

Derek Gill, Norman Gemmell and
Arthur Grimes

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?

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 ‘neoliberal’ 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-19-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, neoliberal reforms, New Zealand reforms, fiscal policy, stock of regulation, net worth, Covid spending

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senior positions in both the UK and New Zealand public services. **Arthur Grimes** is Professor of Wellbeing and Public Policy at the School of Government, Victoria University of Wellington. He is also a senior fellow at Motu Economic and Public Policy Research. He was Reserve Bank of New Zealand chairperson from 2003 to 2013, having previously been the bank’s chief economist, served as a board member of the Financial Markets Authority, 2011–17, and previously was chief executive of Southpac Investment Management Limited. Arthur is a co-convenor of the World Wellbeing Panel and has served as president of the New Zealand Association of Economists.

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

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, 18 December 2024, in response to the prompt, 'how did the neoliberal reforms in New Zealand affect the size of the state?'

The focus of this issue of *Policy Quarterly* is the capability of the state. This article sets the historical context by looking at how the size of state has changed over time. 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 and 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. (Gemmell and Gill, 2016, p.9)

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 were the winding back of public pension spending in the 1990s, and a reduction in market production arising from the privatisation programme, which

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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 data set 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-19. 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 article 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-WWII 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: The state as 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 that of other advanced OCED economies, growing steadily after each of the world wars before peaking in the late 1980s or early 1990s. Afonso, Schuknecht and Tanzi (2020), who provide a useful cross-country survey of the changes in the size of the state across history, suggests Tanzi (2018): 'the size of government developed in line with the evolving thinking about its role and its capacity to raise taxes'.

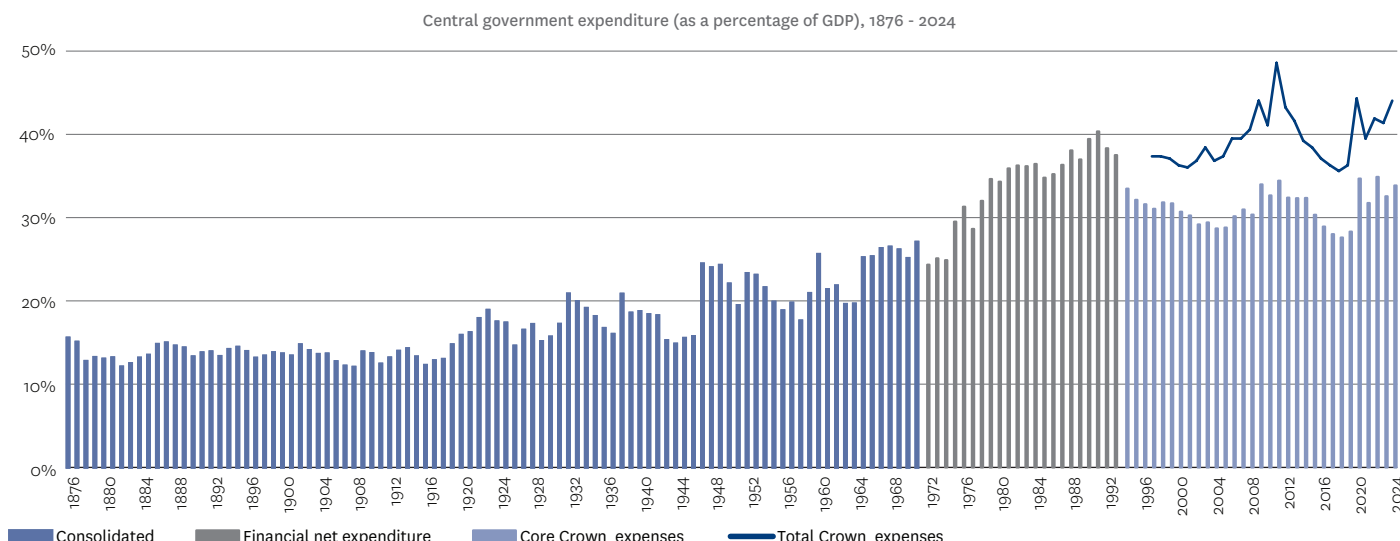
Use New Zealand spending data
before 1950 with caution

Long-term fiscal data on state spending in New Zealand (shown in Figure 1) should be used with care, as there are concerns about the consistency of the historical time series before 1950. To illustrate, Figure 1 shows total public spending falling during both WWI (from 14% to 13% of GDP) and WWII (from 18% to 15% of GDP). By contrast, historians estimate that defence spending alone peaked at 17% of GDP in WWI and 50% of GDP in WWII.¹ 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
'neoliberal' 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 arm's-length public bodies. This series break occurs

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



Source: Treasury long-term fiscal data

towards the end of the reform period of the mid-1980s to early 1990s (Evans et al., 1996). Looking across a range of indicators, total spending by core central government (shown in dark blue, grey and light blue in Figure 1) 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 in any year prior to the mid-1970s. The patterns here are consistent with those found by Rose (2019, pp.4–5) using system of national accounts fiscal data since WWII. He identifies four distinct periods: relative stability (1948–71), rapid expenditure growth (1972–92), fiscal constraint and consolidation (1992–2005) and post-2005. We then observe an increase in current spending under the Ardern–Hipkins administration.

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 light blue in Figure 2) and total Crown spending (shown in dark blue, which also includes arm’s-length public agencies such as Crown entities and state-owned enterprises).

Figure 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 Canterbury earthquake sequence (2010–13) and Covid-related programmes (2019–23). Budget 2024 three-year fiscal forecasts are included, although they are only available for core Crown.

Fiscal restraint then Covid and a ‘spending spree’

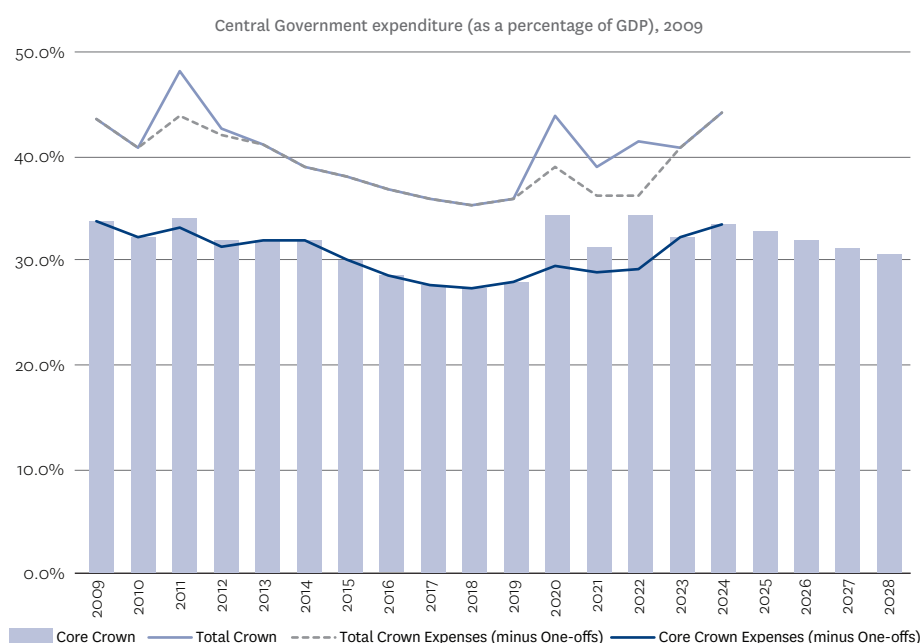
Figure 2 shows another period of fiscal constraint and consolidation for the decade after 2009. It also shows the impact of the Canterbury earthquake sequence

on the accounts of the total Crown, mainly due to claims on the Earthquake Commission 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 New Zealand government administrations since 1911 suggests that a ratchet effect operates whereby public spending increases under a left-of-centre government or as a response

Figure 2: State spending (with adjustments for spending on the Canterbury earthquakes and Covid-19 programmes)



Source: Treasury financial statements; Covid spending estimates from Binning, MacGibbon and Mawson, 2024; earthquake spending based on Treasury’s costing in note 15 of the 2015 financial

statements of the New Zealand government. Note: the expenses data after 2024 are based on Budget (BEFU) 2024 forecasts.

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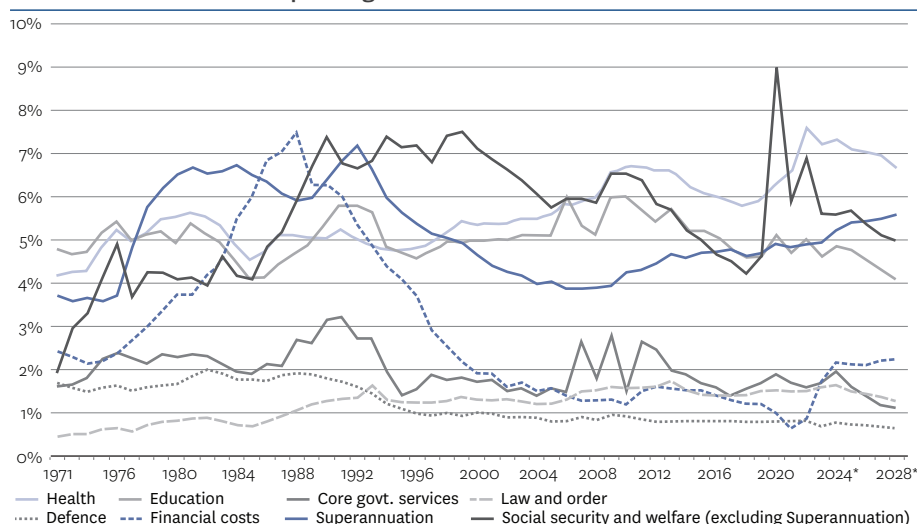
to a major event, which is followed by a period of consolidation when spending is stabilised at a new higher level and does not return to the previous level. Any generalisation has an exception – in this case during the era of the reforms the National administration of 1990–99 oversaw, when there was a 9.5% fall in spending relative to GDP, more than offsetting the 4.5% increase under the previous Labour government.²

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 2015–19.

The changing shape of the state with increased social spending

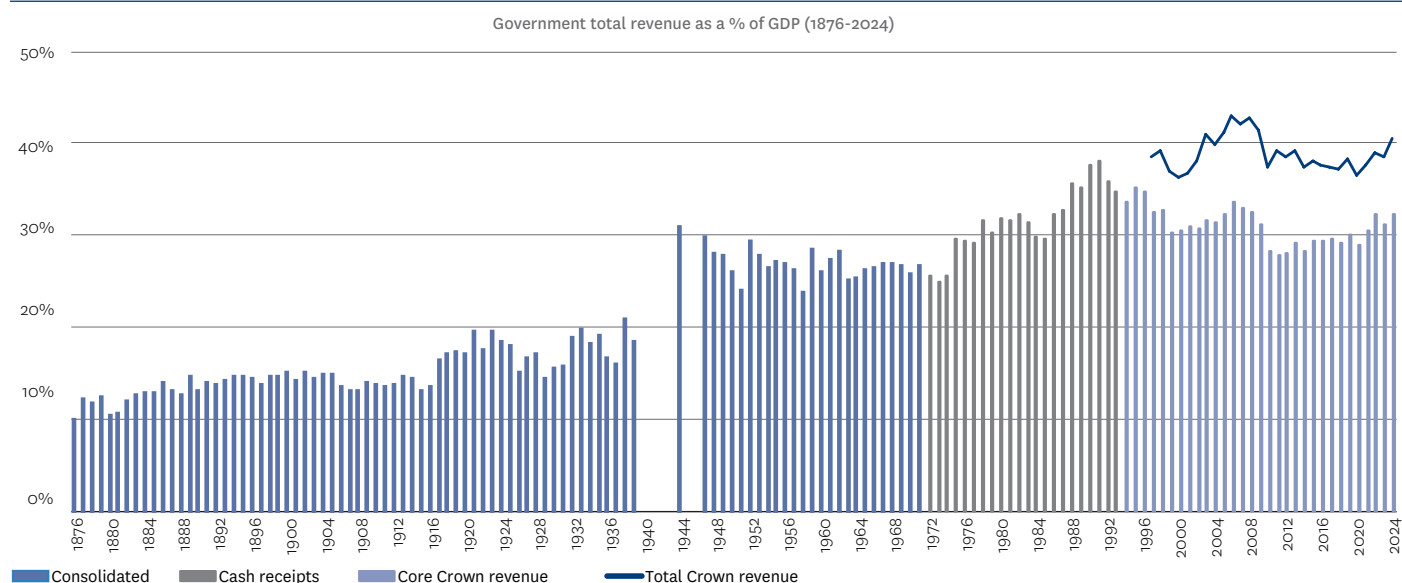
Figure 3 explores the allocation of public spending across the main functions: health, education, social welfare (split between New Zealand Superannuation and other welfare), defence, other government services (such as transport) and debt servicing. In New Zealand – like much of the rest of the OECD – 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.

Figure 3: Social spending on New Zealand Superannuation and other benefits dominates total spending



Source: Treasury financial statements and BEFU 2025 forecasts

Figure 4: Government revenue peaked in 1990 before levelling out



Source: Treasury long-term fiscal data

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

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 1991–96 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 the family benefit and the growth in spending on the unemployment and domestic purposes benefits (Welfare Expert Advisory Group, 2019, ch.2).

Part 2: The 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 plateaux followed by step changes with WWI, the period before WWII and the mid-1970s, before peaking in the early 1990s. Figure 4 shows that 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 light blue series post-1992 shows core Crown revenue, while the dark blue series post-1992 covers total Crown including revenues from arm's-length public bodies.

We focus here on the light blue series, as it is more comparable with the historical data.

Post-WWII 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-to late 1990s onwards. Local government tax revenue from rates on property stabilised after WWII within the 2–3% range and has fluctuated at around 2% of 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. Figure 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.

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 \$180,000 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.

Figure 6 illustrates how personal taxes grew as a share of tax revenues from the start of the 20th 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. Inland Revenue data shows that the average marginal personal income tax rate (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 20th century.

Part 3: The state as a producer and consumer – contrasting trends

Public spending is focused on the various tasks of government. These can be categorised 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 postal services 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.)

The production data from 1972 shows a shrinking of the state with respect to

Figure 5: Tax take increased while government revenue flattened out since 2010

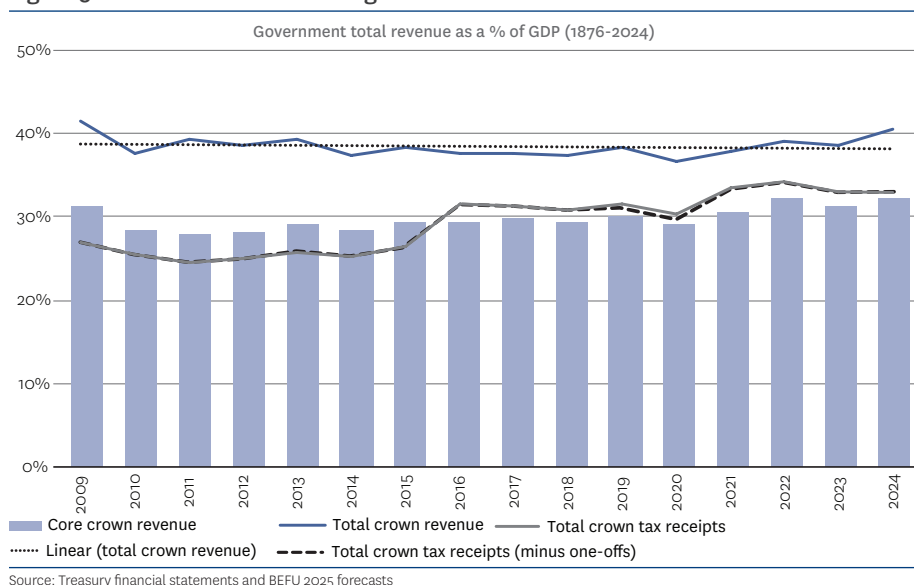
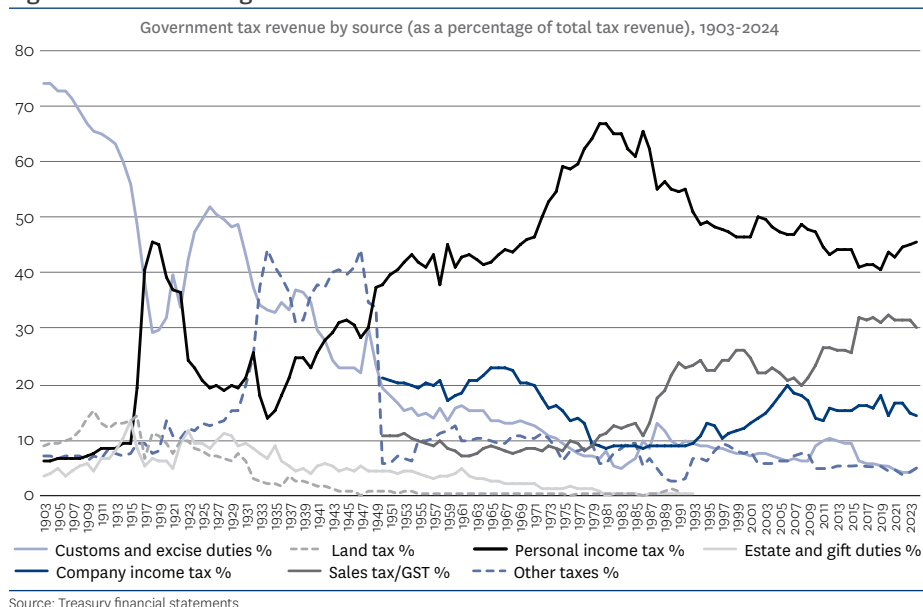


Figure 6: Marked changes in the sources of tax revenue until the last decade



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Figure 7: Reduction in the state's role as a producer of market outputs

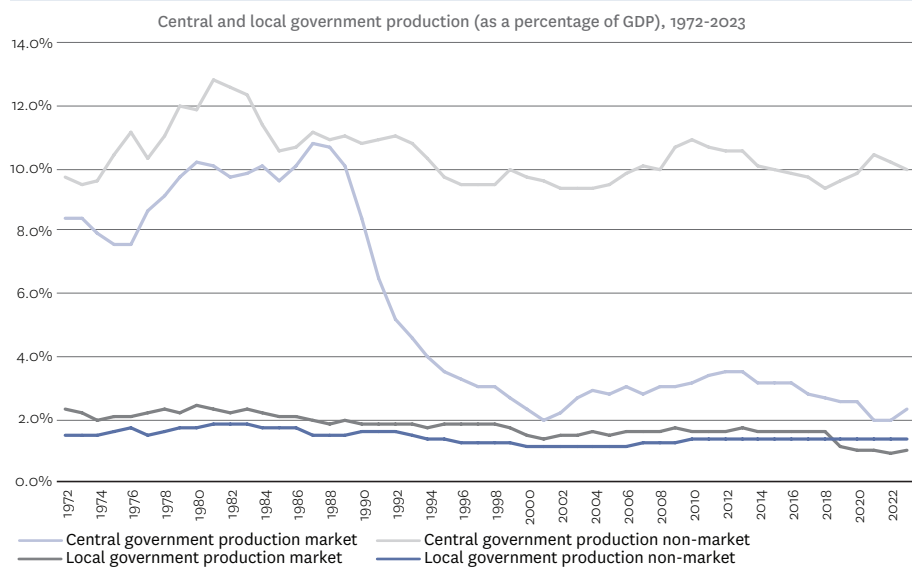


Figure 8: Collective consumption peaked in 1981, 2008, then 2023

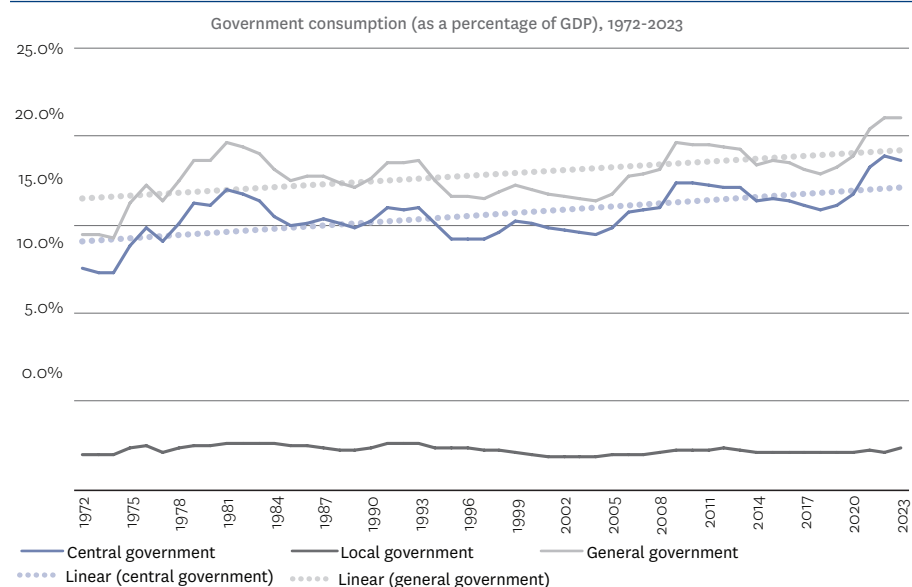
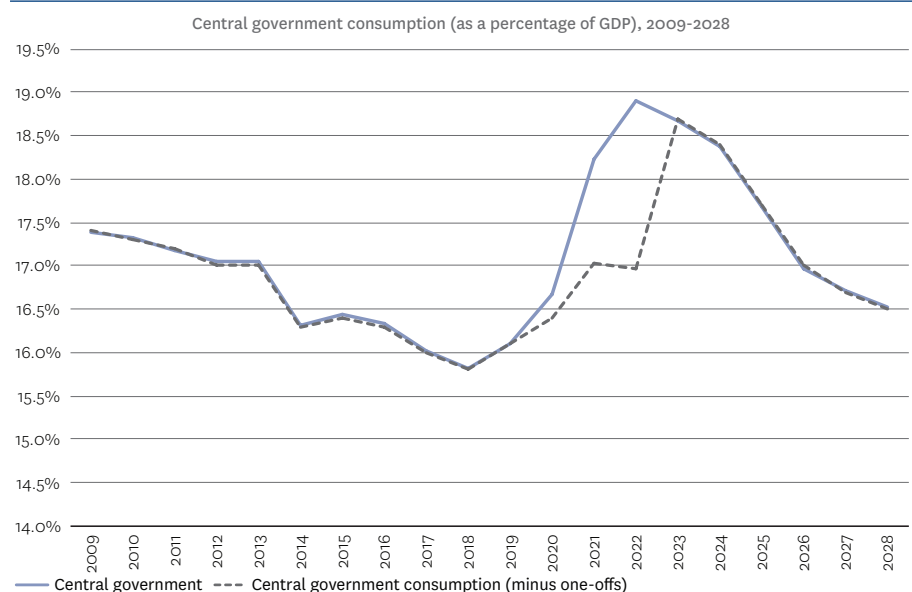


Figure 9: Recent growth in collective consumption forecast to be largely wound back



market production, but not with respect to non-market production. Figure 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 to around 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 2021.³

In New Zealand, central government spending on consumption is much larger than that by local government, which has stayed flat since 1972. As Figure 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.

Figure 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 on 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 available from 1908 for the public service (i.e., the departments of state at the core of government), this unfortunately covers only 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

Figure 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 arm’s-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 that public service employment continued to grow quarter on quarter through to June 2024, despite announcement of widespread budget baseline cuts.

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 Figure 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 total public sector employment has grown overall, as shown in Figure 11, 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.

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 Löfgren et al. (2022) which indicated an increase in organisational support functions (IT, communications) relative to front-line occupations.

Part 5: The state as investor – declining market but increasing non-market investment

The narrative thus far has focused on current spending, employment and

Figure 10: 1980s and 90s corporatisation reduced public service employment

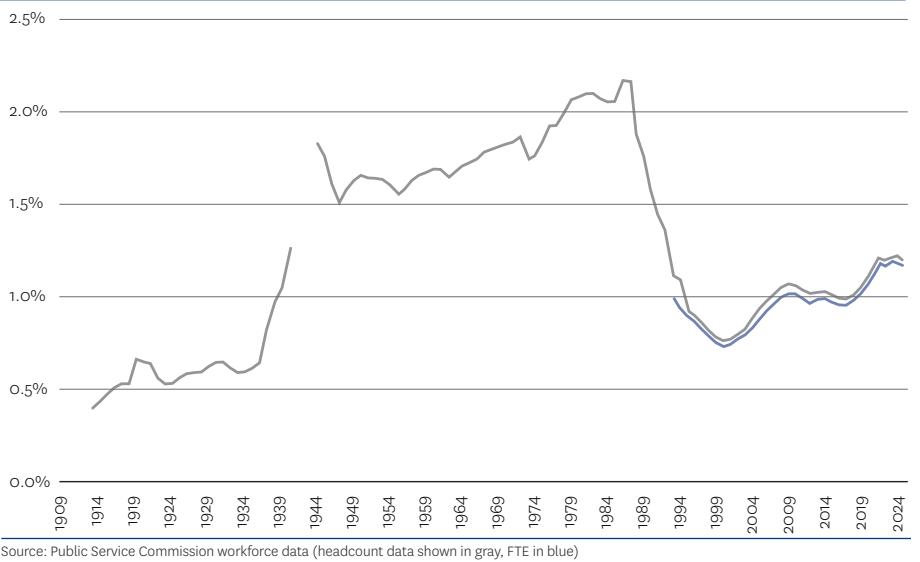
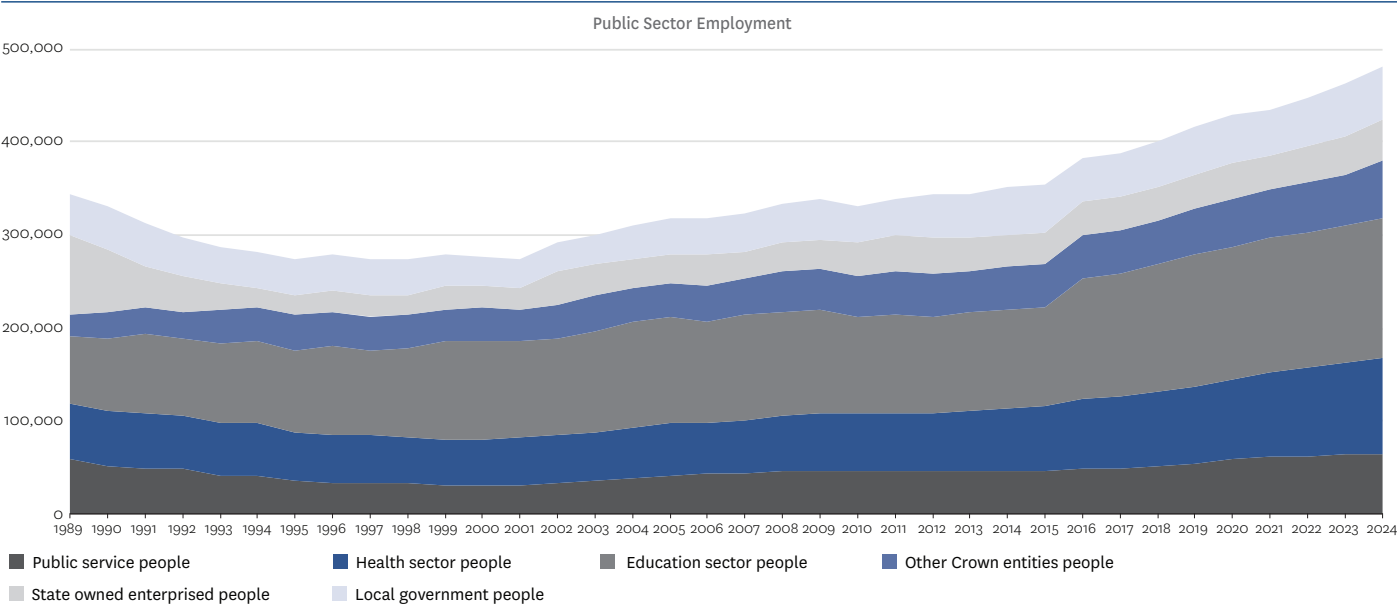


Figure 11: Health and education drive growth in public sector employment since 1989



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taxes. We turn now to public investment expenditure on fixed assets (gross fixed capital formation in SNA jargon).

Figure 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

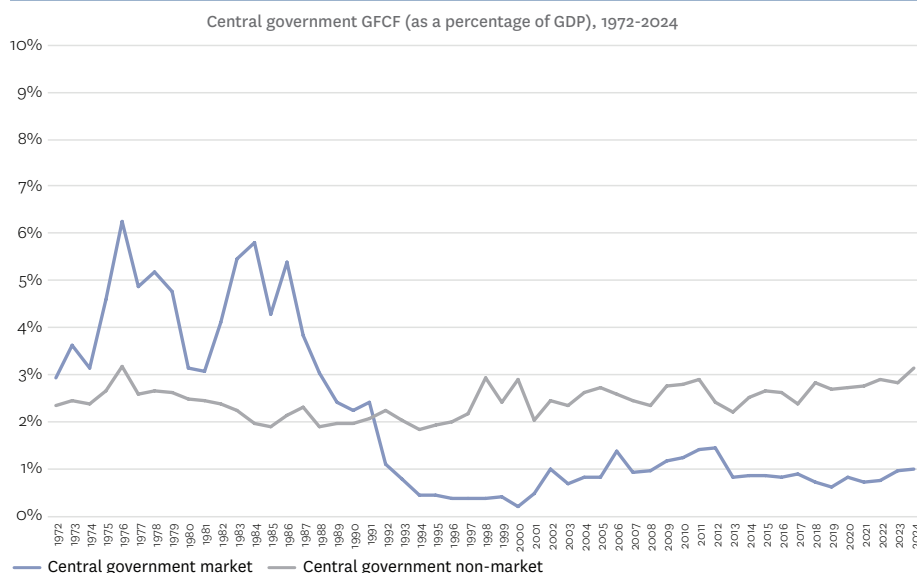
So, for the investment dimension of the size of the state, the data for market investment again shows a shrinking state, while the non-market data suggests the opposite trend, and is inconsistent with the notion of the erosion of the state. Indeed, looking across a range of measures, public spending 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.

Part 6: The 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, the Lloyd's 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 have an adverse impact on net worth in the future.

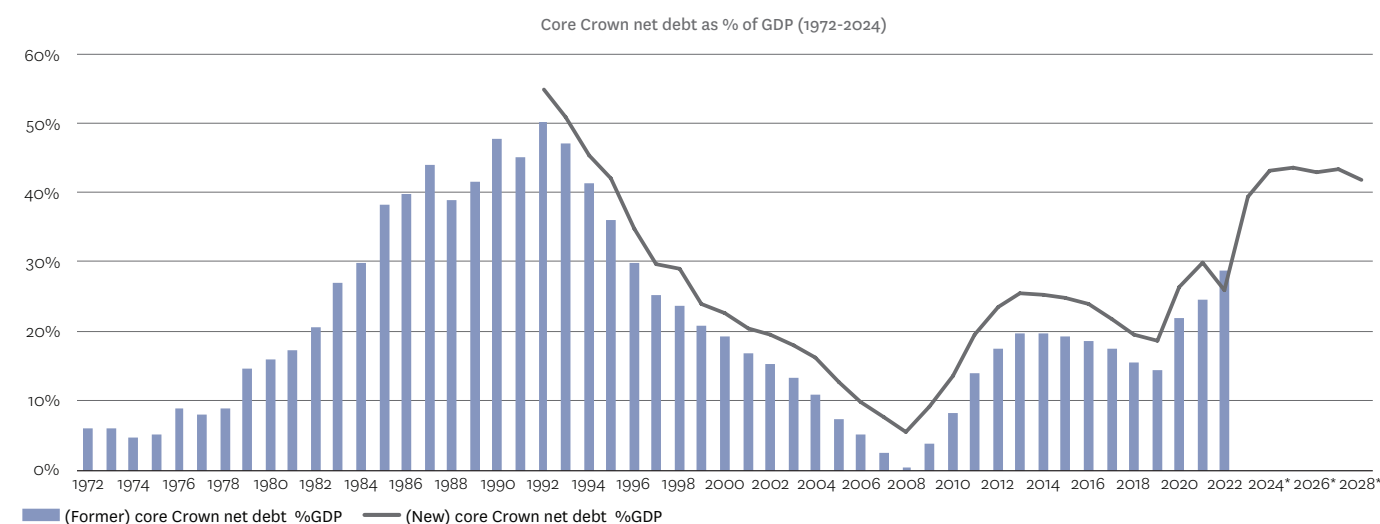
Figure 12: Declining market but increasing non-market investment spending



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.

Figure 13: The rise, fall and rise in net debt



New Zealand data reflects four distinct periods before the impact of the 2019 Covid pandemic: sustained structural deficits (mid-1970s–1990), sustained structural surpluses (1991–2008), structural deficits (2008–11) and sustained surpluses (for most of 2012–19). 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 (Figure 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.

Measured net worth has increased significantly since 1992

While there is considerable public discussion about 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 New Zealand data suggests that in 2023 central government controlled 6.8% of the New Zealand 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 (Figure 14) showed a steady improvement from –20% of GDP in 1992 to a peak of +55% in 2007/8. Net worth declined slightly with the global financial crisis, and then took a hit, falling to 27% in 2011/12 with the Canterbury earthquake sequence leading to the drawdown of the 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 in 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 (Treasury, 2022, p.37) also reports 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-19 resulted in a deterioration in this measure.

In summary, the conventional measure of net worth since 1992 suggests that for the state's role as a steward, there has been

Figure 14: Steady improvement in the Crown's balance sheet

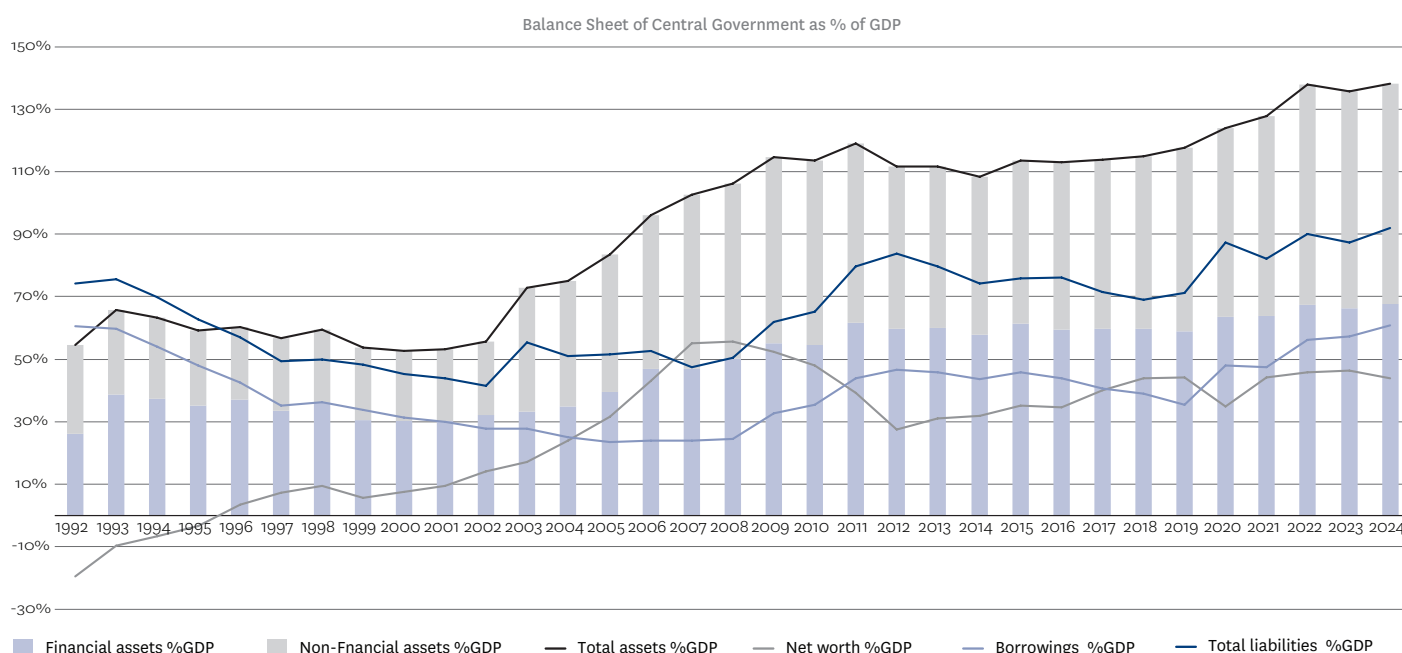
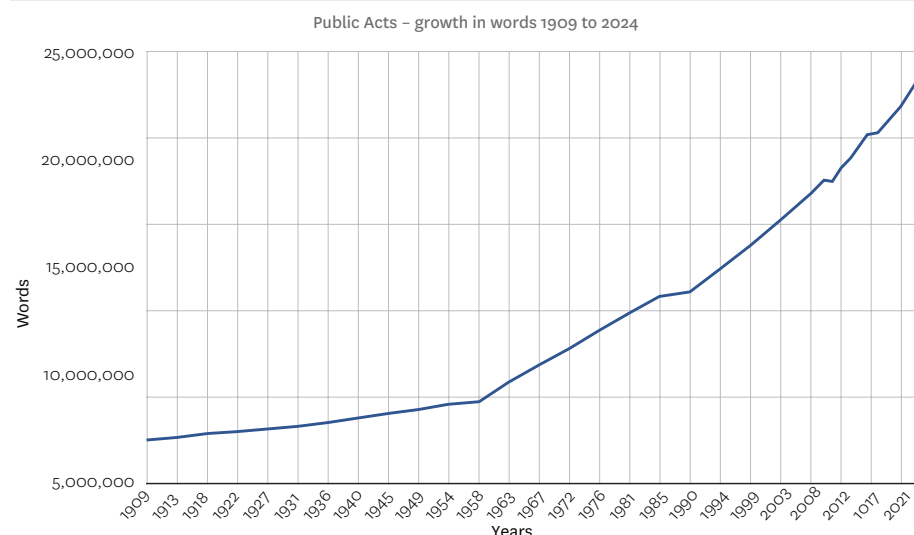


Figure 15: Consistent growth in the stock of words in the statute book



Source: Parliamentary Counsel Office Annual Report on Legislative Practices 2023–2024

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: The state as 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 February 2025 issue of *Policy Quarterly*, Gill, Shipman and Simpson 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 taken 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-1980s and 1990s led 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

Figure 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 7.5 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, Shipman and Simpson (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.

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 Figure 15 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: The 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 'neoliberal' 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 New Zealand Superannuation and the state's role as a producer of market outputs, along with the associated employment and investment – prove to be just that, exceptions rather than the rule.

Figure 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 article available since 1972. The figure 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 neoliberal 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 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-related programmes. The fiscal adjustments proposed by the new National–Act–New Zealand First administration in the 2024 Budget essentially involved partially

winding back the dramatic growth in current spending under the Ardern–Hipkins administration.

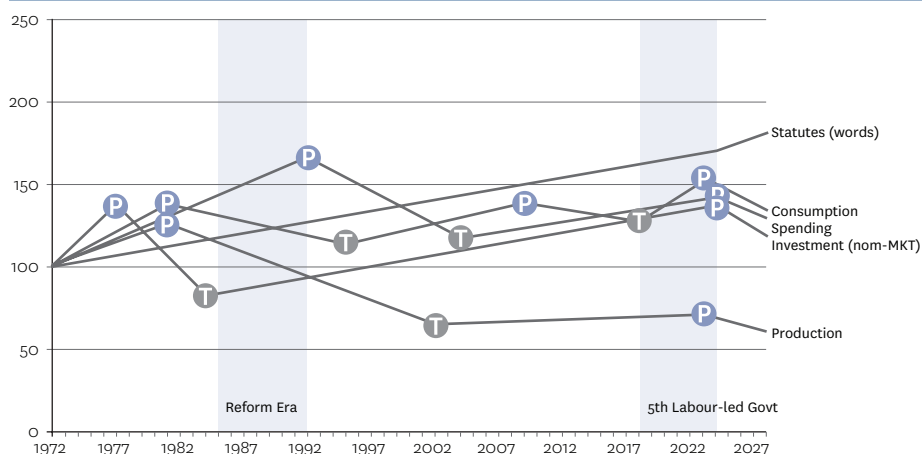
The data also suggests significant compositional changes in the state's role, leading to a changing shape of the state. For example, there have been marked shifts over time in the composition of tax revenue by source and public spending by function. Public spending has been increasingly dominated by 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.

1 <https://teara.govt.nz/en/graph/36156/defence-spending-as-a-proportion-of-estimated-gdp-1880-1971>. For WWII see chart 16 in Baker, 1962.

2 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.

3 Statistics New Zealand, in an email dated 19 December 2024, advised that the differences between recent trends in public

Figure 16: The size of the state 1972–2024, peaks (P) and troughs (T)



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'.

Acknowledgements

We thank Zaiden-lee Henri for his research assistance with the graphics and Stevie Shipman for her work on the size of the statute book. This work was supported by

the Research Trust of Victoria University of Wellington (financed by the Ministry of Business, Innovation and Employment) (grant E3553, 'The income and wellbeing inequality effects of public policy in New Zealand'). The views presented in this article are those of the individual authors and do not represent those of any particular organisation.

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