 2015). As we have seen, in very recent times both Senate in Australia and the House of Lords in the U.K. have effectively blocked important changes initiated by majoritarian governments in the lower house. The *timing* of reform has also been important. Neoliberal reforms were initiated under Labour governments in the two Antipodean countries but under the Conservative Party in the UK and this has influenced the character of subsequent reforms. In assessing the impacts of globalisation, New Zealand’s relatively small population and geographic isolation, Australia’s resource richness and the UK’s membership of the European Union all make local circumstances distinctive, as, for example, when

the GFC struck.

A further lesson of our case studies is that partisan effects persist, even if it appears as if all the reforming traffic is one direction. In part, this is because the process of aggregation of data can conceal local differences or counter-trends. Perhaps the clearest indication of a partisan effect in our survey is the experience of child endowment under New Labour in the UK. Although the Blair governments often appear as exemplary cases of the neo-liberal turn in previously social democratic parties, in fact, the record of Labour spending on child-related benefits and services through the first decade of the twenty-first century show a remarkable expansion. This was enough to invert standings on child poverty across our three cases between 1996 and 2012. As if to reinforce this point, the Conservative-Liberal Democrat and Conservative governments that have been in power since 2010 have set about systematically undermining this achievement, with CPAG (2014) estimating that reforms since 2010 will have forced an additional one million children into poverty by 2020. We can see partisan effects in our other cases too – though these have not always been quite what one would expect; as, for example, in Australia’s National government legislating child-related benefits that reached a considerable distance up the income profile.

Overall, we can see that convergence (and divergence) are multi-dimensional and multi-speed processes. Hay’s (2004) typology gets us some way towards grasping

this complexity but there is, as ever, the problem that our key indicators are not capturing the full (distributional and redistributive) picture. This has long been recognised in welfare state studies (Castles 1985) but its salience is increased by coming developments (and especially growing inequality) in areas which had been seen (in the late twentieth century) to be of diminishing importance: for example, housing supply and the inheritance of unearned wealth. Under these circumstances, the following three policy-related points are worth making. Child poverty cannot be addressed solely through providing work-related benefits for parents and these indirect mechanisms of poverty relief may be reaching their limits (as in the U.K.). Similarly, we may also be reaching the limits of the effective work that can be done by constantly emphasising labour-market participation. Only so much traffic can pass from 'welfare to work'. Finally, while welfare states have always been above everything else, systems of support for the older population, all three states require some re-balancing by age cohort, as it is not possible to sustain a social policy regime over the long term by ring-fencing social protection for the elderly while defraying *all* of the costs upon a much younger generation.

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