The Liberals’ Legacy: The Possibilities of Politics in Hard Economic Times

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Abstract
One of the paradoxes of the Howard era of liberal reforms is that they appear to have been partly unsuccessful. The scope of government measured by aggregate public spending has declined, in Australia, since the mid-1990s. Yet taxation, welfare state transfers and public provision have all been subject to long-term increase – since 1974, when the enthusiasm for cutbacks and altered expectations took hold. This anomaly suggests that the ‘possibilities of politics’ have not been extinguished by economic rationalism; however the resilience of the democratic impulse nonetheless coincides with the unarguable dismantlement of past institutional achievements associated with the ‘Australian settlement’, particularly the system of compulsory arbitration and centralized wage-fixation.

This paper documents and explores both sides of the implied conundrum. It notes the long-term expansion of anti-liberal, extra-market modes of governance (which Australia shares with all other rich societies). But it cautiously concludes this will not be sufficient to out-weigh the effects of the renunciation of specifically antipodean state experiments. This conclusion has implications for theoretical understandings of politics just as controversial as the divisive politics that characterized the 1996-2007 era.

This article is available in Journal of Economic and Social Policy: http://epubs.scu.edu.au/jesp/vol13/iss1/5
Introduction

Liberals are, naturally, perturbed by the rise in state activity that has characterized all advanced capitalist countries for the past hundred years. Public spending as a proportion of GDP in the wealthy countries was about 10 percent a century ago; it is now over 40 percent (the OECD average) and does not appear to be in general structural retreat. There are very few countries where the current level of public spending is lower than in 1974 when the neo-liberal celebration of government cutbacks was re-activated.\(^1\) That this phenomenon has persisted even where it has been most fiercely resisted suggests that it is a structural phenomenon. The most robust explanation for it was provided by the conservative German political economist Adolph Wagner in the 1880s. He argued that as societies become wealthier, more industrialized and more urbanized, the range of problems requiring public rather than private resolution expands more rapidly than total activity thus generating steadily rising public expenditures and taxation. Irrespective of the will of particular politicians and parties, technological, demographic and democratic pressures contribute to permanent, if unintended, shifts in the nature of politics.

Among the effects of the long-term expansion of government is that it confounds the arguments of libertarians and anarchists and adherents to public choice theory (see Hindmoor 2006). That is, increasing demand for public activity in rich societies is being matched by a steady increase in the capacity of public authority to assume, define and discharge responsibilities assigned to it. This applies equally when the mandate is only cautiously transmitted, or with low popular expectations. There is even a propensity for political institutions to evolve in directions that allow them to take on and complete tasks that were no part of their original mandate (Hodgson 2000). While there have been plenty of political failures, and attempts to politically achieve outcomes which probably should not be attempted and problems which are intractably resistant to collective resolution, the history of the twentieth century, and that includes experience in the globalization period since the mid-1970s, is one of successful development, maintenance and embellishment of state capacity. The disappointments of politics do not define politics. Though rational choice writers have attributed to politics endemic weaknesses which warrant the generic concept ‘state failure’ (embracing rent-seeking, ‘pork-barrelling’, unanticipated consequences and budget maximizing behaviour of public servants and bureaucracies), their cynicism has not been reflected in the range of functions political institutions have encompassed. Nor is it evident in the political will that is recurrently activated. Everywhere, the state does more, and more efficaciously, than it did during the heyday of Keynesianism, the mixed economy and postwar enthusiasm for state-building.

Evidence: the expanding possibilities of politics?

Since 1974 public spending has increased by more than 20 percent in the OECD as a whole (from 33 percent of GDP to 40 percent), the figure for Australia being somewhat less (from 30 percent of GDP to 34 percent). The situation is even more

\(^1\) Only Ireland, Norway and the Netherlands among OECD countries.
dramatic with respect to taxation collections; the increase is from 33 percent in the early 1970s to 38 percent now for the OECD, but from 28 percent to 35 percent for Australia (a 25 percent increase). Much was made during the 2004 federal election campaign of the Howard government having become the highest-taxing government in Australia’s history – though this can also be said of every other government in Australia’s history – and it presumably provided the motive for the extravagant taxation reduction pledges from both sides during the 2007 campaign. Importantly, however, the ‘highest ever’ taxation is not reflected in public spending – see Table 1.

Table 1 Growth of government in Australia

<table>
<thead>
<tr>
<th>Taxation receipts as percent of GDP</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Howard period</td>
<td>1996-2007</td>
<td>36.1 (12-year average)</td>
</tr>
<tr>
<td>Hawke/Keating period</td>
<td>1983-1995</td>
<td>34.8 (13-year average)</td>
</tr>
<tr>
<td>Fraser period</td>
<td>1976-1982</td>
<td>30.5 (7-year average)</td>
</tr>
<tr>
<td>Whitlam period</td>
<td>1973-1975</td>
<td>28.1 (3-year average)</td>
</tr>
<tr>
<td></td>
<td>1970-1973</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>1960</td>
<td>24.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total public spending as percent of GDP</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Howard period</td>
<td>1996-2007</td>
<td>35.2 (12-year average)</td>
</tr>
<tr>
<td>Hawke/Keating period</td>
<td>1983-1995</td>
<td>38.5 (13-year average)</td>
</tr>
<tr>
<td>Fraser period</td>
<td>1976-1982</td>
<td>34.6 (7-year average)</td>
</tr>
<tr>
<td>Whitlam period</td>
<td>1973-1975</td>
<td>31.0 (3-year average)</td>
</tr>
<tr>
<td></td>
<td>1970-1973</td>
<td>23.5</td>
</tr>
<tr>
<td></td>
<td>1960</td>
<td>21.2</td>
</tr>
</tbody>
</table>


Though Australia is not distinctive with respect to the growth of government, which may also be interpreted as a growth in the capacities of the state and political possibilities, since the beginning of the twentieth century Australia shifted from having the biggest government in spending terms in the developed world to almost the smallest (see Figures 1, 2, 3 and 4 and Tables 2 and 3).
Table 2: Size of government and taxation 2008-2009 in the OECD and selected countries – as percent of GDP

<table>
<thead>
<tr>
<th>Government Outlays</th>
<th>Taxation Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>53.3</td>
</tr>
<tr>
<td>Norway</td>
<td>58.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>52.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>52.7</td>
</tr>
<tr>
<td>UK</td>
<td>48.8</td>
</tr>
<tr>
<td>France</td>
<td>49.4</td>
</tr>
<tr>
<td>Norway</td>
<td>45.4</td>
</tr>
<tr>
<td>Germany</td>
<td>44.0</td>
</tr>
<tr>
<td>UK</td>
<td>42.4</td>
</tr>
<tr>
<td>OECD av.</td>
<td>42.2</td>
</tr>
<tr>
<td>OECD av.</td>
<td>38.1</td>
</tr>
<tr>
<td>USA</td>
<td>39.2</td>
</tr>
<tr>
<td>Australia</td>
<td>35.5</td>
</tr>
<tr>
<td>Australia</td>
<td>33.1</td>
</tr>
</tbody>
</table>


Table 2 confirms Australia as a small government nation, with both public spending and taxation receipts (all levels of government combined) below the OECD average. Even the US and Japanese governments now spend a bigger share of GDP than Australia’s. Despite a slowing in the rate of increase in most countries, there is no evidence of a general retreat from the growth of government even in the most liberal, small government nations. The steady increase in prosperity in most nations, furthermore, has not been impeded by the even steadier increase in taxation revenues, not excluding direct taxes and corporate taxation (Hobson 2003).

Some grounds exist for the following conclusions: (a) that liberalism’s efforts to roll back the state have been less effective than hoped (that is, the neo-liberal project has to some extent failed); (b) that the possibilities of politics have not been eroded in recent times (by liberal ‘reformers’ or by the exigencies of globalization); (c) that the imperatives of competition are less urgent than contemporary discourse maintains; (d) that the recent prosperity has depended on the ‘social capital’ that governments are obliged (by electoral or demographic pressure) to provide; and (e) that political and democratic arrangements are more effective than critics on the right and left have tended to assert (or, to put this last point another way, that social democratic ambitions are being realized to a far greater extent than either intellectuals or protagonists would have imagined).

Figures 1 and 2 suggest the downturn in public activity that seemed to emerge in the ’nineties has faltered, and has probably been reversed, since. Taxation revenues have behaved similarly with collections increasing more slowly than in the 1960s and 1970s (exemplifying the difficulties of politicization) but not declining (Figure 3). Liberalism in Australia has been effective in keeping the realm of politics more constricted than elsewhere. Despite recurrent and increasingly implausible claims that we are over-taxed, it is surely obvious that the much-noted shortfalls in infrastructure provision (especially with respect to water, energy, transport and health) in every state is caused by Australia’s unnecessarily low taxation. A wage earner on average weekly earnings (that is $1000 per week) pays only 22 percent in income tax, while one with
a taxable income of twice that figure ($104 000 per year) pays less than 30 percent of it directly in income tax (in 2008).

Figure 1: Growth of government 1870-2010
Public spending as percent of GDP in 7 countries with 17-country* average

The repeated budget surpluses were also senseless with a contractionary excess of revenue collections over spending during the Howard years amounting, according to recent Budget Papers, to over $50 billion – enough to have built, for example, fully-funded Very Fast Trains from Sydney to Melbourne and Sydney to Brisbane with enough left over to have boosted state health budgets in each state each year by 5 or 6 percent.²

² OECD and Treasury/ABS sources conflict on the level of public investment in Australia. It seems to be between 1 and 2 percent of GDP currently, as for most of the past thirty years. Almost $40 billion in extra revenue would be available for public infrastructure if Australian taxation were increased by about 3 percent of GDP, that is, to about the OECD average. The additional taxation impost would be less than $4000 per taxpayer per year; with Australia still a low-tax nation. OECD experience indicates that about 4.5 percent of GDP annually devoted to public infrastructure will eliminate unemployment (Boreham, Dow & Leet 1999, pp.138-139).
Figure 2: Public sector spending 1960-2010
OECD and Australia compared, percent of GDP

Figure 3: Taxation receipts 1960-2010
OECD and Australia compared, percent of GDP

Repayment of public debt, which the bond-holders did not want repaid, seems poor compensation for the wealth- and employment-generating potential of that infrastructure investment foregone during the period. Public amenities are in crisis everywhere; yet there exists profligate private consumption (often funded by private indebtedness) alongside under-investment, public decay, lack of maintenance and real
need. So taxes have increased, but not sufficiently to avert tragic and needless deficiencies in the quality of facilities which can only be provided collectively.

Table 3: Social security transfers

<table>
<thead>
<tr>
<th>Country</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>15.4</td>
<td>17.9</td>
<td>18.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Germany</td>
<td>13.1</td>
<td>16.5</td>
<td>17.8</td>
<td>18.0</td>
</tr>
<tr>
<td>France</td>
<td>14.9</td>
<td>17.0</td>
<td>18.1</td>
<td>18.0</td>
</tr>
<tr>
<td>Italy</td>
<td>13.3</td>
<td>14.7</td>
<td>16.7</td>
<td>17.0</td>
</tr>
<tr>
<td>Greece</td>
<td>7.6</td>
<td>13.5</td>
<td>15.2</td>
<td>16.8</td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
<td></td>
<td>16.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>11.0</td>
<td>16.6</td>
<td>18.9</td>
<td>16.0</td>
</tr>
<tr>
<td>Finland</td>
<td>7.5</td>
<td>13.1</td>
<td>20.0</td>
<td>15.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>12.2</td>
<td>18.0</td>
<td>16.3</td>
<td>15.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>12.0</td>
<td>18.3</td>
<td>20.7</td>
<td>15.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.8</td>
<td>10.8</td>
<td>12.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>14.7</td>
<td>15.3</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>13.2</td>
<td>12.7</td>
<td>15.7</td>
<td>13.1</td>
</tr>
<tr>
<td>UK</td>
<td>9.0</td>
<td>13.3</td>
<td>14.3</td>
<td>13.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td></td>
<td></td>
<td>11.4</td>
<td>12.8</td>
</tr>
<tr>
<td>OECD av.</td>
<td>9.3</td>
<td>12.9</td>
<td>13.2</td>
<td>12.5</td>
</tr>
</tbody>
</table>


Social security transfers, probably the most unloved of all public outlays among liberals, have increased more rapidly than other (non-social) expenditures, by more than 40 percent in the OECD countries, more than doubling in Australia since the 1970s. This shift may be counter-intuitive but it is indicative of altered public priorities, even if disparaged by policy elites. More people get more of their income in the form of transfers based on citizenship entitlements than ever before. The trend is also a century old. And, as much of it is payment to middle class and wealthy citizens in the form of family allowances and child care subsidies, demographic circumstances suggest it is likely to continue. Most social transfers are income maintenance, indicating that an increasing proportion of the population receives an increasing portion of its income in a form unrelated to its members’ productive contributions.
(see the comprehensive discussions in Castles 2004, ch.2; Castles 2007; Swank 2003; Lindert 2004, chs 1 & 2).

In Australia, as elsewhere, the welfare state is decreasingly a re-distributive state and increasingly one which provides decommodified services to citizens according to the principle of universal entitlement. Social expenditures, much higher than social security transfers, are currently over 20 percent of GDP in OECD countries (OECD 2008b; see also Fig.4).

![Social transfers 1900-2000](image)

**Figure 4** Social transfers 1900-2000

Welfare, unemployment benefits, pensions, public health & housing subsidies\(^7\) OECD countries with 21-country average* – percent of GDP

There is reason to contend that these unheralded changes in modern societies are structural, beyond the scope of deliberation and articulated political demands (see Hay 2006). Adolph Wagner would not be surprised by the fact that there is higher transfer spending and non-market provision in rich countries. This perhaps dissipates the apparent paradox that most countries spend more on social transfers than everything else.\(^3\) Tax-funded spending does not pay for defence or infrastructure or subsidies to

\(^3\) Recent federal budgets show that health and social security expenditures together account for almost 60 percent of the Commonwealth Government’s outlays.
industry in the main (see Obinger & Zohlnhöfer 2007), but for extra-market provision for people who do not really need it. This creates an egalitarian impulse. Once we add in spending on urban amenity and other aspects of public provision which also contribute to real incomes, we can appreciate that the ‘law of expanding state activity’, as Wagner called it, points to a broader phenomenon: in wealthy and complex societies, not only is more done under political auspices but the limitations that are commonly posited concerning the capacities of politics are continually being transcended.

The important intellectual point is that intense controversy persists between the major academic traditions that have attempted to account for, interpret, extrapolate from and provide the rationale for government and politics. The next section draws attention to the contrasting theoretical paradigms on the causal factors influencing the role of politics offered by Marxism and neo-Weberianism.

**Politics or markets?**

Marxism, as is well known, has long proclaimed the impotence of genuinely democratic or deliberative politics in capitalist societies by virtue of the need for the state to accede to business, the market and the imperatives of capital accumulation which is itself under undemocratic control.\(^4\) Consequently, it follows, the polity will typically succumb to liberal demands for retreat – except, arguably, during exceptional periods, such as the postwar years, when ‘class compromises’, ‘social settlements’ and similar compacts can be negotiated to secure the compliance of sectors of the populace with uncharacteristic bargaining power which might otherwise be sufficiently mobilized to threaten the stability of the system qua economy. A Fordist era of tolerance for social and political developments, even experiments, was understood to have prevailed from 1945 to 1975; but is now (since the mid-1970s) being superseded (see Jessop 2002; Jessop & Sum 2006; Boyer & Saillard 1995). By insisting that the logic of accumulation inevitably overrides the logic of democratic politics, Marxism has allowed itself to become much more pessimistic with respect to the progressive possibilities of politics than its internal analysis required (see Dow 1998). This fatalistic perspective on democracy was the analogue of liberalism’s: where liberalism maintained that the polity should not be able to assume too many responsibilities even if demanded by the polity, Marxism insisted it could not.\(^5\)

In general, the more conservative (but defiantly anti-liberal) theories of politics (especially neo-Weberian writings, commonly oriented to criticizing the conventional wisdom and political immobilism associated with globalization) have a better

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\(^4\) For a recent restatement of this position and the debate around it, see Nelson 2006. The most influential formulations derive from the Manifesto’s assertion, in 1848, that ‘The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie’.

\(^5\) An alternative Marxist position, that institutional and political and democratic criteria would increasingly be needed for sound economic performance as capitalist accumulation became more organized and less competitive, more productive and less in thrall to market modes of calculation, more monopolistic and less atomistic, more negotiated and less self-regulating, has been generally ignored by Marxist orthodoxy. The transition from markets to politics – as competing auspices for control of economic activity – has rarely been countenanced; and the implications of managed capitalism, either in the postwar years or now, have been scarcely examined from within mainstream Marxism.
purchase on the understanding of contemporary politics (see Weiss 1997; Weiss 2003; Saul 2005; Gray 1998; Reinert 2007). Arguably, though, they are too optimistic, too unwilling to anticipate the structural obstacles to politicization of the economy.

Optimism in political theory really stems from the Aristotelian tradition, which then continued through Machiavelli, Hegel, civic republicanism, Weber and modern statists (see Wolin 2004). The tradition holds that politics is our fate, that humans cannot live in the absence of collective decisions, that resolving the innumerable difficulties of political society is what makes politics a noble venture. For Machiavelli, political competences (virtù) can be deployed, and have been, to overcome the risks, uncertainties and capriciousness (fortuna) that would otherwise engulf us. Hence we build walls and armies to repel invaders, viaducts to irrigate and render habitable under-endowed areas, and arts, culture, architecture, science and learning to create skills and an ambience to tip the balance of human fate within a potentially harsh environment in the direction of civility. Hegel conceived of a state compelled to recreate stability in the face of the Enlightenment’s unleashing of private and amoral egoism. American civic republicans wanted a republic able to protect vulnerable citizens and living standards from the ravishments and excesses of unrestrained commerce. And Weber (1918), while acknowledging that politics would always be a ‘slow boring of hard boards’, hoped for the passion that would allow politically active people to ‘reach out for the impossible’, even if sober evaluation predicted little success. He was also a member (with Friedrich List, Adolph Wagner and Joseph Schumpeter) of the German ‘Historical School’ of economists who protested that economic progress (in terms of living standards for the populace, longevity for business, stability for the nation) would not be maximized by application of abstract principles such as subservience to market forces.

So contemporary conservatives are distressed by those policy-makers and institutions (especially international institutions) and doctrines which proclaim the inevitability and unstoppableness of de-politicization, de-regulation and de-democratization. They have a long record of philosophizing about how humans can control their destiny. Aware of the difficulties of creating political institutions well-fitted to particular political tasks, and the mentality required for effective politics, they are reluctant to relinquish them to precocious but inexperienced impulses. In Australia, conservatives in the National Party and in the churches seem especially sensitive to this wholly respectable tradition, at least a millennium old, of hostility to ‘progress at any price’ (see also Gray 2007).

Modern notions of state capacity, the ability of the polity to secure outcomes, according to political principles, which would not otherwise have been possible, have generally evolved from within conservative traditions of analysis. Rejecting Marxism’s refusal to embrace activist political programmes, as well as liberalism’s confidence in liberalization, neo-Weberians have re-engaged the discourse that was central to Machiavelli. Political will and morality and cleverness and national autonomy are central and should be seen as inviolable. We, members of a polity, are not only entitled, but able, to develop political principles and criteria for the initiation of public activity, despite the discursive hegemony of liberalism and the pressures of globalization. The resulting public policy necessitates the construction of dedicated institutions, including extra-parliamentary institutions with a permanent charter to develop pre-emptive policy competences, whereby outcome-oriented (not process-
driven) policy achievements and citizen entitlements can be ‘embedded’ and external pressures resisted. Such state capacity need not be particularly ‘statist’ in the sense that power or authority is wantonly ceded to the state; indeed the contemporary enthusiasm for ‘governance’ studies is a register of the extent to which governments and public authorities do not always govern alone.

Michael Mann was among the first of the neo-Weberians to articulate a modern conception of state capacity (1984; 1993, pp. 54-63). Distinguishing between the ‘despotic’ and ‘infrastructural’ power of the state, his analysis suggests that the important capacities of a polity today are not the coercive features which concern liberals but the infrastructures and institutions which allow effective law-making, taxation and administration (including the capacity to coordinate non-state actors whose legitimate activity may cause problems which the polity is called upon to resolve).

Infrastructural power has evolved throughout the past hundred years from developmental capacities (state provision of physical infrastructure) characteristic of the late nineteenth and early twentieth centuries, to the economic management capabilities associated with Keynesianism and the counter-cyclical policy interventions of the postwar period, to the more social democratic capacities (including cross-subsidization, decommodification, democratization of decision-making, and politicization of the economy that has sporadically emerged over the last fifty or sixty years). It is an unavoidable feature of the post-Enlightenment firmament that these grand themes (the struggle for and against political competence, resistance to or endorsement of market modes of governance, domestic autonomy vs undeliberated relegation to whatever status is decreed by a global division of labour) are recurrently played out. The divergence between European and Anglo-American political preferences (in contemporary parlance between liberal-market economies and social-market economies) is an instructive contemporary instance (see Judt 2005, ch.11; Pontusson 2005, ch.2).

The encounter with liberalism has become steadily more strident as this progression has unfolded. And it is a process that has been more effectively consummated in some countries than in Australia (see Boreham et al. 1999, ch.5). The renunciations of social democratic principle associated with Bob Hawke in 1984 and Kevin Rudd a quarter-century later is a testament to the resilience of liberal institutions and their stranglehold on policy.

Liberalism and anti-liberalism in Australia

The question, then, is whether what can be called the ‘possibilities of politics’ are as robust in Australia as evidence of growth of government and the state capacity writers

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6 There is a difficulty of nomenclature: many of those here labelled Weberians or neo-Weberians might resist the appellation. Some might not see themselves as conservatives (which is not here used derogatorily); some definitely resist the label statist. Other terms such as corporatist, institutionalist, communitarian, protectionist, even neo-mercantilist have been used to categorize writers who celebrate the ‘embeddedness’ of economic activity and who therefore do not celebrate flexibility or competitiveness or efficiency or rationality when something more substantively precious is lost.
suggest or if they have been extinguished by the ‘economic reforms’ of the period since 1996 (or earlier at the hands of the liberals in the Labor Party). Should, on balance, liberals be disappointed by the persistence of a growing public realm, accepting that this is not an impediment to strong economic performance? Or should they be pleased with their record – especially their successful shifting of some taxation from direct to indirect with the GST in 2000 and, more so, the unarguable dismantlement of institutional accomplishments associated with the ‘Australian settlement’, the system of compulsory industrial arbitration and centralized wage-fixation?

The answer to this conundrum obviously depends on how we evaluate arbitration. Popular discourse in 2005 presented the ‘Work Choices’ legislation as the overdue supersession of redundant, anachronistic institutional features bequeathed from the past and suited, if at all, only to an era when international competitiveness was unimportant, labour was comparatively strong and well-protected, and the state was deeply-implicated in the imperatives of national development. A hundred years after 1907, the situation had changed, so the argument went, and the polity could no longer afford to defy market rationality by giving organized labour a platform and a leverage that was never legitimate, nor to permit inflexibilities in the labour market borne of protectionist sentiment and uninnovative satisfaction with a cosseted national economy.

From this viewpoint the most desirable aspect of centralized wage-fixing is its ability to allow the transmission of productivity increases from the sectors where they were generated to everyone else (that is, through National Wage Cases and ‘flow-ons’ using the criterion of comparative wage justice). Any other basis for wage adjustments becomes cumulatively more inegalitarian and unjust. Every nation has an obligation to develop institutions which permit this (anti-liberal) capacity and the Australian solution was close to brilliant – producing one of the world’s most equal income distributions, without any detrimental impact on national performance or living standards and arguably more efficacious than similar arrangements in other countries with centralized systems like Sweden. We developed mechanisms where labour, the element in production which can never be treated on the basis of contractual parity, was able to demand that employers justify their decisions (most importantly with respect to wages but also, and imaginably, with respect to decisions concerning investment, re-investment and dis-investment) before a tribunal specifically mandated for the purpose.

Although liberal purists would insist that the constitutional provision granting Commonwealth responsibility for the prevention and settlement of industrial disputes did not warrant arbitral powers in the form that eventuated, it was an institutional arrangement with considerable, even formidable, effectiveness. No doubt the complex award structure was an inconvenience to employers, but awards were not integral to the system and, in any case, flexibility in employment is not regarded as desirable anywhere outside the blinkered purview of liberalism. Interventionists argue, too, that the rigidities cannot be held responsible for economic weakness, as the highpoint of arbitration coincided with Australian prosperity, affirming the Keynesian correlation between high (and equally-distributed) wage incomes and high levels of economic activity. And when unusual difficulties arose in the form of simultaneous unemployment and inflation, from the mid-1970s, it was the capacity of the system to
oversee a defacto incomes policy that ultimately dealt with the distributive conflicts without significant industrial or social disruption (Dow & Lafferty 2007).

Periodic campaigns for tax reductions through the 1980s appear to have bordered on the hysterical. But we are now inclined to acknowledge that low taxes in the current conjuncture have been hugely irresponsible; and we would all be more affluent, more secure and more environmentally viable if some of the abundant private purchasing power were siphoned off to the public realm (see Stretton 2005, pp. 249-255).

Liberals also claim that economic performance is the great achievement of the past twelve years, presumably based on high incomes and lower unemployment. High incomes of course somewhat fortuitously pushed Australia into the class of affluent nations, out-weighing for the moment the cascading shortfalls in public infrastructure. However not all bodies of critical analytical opinion share the liberals’ insouciance towards longer working hours and insecure (and low-quality) work and increasing inequality. At 1722 hours worked per year on average, we work almost 10 percent fewer hours than Americans, but about 10 percent more than the British, and 160 hours per year more than the Swedes (OECD 2008c, p. 353). Working hours are falling more slowly than in most other wealthy countries. We have become in the past two decades one of the most inegalitarian countries in the OECD after scoring relatively well until the late 1970s (UNDP 2007, p. 281). These are not minor blemishes on an otherwise favourable social condition; they seem to be signs of unsustainable prosperity which excessive private debt or continuing financial disruption or the end of the current minerals boom or regional decline could readily disorder.

The most worrying feature of the policy hubris of the Howard years (and earlier) concerned unemployment. To champion the ‘best unemployment figures for over thirty years’ was to admit that Australia experienced above-OECD-average unemployment for thirty years, once again without incurring liberals’ discomfort (see Table 4, col.1). Over 4 percent unemployment is still mass unemployment, particularly as it is measured more invidiously than in the 1930s. Australia has evolved a ‘mode of regulation’ which precludes deliberative policy attention to structural change or the resulting unemployment.

Table 4: Australia’s unemployment by periods

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<tr>
<td>Australia</td>
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<td>OECD</td>
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7 Despite the share for the bottom 60 percent of income earners improving during all through 1980s and 1990s – from 30.4 percent in the 1970s, to 33.0 percent in the 1980s, to 35.1 percent in the 1990s.
This poor record is largely attributable to global restructuring and a crisis in manufacturing; Australia has experienced faster industrial decline from a lower base than any other nation (OECD 2001, pp. 40-41). Furthermore this was a period of above-OECD-average economic growth, so either growth in general does not lower unemployment or it does not do so in Australia. The refusal to engineer appropriate policy responses, or the lack of state capacity in this area, is the proximate cause of the miserable record on unemployment. It is disingenuous to celebrate recent falls in unemployment when for three decades the liberal policy elite elected to not even address the problem.\(^8\) It is hardly alarmist to suppose that second and third generation unemployment creates problems that resonate and fester for generations. Sustained unemployment, too, is an indication that incomes, production and living standards in this period were lower than they could have been. On the gap between actual and potential quality of life, Australia has performed badly. Even the OECD now reckons inequality as detrimental to well-being (2006, p. 21). And the available survey evidence suggests real community discontent (Pusey & Turnbull 2005).

It is difficult accept, therefore, that economic reform led to prosperity any more than that the gleeful assault on noble institutions was honourable or necessary or desirable. Once again, we have a ‘lucky economy’, but it’s not an ‘international template’, nor an economic miracle, nor the foundation for real wealth creation. Some intractable problems remain unaddressed and we’ve lost certain capacities for transmitting wealth that we once had.

**Conclusion**

Renunciation of distinctively antipodean state experiments in recent times seems more damaging to national solidarity and future prospects than the steadily rising scope for political intervention can be a prophylactic against it. This essay has argued that political science and political economy traditions attribute growth of taxation-financed public activity and state capacity to demands that emerge inexorably from conditions in affluent societies, even when they are disparaged by forces hostile to the democratic impulse.

The financial crisis since 2007 may foreshadow an imminent re-engagement with the Keynesian and institution-building concerns that marked the optimism of the post-1945 period. But the legacy of liberalism in Australia suggests otherwise. The polity is not well-positioned (intellectually or financially) to exploit the structural conditions which render liberal priorities anachronistic.

A ‘structural maturity’ thesis seems to proffer reasons for unexpected political challenges, accomplishments and potentials. First, if we examine the advanced economies, we see that growth transforms the relation between markets and politics,

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\(^8\) Liberals err, too, on the range of policies they are prepared to accept. Reserve Bank independence presumes that interest rate policy determines many other important macroeconomic aggregates. This has been seriously disputed for many decades by Keynesians who have argued that monetary policy is worse than useless at controlling production and employment; it can only do damage, never produce an expansion in economic activity, nor be used in a counter-cyclical way. John Kenneth Galbraith once concluded that sound economic management capacities depend on reducing ‘for all time’ the use of monetary policy (1974, p. 308). He affirmed the evaluation thirty years later, denouncing the ‘sophisticated ignorance’ of modern monetary mangers (2004, p. 54).
creating more tasks for the polity and rendering private provision more trivial; growth is never purely quantitative. Growth is less essential to wealth-creation than is commonly supposed; very rich societies do not have high growth rates. Instead efforts to maintain affluence need deliberate institutional capacities (for example, those able to counter inequality and to tame to ability of finance to corrupt productive activity). In the process of resolving the problems of affluence, we find that industrial capacities and social institutions co-evolve, a phenomenon well appreciated by the classical anti-liberals. There has also emerged global excess capacity in most manufacturing and service provision, greatly complicating the political responsibility of ensuring sufficient employment. It suggests an almost inevitable change in the balance required between productive and unproductive activity (the latter including health care, hospitality and other currently unimagined forms of democratic engagement).

The real problem for liberalism, then, is that accumulation depends increasingly on regulation and the provision of social capital and public infrastructure. The Marxists were not wrong about this though it was a point made more energetically by conservatives. Political capacities evolve more slowly than technical possibilities.

It may well be concluded that there are grounds for pessimism about the future of Australia, among them the continuing divergence between our efforts and those in countries where harmful aspects of the liberal tradition are more muted. More important is the democratic deficit: elites in Australia have long defied the populace, with the result that political development still lags behind the structural requirements of affluence. Of course, all political achievement is precarious (even structures are contingent). If sedulously enough resented, the politicizing project can be thrown off course and path dependency violated. The liberals’ legacy over the past decade or two or three has been to frustrate political enlargement and to retard Australia’s economic competences too. While stimulatory gestures may be enough to give the new government an aura of renewal and purpose, infrastructure spending still seems unlikely to be lifted to levels sufficient to guarantee employment or to address past neglects. ‘Economic security’ measures may merely cloud a still-evolving incapacity to manage our destiny. Political will and appropriate political institutions are ultimately required to embed the capacities that are structurally ‘mandated’.

The close of the divisive politics, lost opportunities and ignoble public principles that marked the Howard years provides some pause to reflect on whether we want to lock in our long-standing vulnerability and inability to really influence the future. Ostensibly the chance to re-direct public policy (particularly economic policy) has now re-emerged; but continuity is more likely. The conflicts lie not only within domestic responses to liberalism but with the nature of contemporary prosperity itself.

References


OECD. 2008a, *OECD Economic Outlook*, no.84, December.


