



# The Myth of the Shrinking State in New Zealand Revisited - What Does the Data Show About the Size of the State in New Zealand From 1900 to 2028?

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# **The myth of the shrinking state in New Zealand revisited – What does the data show about the size of the state in New Zealand from 1900 to 2028?**

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## **Abstract**

This project uses a variety of lenses – the state as spender, producer, employer, investor and steward – to assess how the size and shape of the state has changed. We explore the conventional wisdom that New Zealand’s ‘neo-liberal’ reforms of the 1980s and early 1990s resulted in a dramatic reduction in the size of the state. We find – with two notable exceptions – that the shrinking of the state over this period of reform is an urban myth. Indeed, relative to GDP, spending on real resources to support public production and investment in non-market outputs has been stable or has increased slightly since the 1990s while the Crown’s Balance Sheet has steadily strengthened. We include an additional lens to explore the proposition that ‘deregulation’ in 1980s and 1990s led to a reduction in the regulatory state. We find the opposite: that the number of words used in the New Zealand statutes has grown steadily since 1908, but dramatically from the 1960s.

In the last decade under the Ardern - Hipkins Labour Administration, Government current spending on collective consumption grew rapidly to reach record levels - even after allowing for COVID related spending programmes. The fiscal adjustment proposed by the National/Act/New Zealand First administration in the 2024 Budget involves winding much of this increase back.

**Keywords** size of the state, neo-liberal reforms, New Zealand reforms, fiscal policy, stock of regulation, Net Worth, COVID spending.

# **The myth of the shrinking state in New Zealand revisited – What does the data show about the size of the state in New Zealand from 1900 to 2028?**

*The neoliberal reforms in New Zealand resulted in a shrinking of the state, marked by privatization, deregulation, cuts to public services, and a reorientation of the government's role in the economy.*

— ChatGPT accessed 18/12/24 in response to a prompt 'how did the neoliberal reforms in New Zealand affect the size of the state?'

## **Introduction: the changing role of the state – shrinking or growing?**

The conventional wisdom - reflected in the ChatGPT response above - is that the New Zealand reforms of the 1980s and early 1990s resulted in a dramatic reduction in the size of the state. Previous research reported in *Policy Quarterly* in 2016 by Gemmell and Gill looked at the state in New Zealand from a range of perspectives – the state as consumer, producer, employer, investor, spender and taxpayer. In our 2016 study, a range of fiscal aggregates such as taxes and spending were compared to GDP which acts as a control for the effects of inflation, economic and population growth. This ratio is a useful measure of size over time but does not necessarily indicate the government's share of total resources in the economy.

Our 2016 study concluded “there is clear evidence that the state's role as a producer of market outputs has shrunk since the 1980s and with that its role as employer, but for a range of other measures the state's relative role has stayed the same. The overall Crown balance sheet shows the greatest variation, with a rapid deterioration until 1991/92 and then strengthening remarkably thereafter.” (2016: P9)

Until recently therefore, the size of the New Zealand state has not been reduced very much since the early 1970s relative to the economy as a whole. The exceptions to this rule were the winding back of public pension spending in the 1990s and a reduction in market production arising from the privatisation programme which involved the sale of multiple state trading enterprises (Telecom, the Government Printer etc). In contrast the share of spending on resources to support public production and

investment in non-market outputs has been stable or increased slightly relative to GDP since the 1990s.

This article reports on the results from updating the dataset developed in 2016 for more recent developments, including a rapid expansion in state spending and employment under the Ardern-Hipkins administration. We consider the extent to which this expansion can be explained by programmes that were a response to COVID. We also explore the extent to which the ‘cuts’ announced in the 2024 Budget of the new National/Act/New Zealand First government reverse the growth in state spending under the previous administration.

We introduce a new perspective not in our previous study by including new data on the size of the regulatory state. This data set is used to test the proposition that ‘deregulation’ associated with the regulatory reforms of the 1980s and 1990s led to a reduction in the size of the regulatory state.

The term state spending refers in this paper to central government. New Zealand is one of the most centralised jurisdictions in the OECD with around 90% of total public sector employees employed by central government organisations. In addition, Local Government data for revenue and expenditure relative to GDP over the post WW2 period is remarkably consistent with relatively small fluctuations around a stable trend. As a result, we focus almost exclusively on Central Government in the commentary that follows.

## **Part 1 – State as a spender – step change growth then levelling out**

Over the past 150 years, the level of New Zealand Government total spending followed a similar pattern to other advanced OCED economies, growing steadily after each of the World Wars before peaking in the late 1980s or early 1990s. Afonso et al (2020), who provide a useful cross country survey of the changes in the size of the state across history, quote Tanzi (2018) to the effect “The size of government developed in line with the evolving thinking about its role and its capacity to raise taxes.”

### *Use NZ spending data before 1950 with caution*

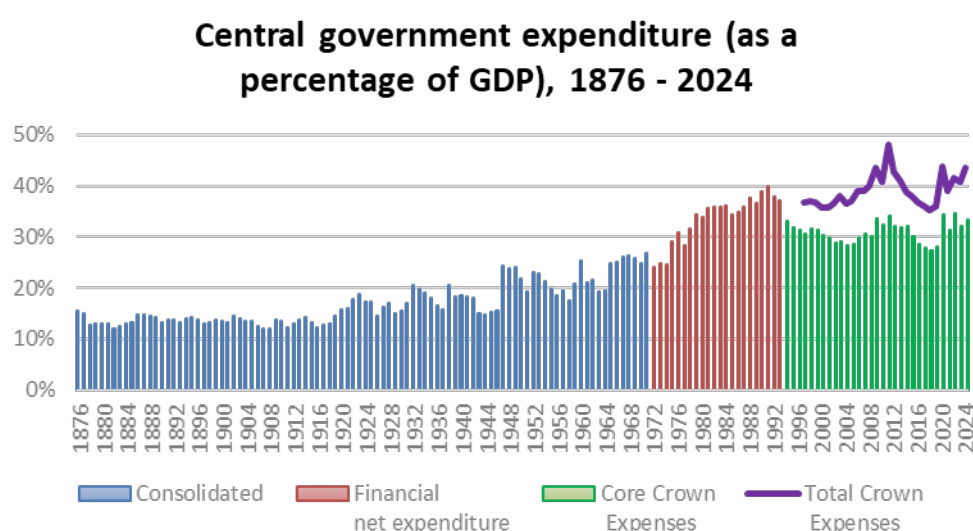
Long term fiscal data on state spending in New Zealand (shown in Graph 1) should be used with care as there are concerns about the consistency of the historical time series before 1950. To illustrate, Graph 1 shows total public spending falling during

both WW1 (from 14 to 13% of GDP) and WW2 (from 18 to 15% of GDP). By contrast, historians estimate that Defence spending alone peaked at 17% of GDP in WW1 and 50% of GDP in WW2! Given concerns such as these, Wilkinson (2023) uses the tax to GDP ratio as a more reliable indicator of the historical trends in public spending before 1950.

### *Total government spending appears to peak in the middle of the “neo-liberal” reforms*

Another data break occurs between 1991 and 1992, with the move to accrual accounting leading to a change to the government reporting entity to incorporate all expenditures in the Core Crown and later Total Crown data that included all arms-length public bodies. This series break occurs towards the end of the reform period of the mid-1980’s to early 1990’s (Evans et al, 1996). Looking across a range of indicators, total spending by core central government (shown in red, green and blue below) appears to have peaked in the early 1990s, before declining relative to GDP. However, even after this decline, the level of spending was higher than any year prior to the mid-1970s. The patterns here are consistent with those found by Rose (2019 P4-5) using System of National accounts fiscal data since WW2. He identifies four distinct periods: relative stability (1948 to 1971), rapid expenditure growth (1972 to 1992), fiscal constraint and consolidation (1992 – 2005) and post 2005. We then observe an increase in current spending under the Ardern - Hipkins Administration.

Figure 1 – Core state spending peaks in the early 1990s and again in the 2020s



Source – Treasury Long Term Fiscal data

### *Recent fiscal data is robust*

Fiscal data quality and consistency is not an issue when looking at developments over the last 15 years. This is because the introduction of accrual accounting enabled significant improvements in the quality and coverage of fiscal data – including information on stocks included with Balance Sheets and reporting data on both Core Crown (i.e. Government departments and the Reserve Bank shown in green in Graph 2) and Total Crown (shown in purple which also includes arms length public agencies such as Crown Entities and State-Owned Enterprises).

Graph 2 shows Core Crown and Total Crown spending since 2009, while also using Treasury estimates to control for the direct effect of spending on the Christchurch Earthquake sequence (2010-13) and COVID related programmes (2019 -2023). Budget 2024 3-year fiscal forecasts are included, although they are only available for Core Crown.

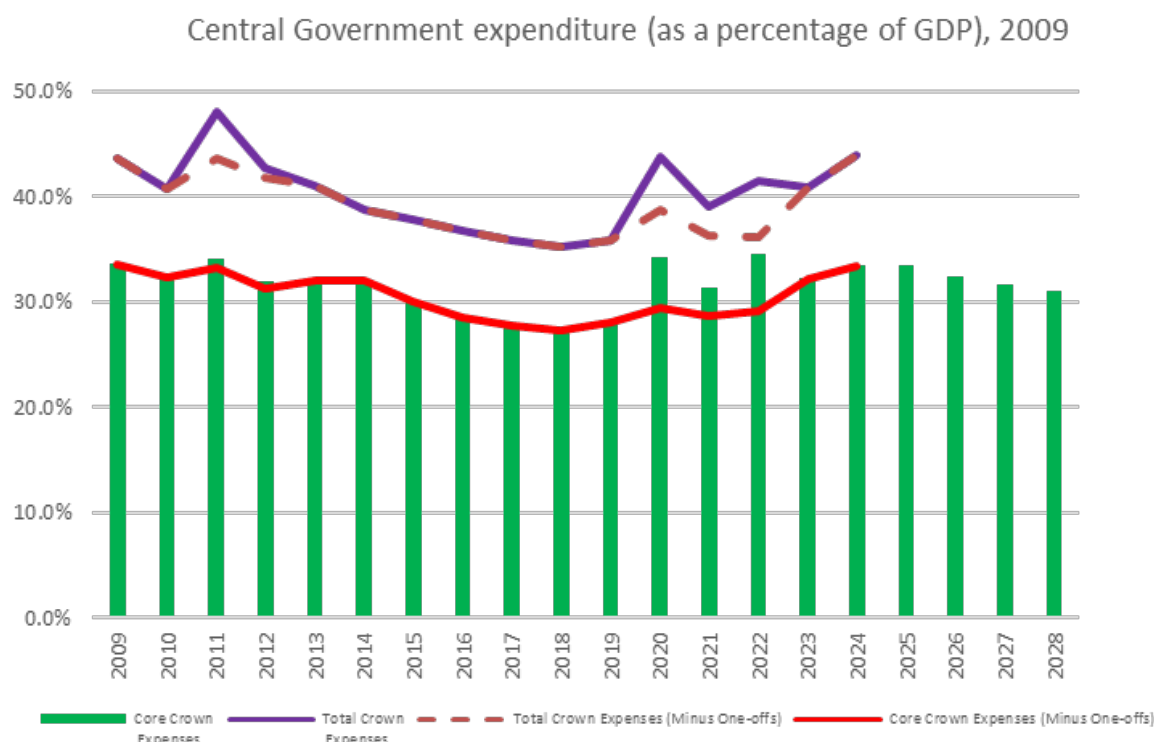
### *Fiscal restraint then COVID and a ‘spending spree’*

Graph 2 shows another period of fiscal constraint and consolidation for the decade after 2009. It also shows the impact of the Christchurch earthquake sequence on the accounts of the Total Crown mainly due to claims on the Earthquake Commission’s fund. After 2019, Government spending grew significantly, initially on COVID related programmes and then on other expenditures.

### *The ratchet effect - 2024 Budget locking in a higher level of spending?*

Wilkinson’s historical analysis of NZ Government administrations since 1911 suggests a ratchet effect operates whereby public spending increases under a left of centre Government or as a response to a major event, which is followed by a period of consolidation when spending is stabilised at a new higher level and does not return to the previous level. Any generalisation has an exception – in this case during the era of the reforms the National Administration of 1990-1999 oversaw a 9.5% fall spending to GDP, more than offsetting the 4.5% increase under the previous Labour Government. <sup>ii</sup>

Graph 2 – State spending (with adjustments for spending on the Christchurch earthquake and COVID programmes)



Source – Treasury Financial Statements. COVID spending estimates from Binning et al 2024, Christchurch Earthquake spending based on Treasury’s costing in Note 15 of the 2015 Financial Statements of the NZ Government. Note the expenses data after 2024 are based on Budget (BEFU) 2024 Forecasts.

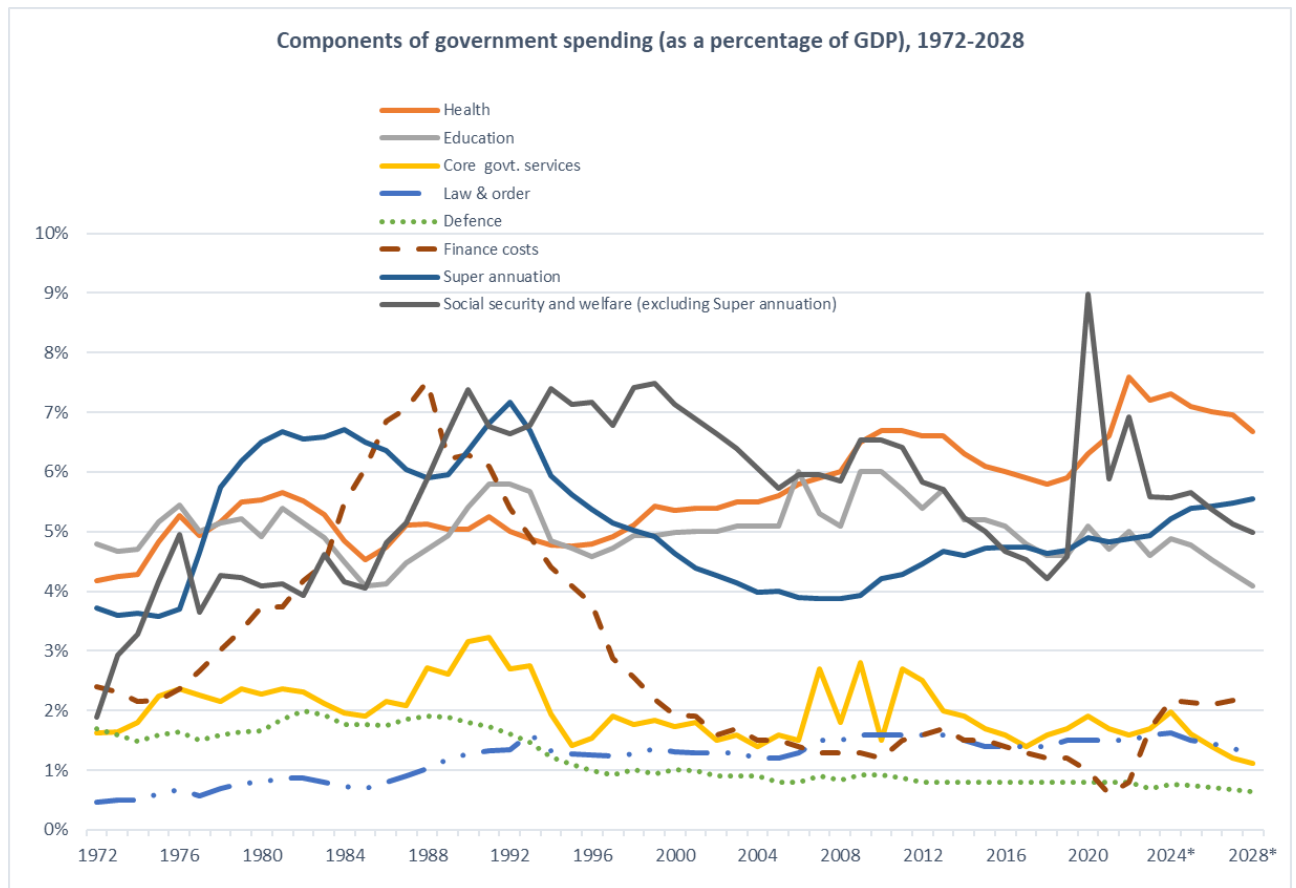
The fiscal adjustment proposed by the National/Act/New Zealand First administration in the 2024 Budget involves partly winding back increases under the previous government and returning the fiscal aggregates closer to the levels of 2012. But even by 2028 the forecast level of total spending is above the levels of 2015 to 2019.

### *The changing shape of the state with increased social spending*

Graph 3 explores the allocation of public spending across the main functions – Health, Education, Social Welfare (split between NZ Superannuation and Other Welfare), Defence, Other Government Services (such as transport) and debt servicing. In New Zealand – like much of the rest of the OECD – the growth in social spending on Health and Welfare has dominated growth in total spending since 1972. Education expenditures have been reasonably flat at around 5%, varying between 4% and 6% of GDP, while spending on other government services, such as defence and transport, has declined relative to GDP. Debt servicing is quite volatile for reasons discussed below.

## *Shift in social spending towards and then away from New Zealand Superannuation.*

Graph 3 – Social spending on NZ Super and other benefits dominates total spending



Source – Treasury Financial Statements and BEFU 2025 Forecasts

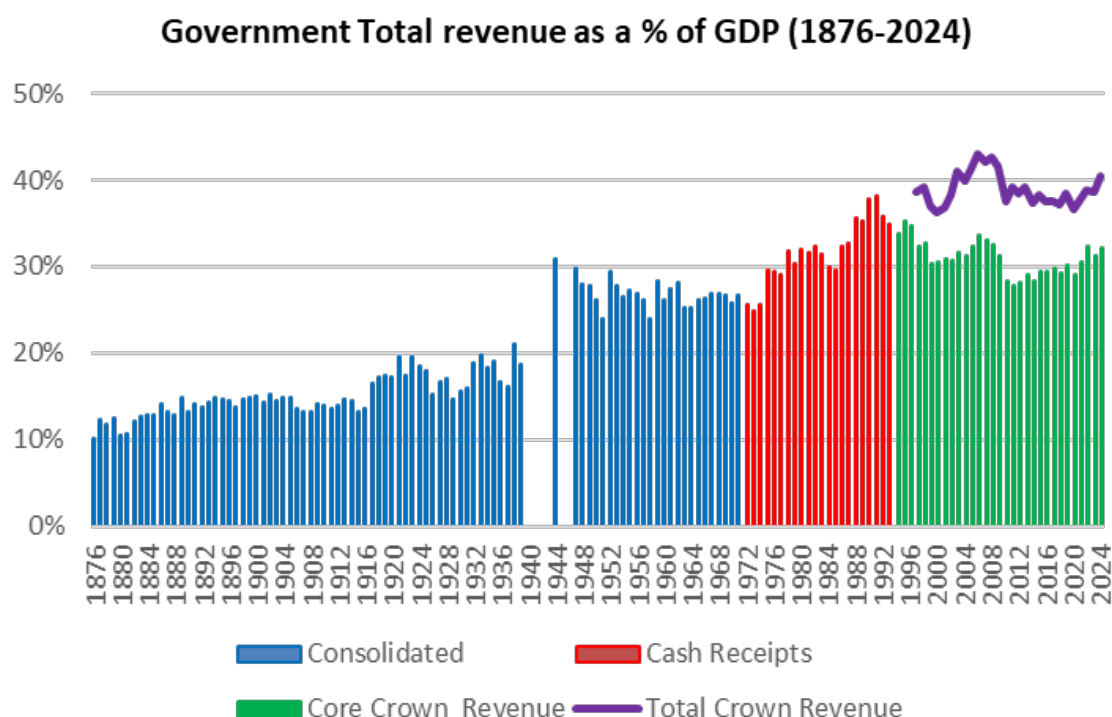
Spending on public pensions grew rapidly with the introduction of New Zealand Superannuation in 1976. This increase was mirrored by the increased fiscal deficits and net debt over this period. The relative decline after 1992 reflects policy changes in the 1991-1996 period as well as the impact of demographic changes. The composition of other social welfare spending has altered along with its level with a move away from universal entitlements such as Family Benefit and the growth in spending on the Unemployment and Domestic Purposes Benefits. (WEAG, 2019, Chapter 2)

## **Part 2 - State as taxpayer – increasing in steps until the 1990s**

The story about tax and public revenues broadly mirrors the spending story, with a series of plateaus followed by step changes with WW1, the period before WW2 and the mid 1970s before peaking in the early 1990s. Graph 4 shows how public revenues were relatively flat from 1876 to 1916, at 10–15%, rising to 15–20% in the decades

before the Second World War. Note that data quality problems also arise for Consolidated Revenue before 1945 with trading revenues included in some years and not others and data for 1940–45 are unreliable or missing altogether. The green series post 1992 shows core Crown revenue while purple series post 1992 covers Total Crown including revenues from arms-length public bodies. We focus here on the green series as it is more comparable to the historical data.

**Graph 4 – Government revenue peaked in 1990 before levelling out**



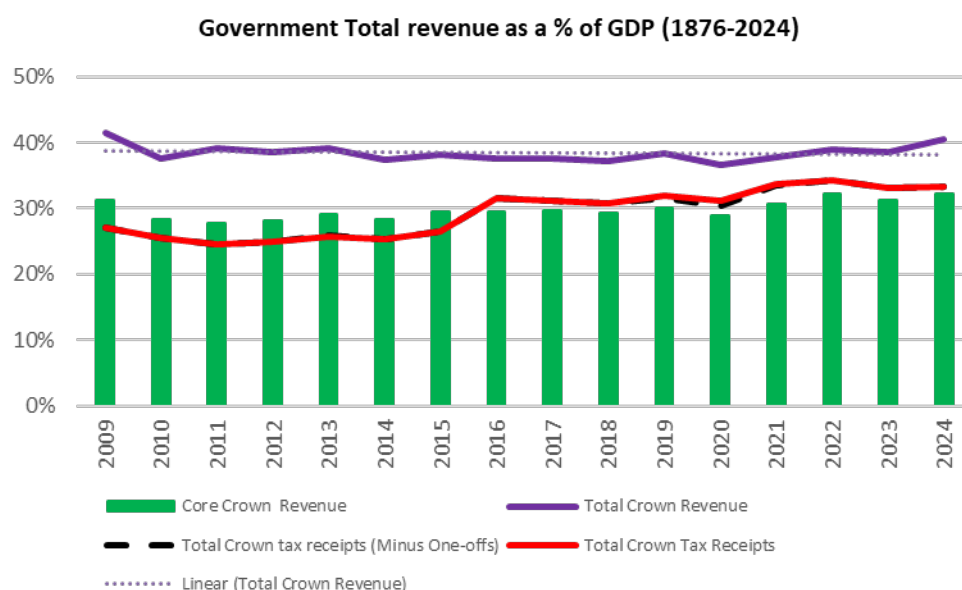
Source – Treasury Long Term Fiscal Series

Post WW2 saw another step change with the tax take plateauing in the low 20% range and public revenues a little higher for three decades. Central government revenue then jumped for a short period to around 35-38% in the late 1980s, before falling back to closer to 30% from the mid-late 1990s onwards. Local Government tax revenue from rates on property stabilized after World War II within the 2-3% range and have fluctuated at around 2% GDP for the last 20 years.

### *Public revenues dominated by taxes*

Taxation is the predominant source of public revenues (around 85% share) while minor sources include interest and investment income, and the sales of goods and services. Graph 5 illustrates that taxation has become an increasingly dominant revenue source increasing from 27% to 33% of GDP, offsetting the fall in revenue from other sources over the last decade.

Graph 5 – Tax take increased while Government revenue flattened out since 2010



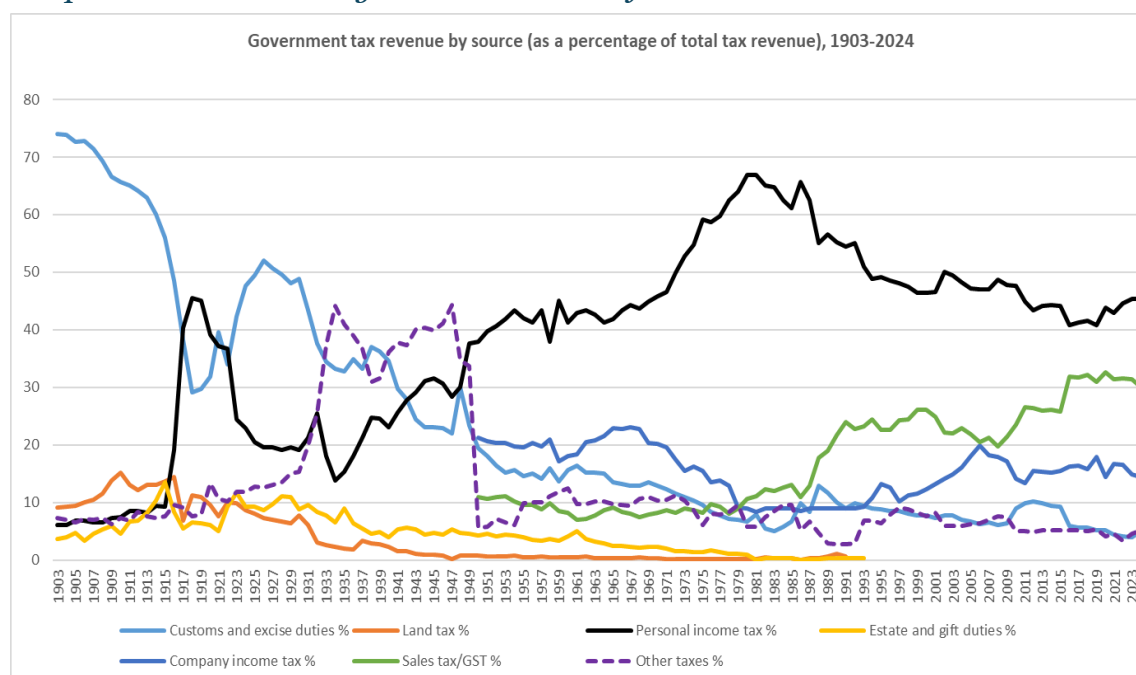
Source – Treasury Financial Statements and BEFU 2025 Forecasts

### *Bracket creep increasing the tax take and changes in tax shares*

The majority of this growth in the tax take reflects the impact of bracket creep (or fiscal drag) rather than explicit changes in the statutory tax. (The increase in the top marginal tax rate to 39% for income above \$180k from 1 April 2021 post-dates much of the income tax/GDP increase). Fiscal drag arises from inflation increasing nominal incomes, so driving more taxpayer income into higher tax brackets and reducing the value of tax credits.

Graph 6 illustrated how Personal Taxes grew as a share of tax revenues from the start of the 20<sup>th</sup> century through to the early 1980s (to become two-thirds of the total tax take) before declining to around a 45% share from around 2010. IRD data show that the average marginal personal income tax rates (income weighted for all taxpayers) increased from 26.4% (after the 2010 GST tax switch) to 30.3% in 2022/3. The share of revenue from GST/sales taxes grew markedly with the introduction of GST in 1986. The share of revenue gained from customs and excise duties, land tax and estate and gift duties all fell through the twentieth century.

*Graph 6 – Marked changes in the sources of tax revenue until the last decade*



Source – Treasury Financial Statements

### Part 3 - State as a producer & consumer – contrasting trends

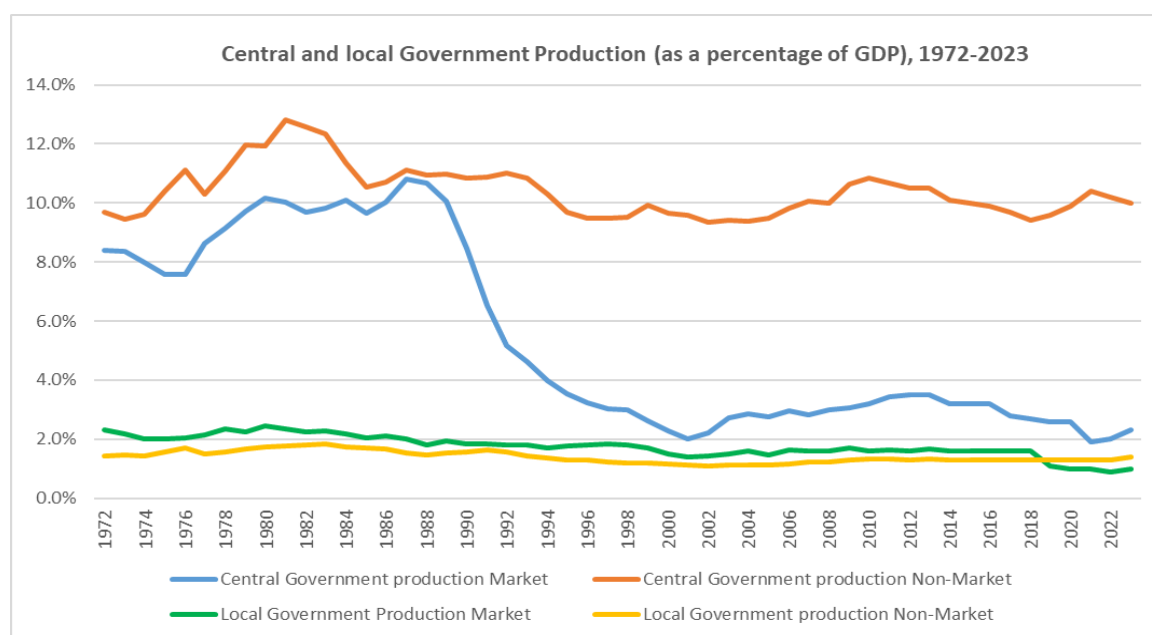
Public spending is focused on the various tasks of government. These can be categorized by a functional classification as above – health, education, defence – or according to an economic classification – consumption, investment, interest, subsidies and transfers. We turn now to economic classification – production, consumption and investment - focusing on government's share of total resources in the economy.

#### *Government market production has fallen – this dimension of the state has shrunk*

Government production comprises two components, market and non-market.

Market production is the value added by government-owned organisations which sell their output, such as post or electricity. (Value added is the difference between the sales revenue and the cost of intermediate inputs such as raw materials.) Non-market production refers to the services produced by the government (such as defence, law and order, or regulations) that consume real inputs (labour, raw materials and capital depreciation) but for which there is no market price and no arm's-length sales transaction for the outputs. (Note that total government spending, as described in Part 1, also includes transfer payments such as pensions and benefits, which do not count as government production.)

*Graph 7 – Reduction in the state’s role as a producer of market outputs*



Source – Statistics New Zealand National Accounts data

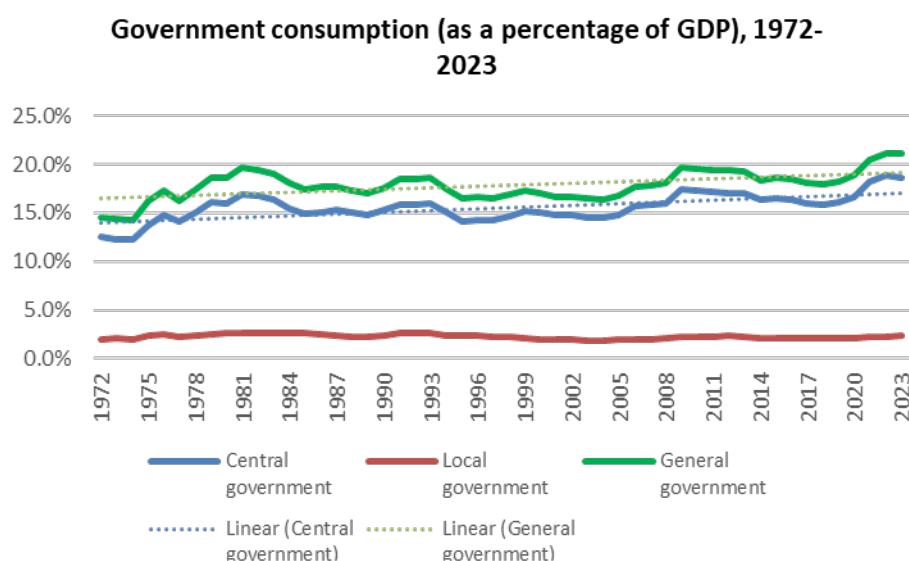
The production data from 1972 shows a shrinking of the state with respect to market production, but not with respect to non-market production. Graph 7 shows the impact of privatisations leading to a marked fall in central government market output while non-market output rose from 1972 to the early 1980s, then fell back around to its initial level from 1995 onwards. Similarly, local government market production declined through the period while its non-market output was maintained at a fairly constant rate throughout.

### *Government consumption has increased – this dimension of the state has expanded*

Government final consumption is SNA (System of National Accounts) jargon for goods which are consumed collectively. It refers to the non-market services that the government produces (such as law and order, defence, regulations) that are not sold but are collectively consumed. ‘Consumption’ refers to the consumption of real resources, less any fees or charges, so it excludes transfer payments. It also excludes capital spending. Government consumption differs from Government Production as the former has a few more components to it including Intermediate Consumption of goods and services, which grew significantly after 2021.<sup>iii</sup>

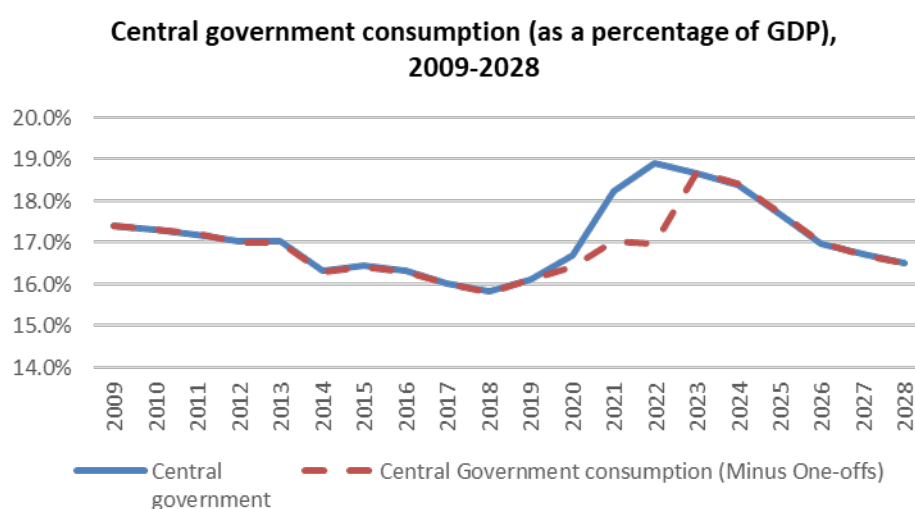
In New Zealand, central government spending on consumption is much larger than that by local government, which has stayed flat since 1972. As Graph 8 shows, central government consumption had peaked in 1981 before falling to 15% before the reforms of the 1980s took effect, rising markedly in 2008, and again since 2018 to reach a 50-year high in 2023.

*Graph 8 – Collective consumption peaked in 1981, 2008 then 2023*



Source – Statistics New Zealand National Accounts data

*Graph 9 – Recent growth in collective consumption forecast to be largely wound back*



Source – Statistics New Zealand National Accounts data and Treasury BEFU 2024 Forecast

Graph 9 shows the recent historical data and the 2024 Budget forecast track for central government consumption. It shows a rapid increase in public spending on COVID related activities from 2020 and in other activities after 2022 when COVID related programmes were phased out. It also shows how the three years of ‘cuts’ in the 2024 Budget essentially involves winding back much of the increase under the previous administration.

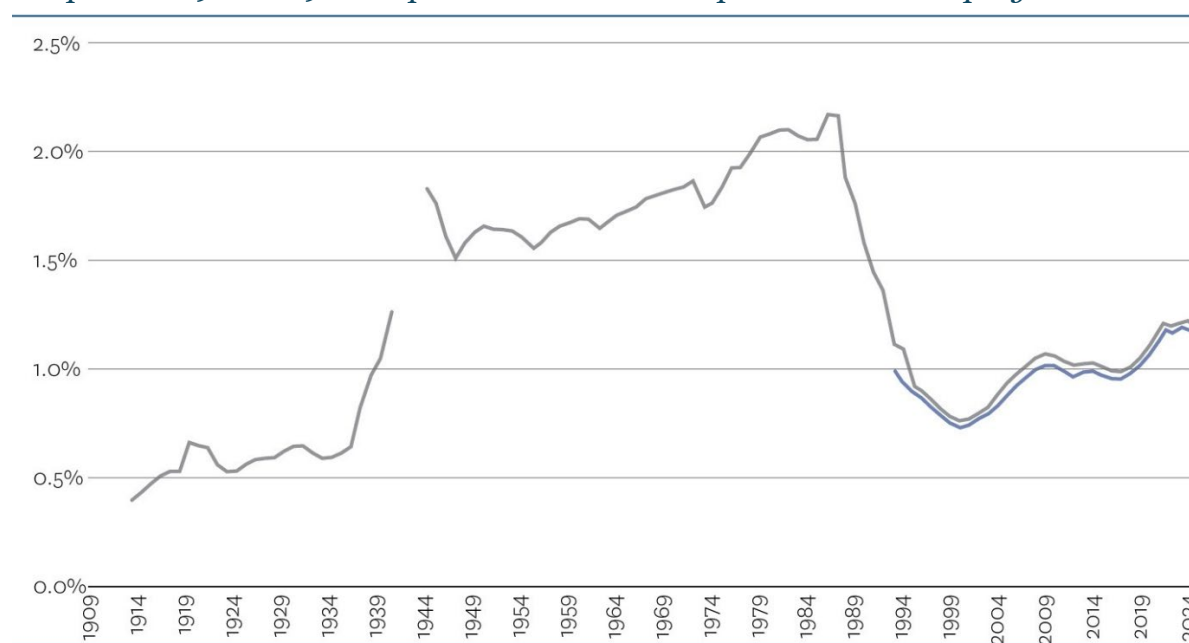
## Part 4 – The State as an employer – mirrors the trends in spending and state production.

The pattern for the state as an employer broadly follows the pattern of the state as a producer and consumer. While long term data on employment is only available from 1908 for the public service (i.e. the departments of state at the core of government), this unfortunately only covers around 10% of the current public sector workforce. An integrated employment data set for the public sector as a whole is only available from 1989.

### *Public Service employment grew steadily then fell sharply with the state sector reforms*

Graph 10 shows public service employment relative to the population since 1908. It reflects the growth in the state after the two world wars and the continued expansion into the 1980s before the impact of corporatisation of state trading enterprises and restructuring of non-trading activities into arms-length public bodies which resulted in a dramatic reduction in the size of public sector employment. More recently, there was a slight increase under the Clark Labour Administration to 2008 and the recent Arden Hipkins Labour Administration after 2017. Note public service employment continued to grow quarter on quarter through to June 2024, despite announcement of widespread budget baseline cuts.

*Graph 10 – 1980s & 90s corporatisation reduced public service employment*



Source: Public Service Commission workforce data (headcount data shown in green, FTE in blue)

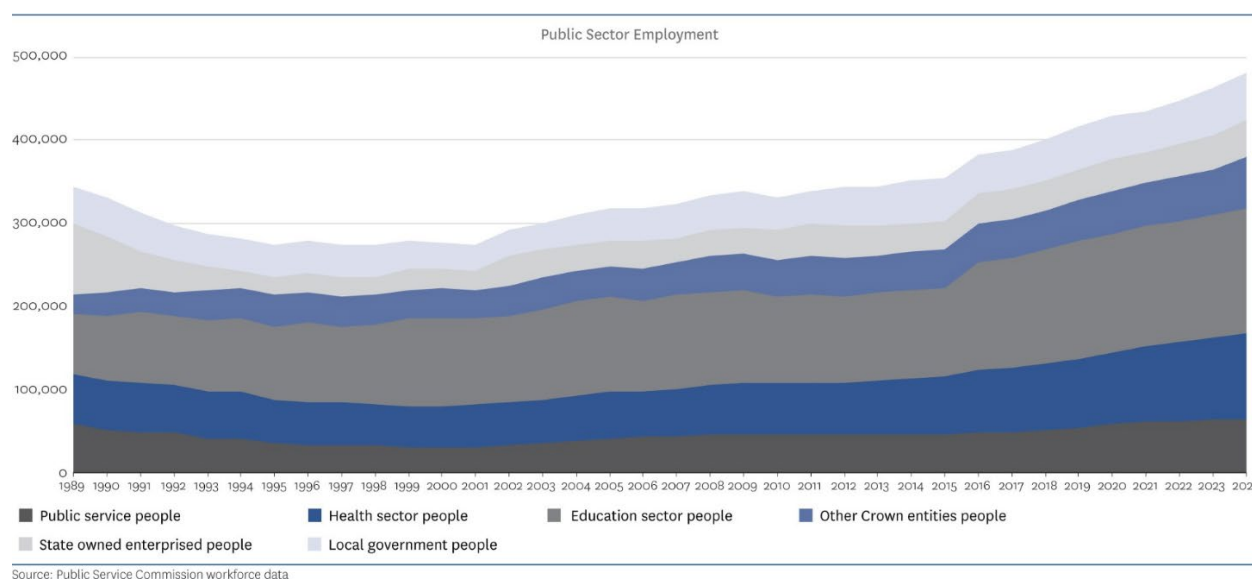
Source – Public Services Commission workforce data (headcount data shown in green, FTE in blue)

### *Total public sector employment has expanded steadily over the last 20 years.*

Labour force data for the period 1989–2024 for the components of the public sector is shown in Graph 11. It shows the impact of privatisation of state trading enterprises and restructuring of non-trading activities in the early 1990s. Since then, while

employment growth in local government has been limited, employment in the government health and education sectors has grown much more rapidly. Employment in the public service (at the core of central government) fell prior to 2000 before rising substantially in recent years. While the total public sector employment has grown overall as shown in graph 11 below, so has the overall labour force. Total public sector employment was around 15 % of the labour force for most of the last two decades before growing to around 16% after 2019.

*Graph 11 – Health and education drive growth in public sector employment since 1989*



Source – Public Services Commission workforce data

In addition to the changing mix of public employment by sector and organisational type, there is a range of other compositional changes to the public sector workforce. Public Service Commission occupational data shows significant growth in support functions such as ICT, IT professionals, managers and legal, HR and finance occupational groups. This is consistent with detailed research by Lofgren et al (2022) which indicated an increase in organizational support functions (IT, Communications) relative to front line occupations.

## Part 5 - State as investor - declining market but increasing non-market investment

The narrative thus far has focused on current spending, employment and taxes. We turn now to public investment expenditure on fixed assets (gross fixed capital formation in SNA jargon).

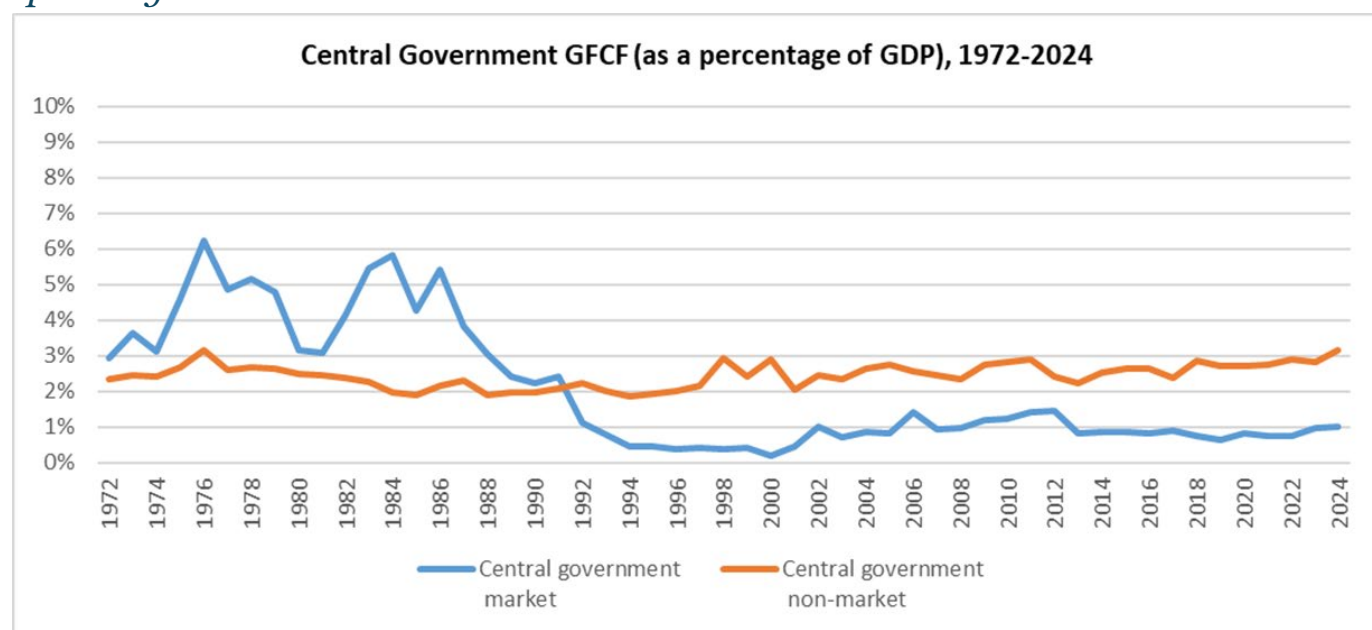
Graph 12 shows the sharp decline in market investment spending after 1987 due to the transfer of asset ownership associated with privatisations. Conversely, it shows

relative stability of non-market investment spending by central government around a slow upward trend. It is interesting to note the absence of any uptick in capital spending related to COVID despite the announcement of funding for ‘shovel ready’ projects. The political colour of the central government of the day does not appear to be significantly related to the trend in non-market investment. (While not shown in the graph, local Government data also shows a slow upwards trend over the last 40 years.)

### *Erosion of the state – evidence for and against*

So, for the investment dimension of the size of the state, the data for market investment again shows a shrinking state, while the non-market data suggests the opposite trend, and is inconsistent with the notion of the erosion of the state. Indeed, looking across a range of measures, public spending on real resources to support public production and investment in non-market outputs has been stable or tended to increase slightly over time (relative to GDP) since the 1990s. The extent to which privatisation leads to hollowing out – given that the services involved, including printing, cleaning services, telephony, can be readily purchased from private market suppliers – is the subject for a discussion on another day.

### *Graph 12 – declining market but increasing non-market investment spending*



Source – Statistics New Zealand National Accounts data

## *Part 6 - State as steward of the Balance Sheet*

What about the government's role as a fiscal steward? 'Stewardship' is the management of the government's overall fiscal position, including the Crown's balance sheet. This is an important consideration, because focusing solely on taxes paid and current government services produced ignores whether the services are funded from current taxes or debt (future taxes) and whether the government is building or depleting its stock of assets.

The state's role as a fiscal steward also includes actively managing future fiscal risks and maintaining a buffer against adverse events. This role is particularly important for a small open exposed economy like New Zealand. On exposure for example, Lloyds of London insurance risk index ranks New Zealand second highest based on the annual expected cost of natural disasters that damage property. The Public Finance Act requires the Crown to achieve and maintain levels of net worth that provide a buffer against factors that may impact adversely on net worth in the future.

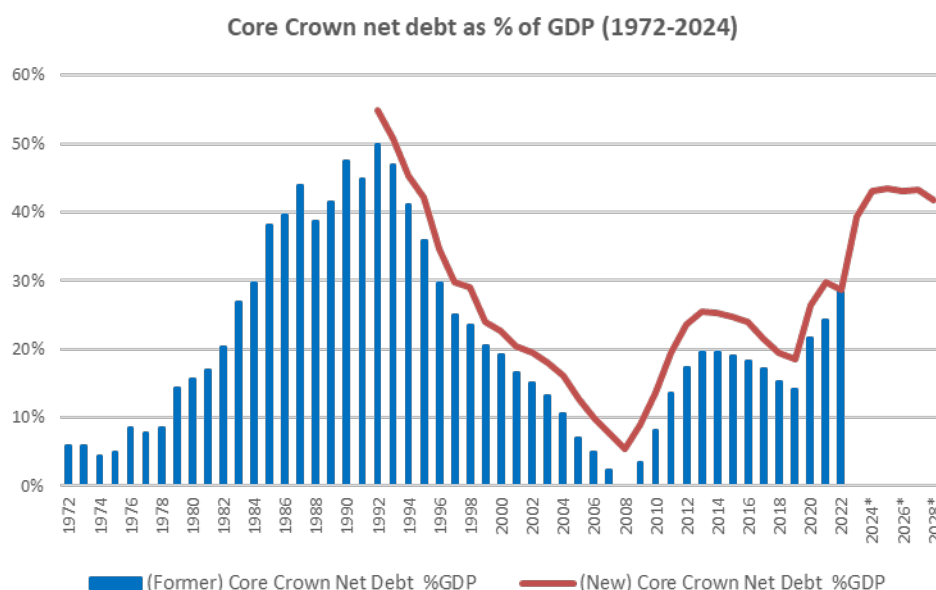
### *Volatile swings in the Operating Balance drive the growth in Net Debt*

Expenditures need to be financed by revenues and borrowing. The operating balance is volatile as it is the residual difference between two large numbers – public revenue and expenditure. The Crown's fiscal balance when in surplus provides a source of saving for investment in physical and financial assets.

New Zealand data reflects four distinct periods before the impact of the 2019 COVID epidemic: sustained structural deficits (mid 1970s to 1990), sustained structural surpluses (1991 to 2008), structural deficits (2008 – 2011) and sustained surpluses (for most of 2012 to 2019). The succession of consistent substantial structural surpluses under both Labour and National led administrations in the aftermath of the reforms highlights the impact of the fiscal responsibility provisions in the Public Finance Act (see Gill 2019 for a longer discussion).

The fluctuations in the Operating Balance were reflected in shifts in net debt (Graph 13). Over the last 50 years the Crown's net debt positions have fluctuated markedly. The changes in net debt were reflected in debt servicing costs, which exploded to 8% in 1988, before easing back to under 1% by 2021 before rebounding to over 2% of GDP by 2024. Both the stock of debt and interest rate fluctuations affect debt servicing costs, but the former is the primary driver.

*Graph 13 – The rise, fall and rise in Net Debt*



Source – Treasury Financial Statements and BEFU 2024 Forecasts

### *Measured Net Worth has increased significantly since 1992*

While there is considerable public discussion of Net Debt, much less attention is directed at changes in the Crown assets and trends in overall Net Worth. Net worth is a wider measure than net debt as it includes the value of assets the Government owns which are offset against the liabilities it owes. Statistics NZ data suggests that in 2023 Central Government controlled 6.8% of the NZ economy's assets and 5.5% of its liabilities.

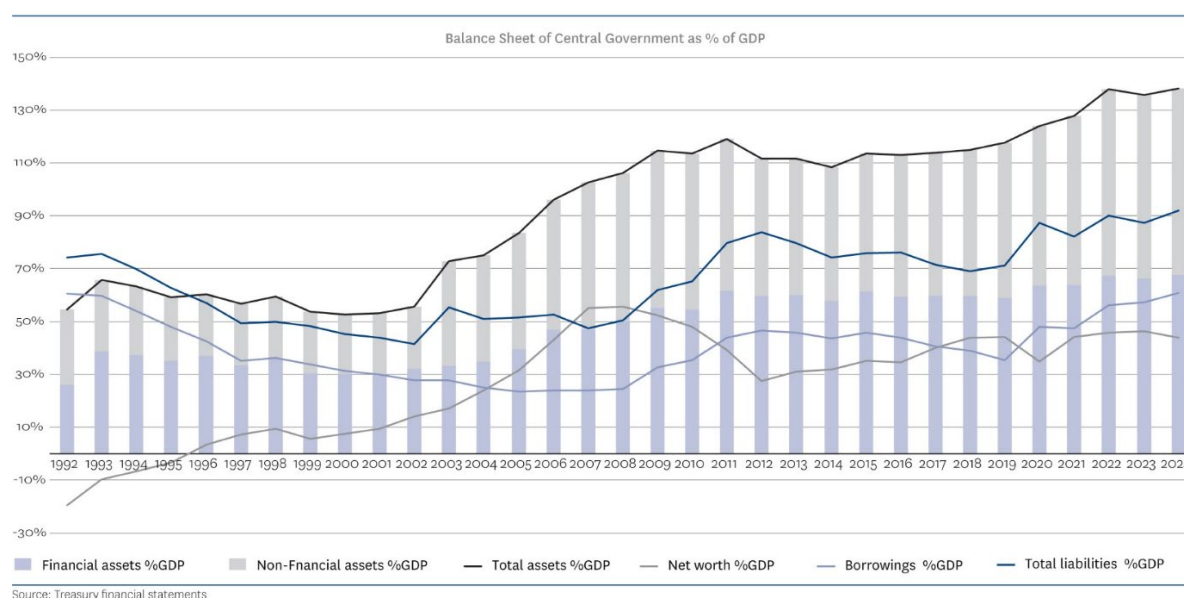
The government's net worth comprises accumulated savings from fiscal surpluses and the withdrawals from deficits, revaluation reserves from physical assets and accounting gains and losses on financial assets. Over the last decade, the escalation in property prices has generated significant gains on revaluations as the Government is a significant owner of property.

Net worth provides a backward-looking measure of how fiscal stewardship is being exercised by assessing the value of assets less liabilities (such as public debt). New Zealand data on Net Worth only became available in 1992 with the introduction of accrual accounting. Nonetheless, the available data (Graph 14) showed a steady improvement from -20% of GDP in 1992 to a peak of +55% 2007/8. Net Worth declined slightly with the global financial crisis and then took a hit falling to 27% in 2011/12 with the Christchurch earthquake sequence leading to the drawdown of Earthquake Commission fund. Thereafter, Net Worth improved steadily until turning down in 2021 with the growth in borrowing associated with the fiscal deficits of the COVID era. Since 2021 net worth has been stable with the increase in the value of physical assets due to the escalation in property prices offsetting the impact of increased borrowing.

An element of caution is required in interpreting trends in Net Worth. Some of the assets with a positive value on the balance sheets are non-realisable as they do not generate a revenue stream and are unlikely to be traded (National Parks). As already noted, a high proportion of the increase in fixed asset values since 2012 is a result of the general increase in land prices resulting in the revaluation of property assets. Thus the large increase land values does not reflect an increase in capacity but rather represents a relative price change resulting in an increase in the cost of providing that capacity.

Treasury in the 2022 Investment Statement (P37) also report an alternative measure ‘financial net worth’ which excludes social assets such as housing. Using the financial net worth measure, liabilities exceed assets, so this measure of net worth is negative; the fiscal deficit associated with the onset of COVID resulted in a deterioration in this measure.

### *Graph 14 – Steady improvement in the Crown’s Balance Sheet*



Source – Treasury Financial Statements

In summary the conventional measure of net worth since 1992 suggests that for the state’s role as a steward, there has been a trend increase in the size of the state’s Balance Sheet. This does not support the notion of an erosion of the state. If anything, the opposite has occurred on this dimension.

## **Part 7 - State a regulator - shrinking or growing?**

Finally – what about the state’s role as regulator, an issue that Gemmell and Gill did not address in 2016 because of lack of data.

### *New time series data on the size of the regulatory state*

In the previous Chair in Public Finance Working Paper 02/2024, Gill and co-authors discussed newly released data on the size of the statute book and how it has changed since 1908. The study collected data to count the number of statutes, as well as the

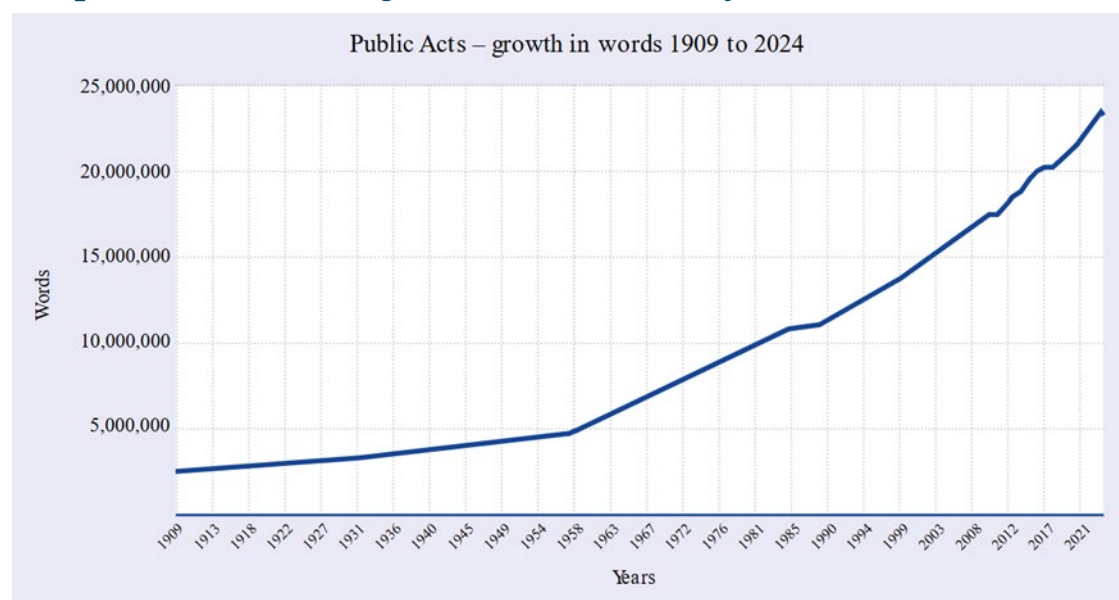
words (and the pages) in those statutes. This approach was based on data availability, but also because words in statutes are widely used as a proxy for the growth in the supply of regulation. We briefly summarise the findings of this research here as this data helps explore the proposition that ‘deregulation’ associated with the regulatory reforms of the mid 1980’s and 1990s lead to the regulatory state shrinking.

### *Rapid growth in the supply of primary regulation*

What the study found was surprising – that number of words used in the New Zealand statutes has grown steadily since 1908, but dramatically from the 1960s as shown in Graph 15. That growth means that the stock of current legislation has doubled in size since 1988, to more than 23 million words (whereas in 1908 it was just 2.5 million words). The growth rate in recent years is similar under both Labour and National administrations and does not coincide with conventional narratives of deregulation and re-regulation. The stock of the number of Acts in New Zealand also grew, but at a slower rate than words, then levelled off before the 1980s. That means that the average length of each principal Act is increasing.

The analysis of Gill et al (2025) suggests that this growth in the New Zealand statute book was not the result of technical factors such as plain language drafting or greater use of secondary rules. Instead, the growth reflects substantive factors, with increases in the depth and the breadth of regulation.

### *Graph 15 - Consistent growth in the stock of words in the statute book*



Source – Parliamentary Counsel Office Annual Report on Legislative Practices 2024

### *No evidence of a reduction in the regulatory state*

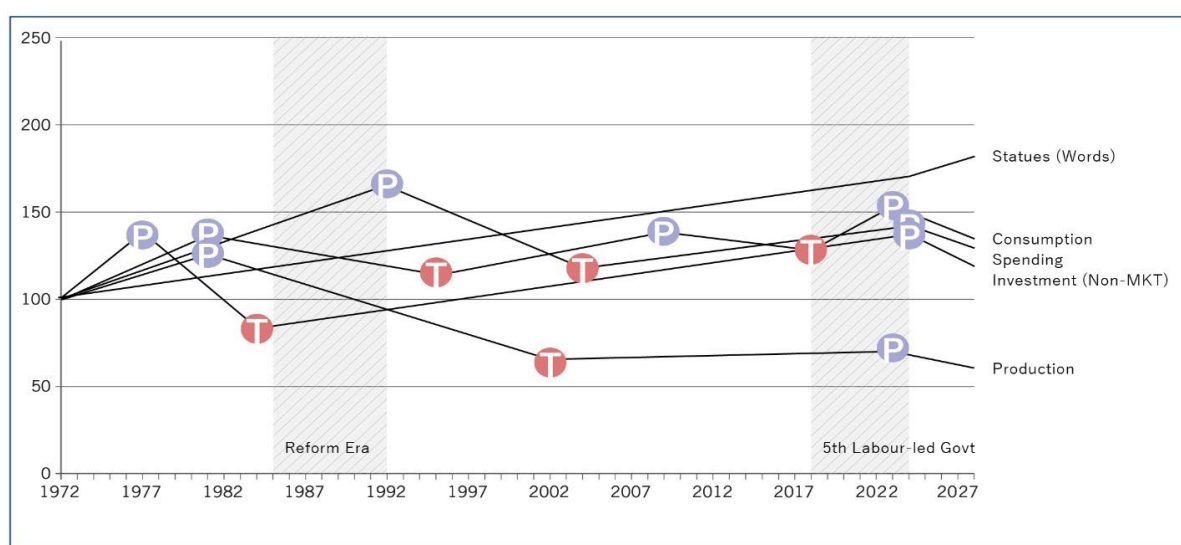
Regulatory inflation and policy accumulation are general trends not unique to New Zealand. Recent scholarship suggests that globalisation and liberalisation are often

accompanied by the expansion of regulatory rules and agents (Vogel, 1996). Interpreting the growth in the size of the statute book is complicated. More words in government regulations may imply more complexity but does not automatically mean there is increased regulatory intensity or burden of compliance. But the graph 15 above does not lend any support to the notion that any deregulation associated with the regulatory reforms of the mid 1980s and 1990s has led to a reduction in the regulatory state – indeed the opposite appears to be the case.

## Part 8 - Shape of the state - Plus ça change, plus c'est la même chose

Despite the rhetoric, there is little evidence in the data of a consistent erosion or shrinking of the state after the mid-1980s. The conventional wisdom that New Zealand's 'neo-liberal' reforms of the 1980s and 1990s resulted in a dramatic reduction in the size of the state is largely an urban myth. The notable exceptions - spending on NZ Superannuation and the state's role as a producer of market outputs, along with the associated employment and investment - prove to be exceptions rather than the rule.

*Graph 16 The size of the state 1972-2024 peaks (P) and troughs (T)*



Source – The authors

Graph 16 summarises – in stylised form - the key turning points by showing the peaks (shown by a P) and troughs (shown with a T) but removing other fluctuations for the main series discussed in this paper available since 1972. The graph also anchors all the indices at 100 in 1972 so that relative changes in each can readily be compared. It shows no clear pattern with some series trending up and some trending down in the period of so-called neo-liberal reforms of the late 1980s and early 1990s. Similarly, there is no clear turning point with several peaks well before the reform era and only one trough in the immediate post reform era. The

number of words used in primary statutes - the only available proxy for the size of the regulatory state – increases steadily over the whole period since 1972.

In terms of the overall capability of the state, spending on real resources to support public production and investment in non-market outputs has increased slowly relative to GDP since the 1990s and the strength of the Balance Sheet (Net Worth) has improved.

Looking at the recent fifth Labour led administration there are several local peaks and one global peak. Government current spending on collective consumption grew rapidly to reach record levels - even after allowing for COVID relating programmes. The fiscal adjustments proposed by the new National/Act/New Zealand First administration in the 2024 Budget essentially involved partially winding back of the dramatic growth in current spending under the Ardern - Hipkins Administration.

The data also suggests significant compositional changes in the state's role leading to a changing shape of the state. For example, there have been marked shifts over time in the composition of tax revenue by source and public spending by function. Public spending has been increasingly dominated social spending including health while spending on some other government services such as defence has declined relative to GDP. So, while there has not been a consistent erosion or shrinking of the state overall, there is considerable evidence of compositional shifts in the state's role over time.

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<sup>i</sup> <https://teara.govt.nz/en/graph/36156/defence-spending-as-a-proportion-of-estimated-gdp-1880-1971>.

For WW2 see chart 16 in Baker, J.V.T. 1962 . The New Zealand people at war War Economy, Government Printer, Wellington

<sup>ii</sup> Wilkinson (2023) provides a detailed analysis of the trends in government spending and taxation for each Government administration since 1911 controlling for CPI inflation and population growth as well as relative to GDP.

<sup>iii</sup> Statistics NZ, in an email dated 19 December 2024, advised that the differences between recent trends in public consumption and public production arise from “the increase in Intermediate Consumption and the decrease in Sales and Own Account Capital formation from 2021 onwards that is causing the percentage to GDP ratios to diverge for central government production and central government consumption from 2021 onwards.”

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