Australia’s Position in the World-System: The Historical Adoption of Corporatist Public Policy and Australia’s Subsequent Movement between the Core and Semi-Periphery.

Clinton J. de Bruyn B.A (Hons).

Submitted for the Doctorate of Philosophy
School of Arts, Media and Culture
Faculty of Arts
Griffith University
Australia
2004
This dissertation has not been submitted to any other academic faculty within Griffith University or to any other institution of higher education in Australia or elsewhere for the purpose of gaining a Research Higher Degree qualification. All work included in this dissertation is the work of Clinton John de Bruyn B.A (Hons). Significant effort has been made to make correct references to other work included.

........................................

Clinton J. de Bruyn.
Acknowledgements

A number of people have helped me with the onerous task of constructing this thesis. While it would not be possible to note everyone who has made a contribution by name, as so many people have provided me with support and encouragement, I wish to acknowledge my gratefulness toward the following people, as it would not have been possible to complete this PhD dissertation without their help and support:

- My principal supervisor, Dr. Anthony van Fossen, for so much including his in-depth and constructive comments, his dialectic approach to fleshing out new ideas and concepts I may have overlooked, the endless drafting of sections of my thesis and his continued intellectual and moral support. Without Anthony it would be difficult to see how I, or indeed many other thesis students he has supervised, would be able to complete and submit. Having Dr. van Fossen as a supervisor was nothing short of a blessing.

- My parents, John Richard de Bruyn and Hilary Margaret de Bruyn. As well as being heavily supportive and always encouraging of my intellectual facets, they have helped me through some difficult circumstances along the way. My sincere thanks go to you both as teachers, parents and supporters of my efforts.

- Other fellow travelers along the PhD road with me, namely, Russell Brennan and Dr. Peter Apps. Both have provided me with intellectual companionship and helped maintain the development of my work.

- The advice provided to me by a number of academics including my secondary supervisors, Dr. Jacques Bierling and Dr. Sally Rickson. Their drafting and advice was critical. I must also mention Professor Wayne Hudson who has had a significant influence on me, albeit indirectly, in terms of research and teaching styles. I must also thank Professor James Galbraith from the University of Texas for his friendly and helpful comments with respect to labour-market discounting which helped me in the final edit of the thesis.

- The help of Tony McKee, the largest importer of Cuban Cigars in Queensland. Tony provided me with a love of high-quality cigars and kept me stocked with an array of them. Freud suggested, “Smoking cigars is one of the greatest and cheapest enjoyments of life – if one does not partake, I can only feel sorry”. Cigar smoking has aided my academic writing and provided me with a universal modernist experience which has kept me sane in a postmodern world, so I can only agree.

- The support of other family members throughout the years including my Grandma, Jess Fleming, and other Grandma (Oma), Joan de Bruyn.

- The support of two very important people; my late Uncle Philip de Bruyn and late Grandfather (Opa) Bob Sundermeyer. They were both highly influential in my life and they both contributed to my intellectual and personal development in so many ways. I could not have got to this point without their contribution to my life.

There are a number of very significant others who helped me and provided assistance during arduous periods; it is not necessary for me to mention your names - you know who you are.
Abstract – Corporatism and Australia’s Position in the World-system

Australia’s position in the world economy has long been a matter of debate. While mainstream economists point to relatively positive GDP figures, a high quality of life and the strong export-position of a number of valuable commodities (such as rich and plentiful mineral deposits), other theorists doubt this optimistic position. Critics point to the systemic problem with the balance of trade, a lack of industry policy, the low amounts of money dedicated to research and development (R&D), Australia’s tenuous export position in terms of commodities and the third-world percentage of medium- and high-end value-added goods manufactured in Australia for export markets. They cite an over-reliance on agricultural and mining interests as an effective continuation of the “farm and quarry” approach, and of political influence from these areas, despite attempted changes. Clearly, there is concern as to Australia’s future economic position within the world economy.

The nature of small state movement within the World-System is something which has been specifically examined and often described in terms of hegemonic linkage to a core power. This thesis attempts to synthesize two dominant theories in Political Economy, namely World-Systems Theory by Immanuel Wallerstein and Corporatist Small States Theory by Peter Katzenstein, and use these to correctly evaluate Australia’s position in the world economy. World-Systems Theory is used to correctly identify Australia’s position within the world economy while Corporatist Small States Theory analyses Australia’s movement within that same system. This is done through examining Australia’s historical position in terms of production.

From this, the following conclusion is made: that Australia has historically moved between the Core and Semi-Periphery of the system, with Australia trending toward the core and away from the Semi-Periphery during periods of corporatist governance and with the reverse occurring during periods of economic liberalism. It will be argued that Australia has tended to move between these two economic positions as a result of public policy choices and that it is currently in the latter, moving Australia away from the core.
The Thesis:

*To the degree that corporatist strategies have been employed,*

Australia’s position on the global commodity chain improves so that it moves closer to the core and further from the periphery in relation to the World-System.
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Chapter One:

Introduction

“The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all nations into civilization” – Karl Marx and Friedrich Engels (1848)

The Australian economy has traditionally focused on the maintenance of a primary product export market as a means of income in the world economy. This has specifically related to agricultural and mining product. Despite significant structural changes made to the Australian economy in the last century through the application of Deakinite Industrialisation policies, the promotion of the manufacturing sector in the post-war period and the attempts of the Hawke/Keating Labor Government to implement an industry focus with a value-added component, the Australian export market is still focused on primary product, euphemistically known as the “farm and quarry” economy.

It will be demonstrated that in the periods where corporatism displaced liberalism as the dominant form of governance and regulation in Australia (such as with the development of Arbitration and Industrialisation in the early 1900s) production patterns changed the most substantially to reflect a focus on manufacturing and other forms of secondary production. When liberalism became the dominant ideology, the reliance on primary product for export returned.
This will be considered in two main contexts. Theoretically, it will consist of an examination of World-Systems Theory outlined primarily by Immanuel Wallerstein and particularly by interpretations of corporatist Small States Theory forwarded by Peter Katzenstein. From a synthesis of these two perspectives, a qualitative and original extension to World-Systems will be developed in the doctorate for the purposes of allowing theoretical congruency with the Australian experience. Historically, the main focus will begin with Australian settlement, spanning from the late 1700s through to 2004. It will be argued that the two dominant political movements in Australian history have represented an effective battle between corporatism and liberalism, with governments of varying descriptions moving between the implementation of the two. A comparison of these two dominant positions will allow for the demonstration of movement within the World-System in Australia.

This doctoral dissertation will demonstrate that the methods and techniques used in primary production, particularly the types of product used for export production, and in providing services in Australia have low profitability in the long term due to strong international competition, the low-cost, high output orientation of much of Australia’s primary export market as well as the inherently unstable and transient value of these products in world markets. The orientation of these products will be shown to provide evidence of Australia’s relative position in the world economy through World-Systems analysis. This analysis will be used to position
Australia in an economic locus, and it will be demonstrated that Australia is on the cusp between the core and the semi-periphery of the World-System. Furthermore, this is to be based on an analysis of the types of product produced for export with particular observation on primary product and the ordering of these commodities in the world economy. Essentially, this raises questions such as - what product is produced primarily for export, to what sectors of the world economy does it go and how does this product’s position in world markets place Australia in relation to the World-System?

Much of this examination will focus on the nature of production in Australia and the location of Australia’s productive and investment processes both domestically and in the World-System as well as the various political and economic pressures keeping this system in place. The question will be asked: how does a country with the productive processes of Australia move from the semi-periphery to the core? The numerous obstacles present, including political and economic pressures and constraints, will be detailed in some depth. As it will be shown, the eventual conclusion presented here may place the reader in somewhat of a quandary: while Australia appears to be in a somewhat fortuitous material position in relation to the potentiality of providing many high-end forms of product to the rest of the world as price-making commodities (thereby suggesting an alteration in Australia’s position in relation to the World-System) there are numerous and significant obstacles to this goal.
The other important point emphasised in this thesis is that Australia has historically demonstrated movement within the World-System: it will be shown that Australia has moved between the core and semi-periphery since the early 1800s and is currently on the cusp of the core, with downward movement toward the semi-periphery evident. This will be explained through examining different areas of export product and commodity chains. Movement can be explained by interpreting changes in both export production and government policy in parallel with Peter Katzenstein's Small States Theory.

Small States Theory provides an effective explanation as to why the smaller Scandinavian and Western European states have been able to adapt to globalisation, promoting a corporatist form of social-democracy as an alternative response to world economic pressure for market liberalisation in the 1980s and 1990s. This form of analysis can be related to Australia and an effective synthesis of World-Systems and Small States Theory can explain Australia’s position in the world economy historically, while accounting for economic movement within that system.

Although World-Systems Theory, as pioneered by Immanuel Wallerstein and Terence Hopkins, will be used extensively to classify Australia’s position in terms of the world economy, many other theorists and positions will be examined, including an extensive review of relevant criticisms. Some emphasis will be given to modernisation theory and the neo-liberal adaptation of this. In this manner, a
variety of issues relating to the topic will be examined. The tripartite economic
governance adopted by many small states in Western Europe, often referred to
as social-democratic corporatism, will also be examined. The nature and purpose
of the corporatist state in Western Europe (and particularly Scandinavia) will be
compared to that of Australia.

Methodology

The methodological approach employed in this thesis may be summarized as an
interdisciplinary form of critical realism, with such an approach being implied
throughout the thesis. Although this is clear from the development of the major
and minor premises, it will be necessary to delineate the boundaries of the
various approaches taken and to identify any limitations to the thesis or to identify
circumstances under which the propositions of the hypothesis may be falsified or
amended. It is also necessary to detail the interdisciplinary methods used in the
development of this work, and to categorise this dissertation into a school of
methodological inquiry within contemporary political economy.

In this thesis, the methodological approach of critical realism is used extensively.
Critical realism is an ontological approach based on the acceptance of an
objectively knowable, mind-independent reality, whilst acknowledging the roles of
perception and cognition in this process. In a philosophical sense, primary sensory data are independent of analysis and are wholly knowable; however, secondary impressions and events are subject to considerable interpretation. This secondary impression is often categorised as the pursuit of knowledge under a critical realist methodology, with first-order sensory data relating to empirically accurate, but perceptually limited, interpretations of reality. Bhaskar (1997) prescribes a social scientific method which seeks to identify the mechanisms producing social events, but with a recognition that these are in a much greater state of flux than they are in the physical world. In particular, there must be an understanding that human agency is made possible by social structures that themselves require the reproduction of certain actions and preconditions.

Further, the individuals that inhabit these social structures are capable of consciously reflecting upon, and thereby changing, the actions that produce them - a practice that is in part facilitated by social scientific research, and which Soros refers to as a process of reflexivity between the event and analysis in the social sciences (Soros 1998).

From this viewpoint, the dissertation attempts to address a number of thematic areas from a methodologically collectivist perspective; that is, economics (and most particularly, macroeconomic theory) have not been pursued in isolation from political theory or sociology in the analysis of historical and contemporary data. Rather, these three approaches have been fused in an interdisciplinary manner to fit the conceptual structure of a realist analysis of the political
economy of Australia (and other small, developed states related to this thesis). This especially relates to the fusing of political economy and macroeconomic theory.

Critical Realism: Bhaskar and Lawson’s approach

The principal theorists to articulate the methodology of critical realism in the social sciences are Roy Bhaskar (through his seminal works, *The Philosophy of Naturalism* [1979] and *A Realist Theory of Science* [1997, 2nd Edition]) and Tony Lawson in *Economics and Reality* (1997). Both take a social realist perspective utilizing approaches which stress (1) the objective nature of exogenous facts (reality exists independently of our analysis) and therefore (2) abstract models cannot be taken as valid in themselves just because they are coherent; rather, they need to demonstrate real, manipulable, internal mechanisms that can be triggered to produce particular outcomes – theory must cohere to reality through real-world observation and experimentation. Failure to distinguish between reality and our conception of it is an epistemic fallacy.

Under this approach, reality consists of three different layers: empirical (observable by human beings), actual (existing in time and space), and real (transfactual and more enduring than our perception of it). The latter contains
structures that have powers and liabilities from which observable events emerge (Bhaskar 1997). Thus, social phenomena emerge from the deep underlying real structures, become actual, and then empirical. General understanding of these social phenomena goes in the opposite direction (from empirical -> actual -> real), which makes analysis a difficult task.

This stands in contrast to other orthodox models of methodological inquiry, particularly those of positivism and empiricism. Empiricists claim that all natural and social scientists can do is observe the relationship between cause and effect. The implication of critical realism is that study should be understood as an ongoing process in which researchers improve the concepts they use to understand the mechanisms that they study. It should not, in contrast to the claim of empiricists, be about the identification of a coincidence between a postulated “independent variable” and “dependent variable” (Lawson 1997). Positivism is also rejected due to the observation that it is possible that a social function will exist but either a) go un-activated, b) be activated, but imperceived, c) be activated, but counteracted by other mechanisms, which result in it having unpredictable effects. Thus, non-realisation of a posited (systemic) function in society cannot, in contrast to the claim of positivists, be taken to signify non-existence (1997).
Importantly, critical realism rejects the view of political science as concerned with seeking out or with testing claims formulated as empirical regularities. According to this critical realist approach, the world is structured, open and intransitive (Bhaskar 1997). The world is structured in the sense that underlying manifest phenomena at any one level are irreducible structures, powers, mechanisms and necessary relations that govern them. These structures cannot be reduced to individual manifest events, and are, in fact, collective entities. The world is open in the sense that manifest phenomena are typically governed by various countervailing mechanisms simultaneously, so that the deeper structures can rarely be examined prima facie with any degree of accuracy. The world is intransitive because the social objects and events are socially constructed, but are not determined by concepts. According to critical realist approaches to analysis, it is essential to move from “manifest” phenomena to the “deeper” or real structures and relations that govern them. The essential mode of inference required here is not inductive (particular to general) nor deductive (general to particular) but, according to Lawson, retroductive – that is, going beyond the manifest phenomena to examine deeper conditioning structures (Lawson 1996).

The critical realist model is well suited to this thesis as it provides a methodological critique which allows for an analysis of reality (which is deemed to exist objectively) while allowing a reflexive and symbiotic interaction between pure analysis and the subject which is being examined. It further supports the conceptualisation of a theory in terms of its correspondence to observed
phenomena, rather than as an abstract theoretical model which is self-contained and disconnected from reality, with a priori assumptions being unquestioned. This is why economic theory is not to be separated from other disciplines, particularly historical and sociological discourse – an analysis of Australia using pure economic modelling could subject the thesis to an epistemic fallacy. While empiricism and positivism are often concerned with evaluating rather short-term events, critical realism is better suited to understanding the longer-term structures with which this dissertation is concerned – the World-System and small state corporatism.

Wallerstein and Katzenstein – A Synthesis-based Approach

The two principal theories used in the construction of this thesis, World-Systems Theory (see Wallerstein 1974b) and Small States Theory (see Katzenstein 1985) are among the most important perspectives on longer-term structures. After considerable examination of relevant literature it was hypothesised that World-Systems Theory was useful in describing where Australia was located in the world economy (within the semi-core of the World-System, vacillating between the core and semi-periphery) and that such vacillation was related to the degree of adoption of “state-based” corporatist economic policy or liberal economic policy. It was also useful for understanding the production patterns of Australia and Australia’s economic dependence on other countries (from a geopolitical
analysis based on critical realism) rather than simply looking at aggregate figures such as GDP or export markets based only on current events and trends (as in most empirical analysis). In this manner, long-term trends and linkages based on the economic relationship between Australia and other countries could be ascertained.

World-Systems analysis rejects the artificial disciplinary boundaries, arguing instead that political science, economics, anthropology, and sociology are aspects of a unified social science (Ragan and Chirot 1984). Of particular importance to this thesis, the “progress of nations” is established as having both the possibilities of upward or downward mobility, instead of the formerly perceived unidirectional development plans suggested in other theories such as structural functionalism. World-Systems analysis also rejects the notion of the bimodality (modernity versus tradition) of the system, instead developing a new form of tri-modal development containing a core, semi-periphery, and periphery. In addition, World-Systems analysts argue that the current state of capitalism promotes exploitation through the use of broadening and deepening, resulting in a case of underdevelopment in the periphery and partial exploitation in the semi-periphery (Ragan and Chirot 1984).

The advantage in applying World-Systems theory to the Australian condition is that the methodological underpinnings of this approach are consistent with the
materialist analysis undertaken. World-Systems Theory rejects both ahistorical nomothetic and idiographic approaches to social science and claims a more holistic base, incorporating a range of disciplines including sociology, anthropology, political science and economics. Due in part to this interdisciplinary approach, the method for World-Systems Theory is described as institutional materialism, which relates to seeing human social evolution as produced by an interaction among demographic, ecological and economic forces. This allows for an evaluative macro model to be constructed, representing the major forces that have shaped a nation’s economic position since the development of capitalism. The thesis supports this underlying method of analysis, arguing that through examining the historical and material base of Australia and the institutions which have contributed to it, Australia’s position within the world economy can be ascertained and a predictive hypothesis may be advanced.

Katzenstein’s (1985) work was chosen because it was felt that the small state analysis was useful for ascertaining Australia’s development as a small core corporatist state, historically dependent on a larger hegemon. Although Katzenstein meant his analysis to apply principally to the small western European states, other theorists such as Castles (1989a) and Ramia and Wailes (2002) have explicitly drawn on this approach to test Australia’s corporatist elements and show that Australia has developed a form of small-state corporatist economic management historically. This represented the Australian state-based approach to economic policy – this thesis asserts that such an approach
consisted of vacillation between corporatism and liberalism throughout Australia’s economic history.

Much institutionalist literature tends to be more static, assuming powerful institutions are largely fixed in their position within the economy, whereas corporatism sees these powerful institutions as dynamic, due to a symbiotic relationship existing between them (Peters 2000). Dominant national institutions under corporatism are not only seen as powerful actors capable of influencing the path dependency of the economy, but of more completely composing the body (corpus) of a nation-state.

The particular consistency between World-Systems methodology and institutional methodology lies in their dual adoption of historical materialism as the basis for a theory of economic development. Historical materialism looks for the causes of developments and changes in human history in economic, technological, and most specifically, material factors, as well as the clashes of material interests among tribes, social classes and nations throughout history (Watkins 1973). It can be contrasted with other interpretations of history (such as Hegelian idealism) which attributes the causes of historical and social change primarily to manifestations of consciousness.

Critical realism combines and complements both methodologies elegantly, allowing not just observation of vacillation within the World-System through
national institutional effects (an empirical analysis) but of working out the deeper conditioning structures based on the historical development of small states (in this case, Australia) within the World-System. Most importantly, the combination of these methodologies allows for a consideration of economics in the context of human institutions, rather than abstract economic theory in isolation from the societal and political structures which are part of the economy.

In effect, World-Systems theory allows the writer to locate Australia in the World-System according to long-term export patterns, production processes and geopolitical relationships, while Small States Theory allows for an examination of Australia’s corporatist and liberal economic policy, to demonstrate movement within the world economy based on the adoption of this policy historically. This represents a synthesis of the Wallerstein-Katzenstein argument and is consistent with an evidentiary-based analysis of Australia’s position in the world economy using a critical realist methodology.

_A Predictive Hypothesis_

In the context of examining Australia’s position within the World-System and relating that to the adoption or rejection of certain economic policies, it was necessary to use a deeply historical methodology (particularly with Chapter 3).
Due to the nature of this analysis, the hypothesis advanced in the thesis is predictive, in that it goes further than verifying an implication causally (A implies B from the data set, and further extrapolation demonstrates this) and suggests a definite correlation between Australia’s position and the adoption or negation of certain economic policy (A causes B, even with a change in the distribution of information). It is more definite than “correlative causation” because even if factors in the data are removed, the effect [B] is not directly removed without removing the cause [A].

The hypothesis takes the form of an empirical generalization (A is related to B) rather than a strict proposition, although with some causality between the movement of Australia within the World-System and the cause of this movement (being the adoption or rejection of corporatist or liberal economic policy). In this sense it can be seen as propositional (A causes B) although not in a strictly positivist manner (since it contends that A tends to cause B, but not under all circumstances). Therefore, the hypothesis is predictive, but with the qualification of an established evidence-base being developed through the synthesis of two theories of political economy.

The knowledge-gap being filled by the thesis is that of Australia’s position in relation to the World-System, where it is located and why. Current theories in terms of Australia’s historical economic development explain the growth of the
primary commodities section of the economy and the development of this (see for example Gollan 1996, McQueen 1997). However, while most theories explain deindustrialisation processes and the increasing reliance on low-value commodity export over the last 25 years, they do not address the opposite – the systemic adoption of manufacturing and further value-adding of export product in Australia’s earlier history (such as in the 1870s-1890s, 1907-1918 and 1945-1975). This thesis explains such change as being a consequence of the adoption of corporatist policy during these periods and redefines Australia during these periods as being the product of “colonial corporatism” as opposed to colonial socialism.

**Definition of Corporatism**

Throughout this dissertation the term corporatism will be used extensively. Historically, the term was not directly related to the word “corporation”, but in fact is derived from the latin word *corpus*, meaning body. In the political form, the term was extracted from the medieval European ideal of the whole economy being comprised of every major group within society. It is arguable that the Catholic Church and perhaps even the Roman Empire broadly advocated such approaches toward national economic development, although labour was usually excluded from the decision-making process or “represented” by the state.
An alternative definition favoured in everyday political use is that of “corporatism” being representative of the omnipresent power of transnational corporations in a global economy. This definition posits “corporatism” as being a society in which all major decisions are taken by corporations and usually has negative connotations for government and labour in attempting to deal with the power of these monolithic corporate entities. This is an incorrect application of the term for social science purposes, but it is frequently (mis)used in political discourse, especially amongst some left-wing political groups; such a definition of corporatism will not be used here.

Although different descriptions have been historically applied, a social science approach suggests that corporatism is “the inclusion of major interest-groups within a national economy for the fulfilment of coordinated economic strategy and industrial policy” (Katzenstein 2003). It is a consensus approach designed to be economically efficient, promote structural adjustment in industry (rather than simply allowing markets to be more flexible, as with economic liberalism) and be democratic, in as far as the major interest groups have a direct influence over public policy.

More specifically, for the purposes of this thesis corporatism will be defined as:

*National industrial development and economic decision-making through tripartite negotiation between significant interest groups. These groups are*
usually represented by, but are not limited to, the state, organized labour and large business.

There is typically a series of national economic goals and interest-group trade-offs implicit in the development of such policy: although these can take a number of forms such as social, cultural, regulatory or environmental, the most immediately obvious trade-off relates to the conflict between labour and capital, with government as the arbiter. The wage-inflation trade-off is a major tenet of most corporatist countries - centralized wage arbitration systems are often utilized to provide guaranteed aggregate wage increases, usually based on real growth rates, in condition for inflation guarantees – in other words, such wage gains are considered “progressive”, but will not rise faster than production. This arguably provides incentive for labour to be more productive and for capital to be more stable, both in terms of exogenous shocks and declining aggregate demand. The other notable feature is a state with strong institutions, which usually provides incentive for business and actively involves itself in production, either through nationalization strategies or more contemporarily, through public-private partnerships. In this manner, it is perceived that the risk of production is somewhat mitigated for business and production socialized (with government participation), while the efficiency of production derived from a disciplined market approach is not badly affected (business participation). Some argue that this may even lend itself toward the gradual socialization of production, similar to the schema advanced by reformist-Marxists such as Kautsky (1919).
In a political sense, corporatism can be seen as a form of class collaboration, designed to institutionalise and mitigate the deleterious social and economic effects of class conflict in a nation-state - principally those between capital and labour. The redistributive consequences of such a system tend towards a socialist system, although historically it has been used by other political groups (including the Roman Republic and Mussolini-Hitler versions of fascism, which have utilized a limited form of state-industry corporatism). This is not to make the error of linking corporatism to fascism in a political sense; in this form, it was a rather incomplete bipartite approach between industry and the state, with forced (rather than cooperative) agreements for production and output, despite Mussolini’s proclamations. The bipartite approach to corporatism will not be considered in the thesis except as it relates to the early development of colonial Australia (and this will be called proto- or embryonic corporatism, rather than corporatism); rather, the more democratic forms of corporatism will be examined, with the tripartite nature of negotiated national economic outcomes being emphasised.

The other political consequence of corporatism is that it has often historically been institutionalised by small states during times of economic crisis, not when the economy is simply doing well. Therefore, it tends to occur in response to B-Phase declines in world economic output, using conciliation to focus on necessary economic goals and strategies during times of crisis. As the analysis will suggest, this very much relates to the small western European states since
the 1930s and in Australia’s attempts to recover from economic crises since settlement. Peter Katzenstein’s (1985, 2003) analysis of corporatism, which supports this approach in a small-states context, will be utilized extensively.

The significance of corporatism for this thesis is the altered balance of power it suggests and the implicit denotation of ongoing and cumulative problems in liberal capitalism (such as the Marxian contradiction between capital and labour) which are resolved to the extent liberalism is eroded in favour of corporatism.

*Australia’s Historical Position of Production in the World Economy*

Production and supply as they relate to Australia and the state have developed somewhat unevenly over a large period of time, with Australia largely being used as a resource base, supplying raw and unfinished agricultural and mineral product to a world market in the initial stages. This places Australia in a unique position in the World-System; as such, this form of production will be located in the World-System through a rigorous application of dependency theory. It will be demonstrated that through the historical position of Australia in the world economy, a dependent economy based on the export of primary product was produced, placing Australia near the semi-periphery. Because Australia has been
successful in profiting from low-end commodity exporting thus far, the economic reliance on primary product to ensure a core standard of living continues.

It will be shown that most core states place a focus on advanced manufacturing, providing internationally competitive value-added product for export; indeed, it can be argued this focus is a necessary precondition for securing a core state’s position. It is also necessary for the long-term survival of both an efficient economy in the World-System and a progressive, expansionist welfare state. To examine the nature of present and future types and levels of production, it is necessary to examine the production and labour patterns of the past.

Through looking at the historical construction of production and export in Australia, the current structure of the economy will be shown to be a product of colonial dependency (where Australia was reliant on Great Britain), with that transforming into political and economic dependence on the US by the 1960s.

It must be noted that this section constitutes a brief examination of production patterns and export product so as to prepare the reader for the more detailed theoretical examination of corporatist processes, which lead to movement within the World-System. This will be covered in a higher level of detail in subsequent chapters, but will form an introduction to government policy, which will be categorised in terms of World-System movement in chapter three.
Colonial Markets - 1778 to 1900

Australia’s initial development as a colony theoretically capable of significant economic production was technically based on three tenets: the legal concept of *terra nullius*; settlement of people for the purposes of relocation and utilisation of the natural resources of the country; and reliance on the United Kingdom and England in particular for the supply of capital and forced convict labour (Jackson 1977). However, between 1788 and 1820 it became difficult for the new European colony (which was largely stationed in practical terms in New South Wales at this time) to survive, particularly with a continuing influx of convict labour coming into the country and a need to deal with the responsibilities of this. It was after this time that a pattern of true economic growth, and therefore peripheral dependency, began to establish itself.

The original development of Australia as a penal colony enabled prisoners to be used as an effective source of inexpensive labour. Because of this, in the early years of settlement there was a focus on development in the Australian economy. However, the more complex manufacturing processes and resource requirements of the industrial revolution, combined with the creation of the first British and Northern European “business internationalists” (internationally focused corporations, the precursor to genuine multinationals) led to a dramatic increasing in global trade and investment, requiring a resource base and a labour force to service British interests in Australia (Fox 1991: p.24). As with most areas
of the world, British capital maintained strong controls over financial arrangements and these controls largely guided the production patterns in Australia until the late 1800s – this pattern of hegemony, although now not related specifically to British hegemony, is still evident to this day.

Significant production gains were first noted from 1820 to about 1850. With population growth being largely confined to the coastline, a diversified economy based on the production of agricultural goods for export through the ports began to emerge. This first took the shape of wool exporting, but then also came to include wheat products. Within this context, the first pastoral boom occurred in the 1820s and 1830s with high-quality merino wool exported from the grass plains of colonial New South Wales to British manufacturers in the “mother” country (Jackson 1977: p.12).

By 1858 the non-indigenous Australian population reached 1 million, and within 19 years of this, it is estimated that the number doubled, largely due to the discovery of gold in Victoria and migration from Asia as a result. The proportion of people living in the cities increased substantially compared to the settlement patterns of the entire population. This population growth can be attributed to improved agricultural technology, which allowed for fence and water conservation, an increase in the discovery of precious metals (specifically gold in the 1850s) and the increase of the economic diversity of the country at this time (Fox 1991). As a result, the country became increasingly urbanised.
Approximately one third of Australians lived in the metropolitan areas in 1881, but by 1911, almost half of the population lived in urban areas and around the city. It has been demonstrated that from 1788 to 1888, the composition of the labour market had changed considerably, moving from a labour pool consisting of convict labour (from the late 1700s) to a form of agrarian free labour (which began in the 1820s), precipitating an influx of migrant workers in the 1850s (Cochrane 1980: p.6-7).

The stable economic period between the mid-1850s up to 1880 brought about an increased complexity in urban development and housing, sophistication in financial markets, a genuine Australian relationship with the mother country as well as the emergence of a separate identity from the paternal fatherland, the United Kingdom (Jackson 1977: p.13; see also Armstrong 1998: p.12). This consciousness developed quickly and it can be argued that part of the reason for this was the significant feeling of isolation (and perhaps betrayal for not providing as much economic autonomy as hoped for) which many Australians felt towards Great Britain at this time. A second boom ensued, based again on the productive capacity for Australia to export wool. This emerged between 1860 and 1890 and culminated in a heavy capital inflow from Britain, underwriting the economic expansion in Australia up to the early 1890s (Cochrane 1980: p.11). During the 1880s, economic stability continued but the rate of growth was markedly slower than in previous decades.
It was during this time that many commentators, particularly writers outside of Australia, defined the colony as a “workingman’s paradise” (Armstrong 1998). Melbourne was nicknamed “marvelous Melbourne” and was called the “Paris of the South” (Armstrong 1998: p.9). In 1888, a major study instigated by John Norton investigated the structure of various countries in terms of the relationship between national governments, business interests and labour. It concluded that “In no other portion of the world are trades and labour organizations so numerous and effective. Australia is pre-eminently a labour state” (Norton in Bowen 1999: p.92). It was argued that labourers were able to take advantage of a marked shortage of labour and increase their wages and working conditions as compared to the comrades of their homeland. In addition to this, many spectators considered the Australian worker to be fortunate during this period - not simply because of their commitment to higher wages and the formation of unions, but also because they had a high level of class mobility which allowed them to move above their class, as well as with it (Butlin 1959: p.27). This, according to conservative historians, created the preconditions for a moderate labour movement, more concerned with their own welfare and that of their country than with the “class hatred” which had “infected” Europe; indeed, the Sydney Morning Herald described any strikes in Australia as a “ruinous war against society…destitute of any rational purpose” (Armstrong 1998: p.14). As well as the mitigation of class consciousness, this presupposed adopting a stance towards nationalist economic policies, such as preventing outside sources of cheap labour from coming into the country and devaluing the current rate of pay.
(which manifested itself in the White Australia Policy). It also included one of the historical tenets of economic policy in Australia - the support of large tariff and protection barriers to stimulate and protect domestic industry and therefore jobs. The concentration of industry was focused on the development of primary product for export. Therefore, an increase in the export of agricultural and mining product, rather than heavy manufacturing, was notable. Due to the high prices of such commodities from the 1850s to the 1880s, Australian growth and export earnings grew at a substantial rate when compared to the rest of the world - between 1861 and 1900, Australia’s GDP grew four-fold (McQueen 1986: p.3-5).

Although is it possible to attribute the concept of the “wealthy worker” to a retrospective and ultimately bourgeois-elitist viewpoint, there can be little doubt that from the 1850s till the 1890s there was a rapid and unprecedented level of wage growth. This was spurred on by an expanding British demand for raw materials, predominantly agricultural in nature but also from minerals such as gold and the relatively equal relationship between productive growth and wage increases during this time (see Butlin 1959). According to Jackson,” By the standards of the old world, Australians were well-fed, well clothed and well housed and, once these basic needs had been met, most people had indulgences of one kind or another…Australian cities were spacious, healthy, and free of extreme poverty before the 1890s“ (Jackson 1977: p.18). This circumstance would soon be challenged.
In the 1890s the 40-year boom ended and Australia faced what could have been described as one of the biggest economic crises in the country’s history. In some respects it was the first indication of the weakness of a commodity and export market based around the production and supply of raw and unfinished goods – a weakness that is still tightly interwoven into the fabric of the Australian economy today - and which is the focus of this thesis. The decline in GDP from 1890 to 1893 was, in relative terms, larger than any other country during this time period. In 1893, over half of the largest banks in Australia banks suspended their business for more than a month (Armstrong 1998: p.29-31). Average real income per capita did not return to the levels of 1880 until 1909 (Gollan 1996: p.115). This depression was compounded by the lack of success coming from strike action during this time, with the 1890-1893 defeats in the maritime, pastoral and mining strikes leading to the formation of the Labor Party by the union movement. This depression was to affect the nature of Australia, as well as to make people more aware of the realities of the economy – but it did little to change its basic structure.

_Federation Before World War II_

When Australia declared its nationhood in 1901 through the establishment of the commonwealth, internal trade restrictions between states were removed and numerous functions were awarded to the new Federal Government. The states continued to operate as parallel and separate institutions, forming conciliation
and arbitration boards as well as a wages board. Although these boards were largely modelled on overseas institutions, they were to provide an essential and uniquely Australian contribution to the relationship between capital and labour, which was the ongoing compulsory arbitration system (Buckley and Wheelwright 1988: p.215). In addition to this, the courts were not always antagonistic to wage claims; the Harvester Judgement in 1907 established a basic wage for male workers, derived from assumed family needs. It has been argued that the Harvester Judgment was a logical extension of the arbitration system, in that the system was to provide a fair and equitable rate of pay (Patmore 1991). Chapter Three will deal with these aspects in more detail.

In the early part of the 1900s production started to stabilise and the depression was over, but World War I led to another slump, with trade being restricted and resources allocated to help the commonwealth rather than to aid with economic production (Irving 1994). During the war, production declined (as did wages) and industrial relations conflict such as strikes reached new levels of intensity. The huge losses incurred from the war impacted on the quality and amount of available labour in Australia and left a deep impact on Australia’s population.

By the 1920s Australia’s level of economic development improved with industrial action settling as a consequence of the increased levels of growth during this time. It is claimed that during this period, non-primary goods were constrained because of a small domestic market and that Australia’s industry base became
more advanced. Furthermore, Australia “bore a stronger resemblance to the
industrial nations of the world than to the regions of recent settlement of the
nineteenth century” according to many observers (Sinclair in Patmore 1991: p.7)
Consumer durables manufactured domestically appeared in large numbers and
government-supervised immigration began to start. The economic nature of low-
end goods soon became apparent, with international prices for primary
commodities declining. This resulted in an unemployment rate which remained
largely at pre-war levels. The government did attempt to negate this through
providing direct support to rural settlers, but low commodity prices for such
products in world markets conspired to cause the economy to remain largely in a
stagnant position until 1939. The Great Depression (starting in late 1929) did not
affect Australia as severely as the United States according to traditional
indicators such as the decline in GDP, but the effects still made a major impact
on the lives and aspirations of most Australians, with unemployment climbing to
33% at one point (Wiseman 1998). This great slump also affected the structure of
federation, when the Bank of England demanded balanced budgets as a
precondition for giving continued assistance to Australia (1988).

Although the power of British capital declined compared to that of US capital
interests in the 1920s, the US Government was not prepared to accept an
internationalist orientation in the development of industry policy and was unwilling
to take over the British position as a global “economic policeman”; isolationism
was still seen as the preferable strategy, particularly by Republican members of
Congress (Wiseman 1998: p.27). This had an effect on Australia, in that nearly all of the states’ export-oriented productive powers were geared towards supporting and producing primary goods for the European, and particularly the British, market. Furthermore, Australia’s reliance on minerals and agricultural product continued unabated. Globally, such materials decreased in price during the interwar years as most countries pursued a more protectionist form of economic development during this time.

Labourism had an increasingly notable influence over production and distribution patterns in the 1930s and particularly during and just after World War II. A number of public works programs were instigated such as the Snowy River Scheme, which is perhaps the largest and most successful example of a project focused around innovation, new technology and education culminating to produce a high-level public work - proving that Australia did have the ability to create innovative and transformed product of scale. Unfortunately this form of technological innovation was never translated to the private or global sphere and rather than trying to produce high-quality goods for the domestic and international market, Australia continued its current production patterns with a grafted and rather inefficient domestic economy protected by tariffs (Bordow 1977: p.2). Despite the nature of this system, the post-1945 “golden age” of Keynesian expansion after the Second World War was to ensure that Australia was to become a prosperous core economy – for a time.
After the Second World War, the influence of Keynesian Economics and the desirability, if not necessity, of providing a stable international economy culminated in forty-four nations meeting in the town of Bretton Woods, New Hampshire, in the US in July 1944 for what was to be the most influential international agreement on trade and production in the post-war years – an agreement which lasted for almost three decades and whose institutions still have a large influence over the international economy today (Bray and Taylor 1989: p.20-23). The key principle of the Bretton Woods conference was to develop a way of governing the world economy so as to prevent slumps and crashes, similar to those seen in 1929 and after. International financial relationships and exchange rates were to be managed by a key number of institutions and by national governments and economic growth should be encouraged in all countries. In addition, Keynesian economic demand-management policies would be pursued nationally by all countries to curb the effects of any downturn in production and there would be a general consensus that national economic planning and government restrictions on capital, in the form of determining wage rates, taxes and in some cases prices, was not only allowable, but desirable. A number of areas of the domestic economy previously considered to be part of the private sphere were placed under state control and decommodified. The late Professor Robert Lekachman suggested that in 1945,
an event and a theory resurrected Capitalism – “the event was World War II...and the theory was Keynesian Economics” (Lekachman 1980: p. 82).

It was from this consensus that the supranational organizations of the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) were established. The World Bank was initially established to help fund the post-war reconstruction of the European economies, but the Marshall Plan largely completed this. The World Bank increasingly became one of encouraging economic development in the Third World and less industrialised countries through providing long-term loans during this period.

The IMF was established as a body to maintain the stability of international exchange rates by assisting countries having temporary problems with their current account balance and balance of payments to the World Bank through providing short-term loans. Although this was largely accepted and was not considered to be contentious during this time, the role and effect of the IMF was to change substantially during the 1980s and 1990s as it redefined itself in the context of a global economic downturn. This will be discussed in more detail later in the dissertation.

During this time, the Australian economy experienced rapid economic growth, increasing real wages and a virtual absence of unemployment. Both sides of politics committed themselves to a generally protectionist position while spending
money on public works and infrastructure development - although under Menzies there were often preferential levels of support expressed for business initiatives over state infrastructure development. Such government investment increased the range and diversity of Australia’s manufacturing base and this was facilitated by a “tariff wall” which sought to protect and encourage the manufacturing base, with Holden automobiles being the most poignant example. European immigration contributed to the labour market and allowed for expansion of key domestic industry; it also allowed for one of the largest increases in first world population growth during this time. Unemployment was comparatively very low as previously mentioned, with unemployment rates never rising above 3% at any point between 1945 and 1970. Although domestic production had changed considerably after the War, the nature of Australia’s export base was still largely unaltered. The tariff wall protected and allowed manufacturing companies to prosper domestically through the development of infant industries and protection of jobs, but it also reduced the international competitiveness of such product as all competition in terms of efficiency and quality of product was effectively domestic.

Because Australia’s fundamental pattern of export product has been based on mining and agriculture and because these raw products are subject to huge and dramatic price fluctuations in international markets, it should come as no surprise that the fortunes of the Australian economy mirrored that of the world after 1970. In the late 1960s the warning of a world recession was reflected in Australia’s
commodity markets with a continual decline in the value of such products internationally. As the postwar economic slump first occurred in late 1973 (with OPEC quadrupling their crude oil prices globally) Australia was affected by a severe economic downturn.


The political and economic pressure on the Australian Government to reduce or eliminate interventionist Keynesian policy during the late 1970s was acute and was to some degree resisted by the Fraser-led Liberal Government. Ironically, it was to be the Labor Party which would introduce the concept of microeconomic reform and “progressive competitiveness”, despite running on a moderately positioned Keynesian platform which was taken to the 1983 election by the Australian Labor Party under Bob Hawke (Goward 1994). Instead of sustaining protections and supporting small sectors domestically, the ALP reduced tariff levels in an attempt to, according to the proponents of microeconomic theory, force industry to compete, innovate and expand internationally (Button 1998). In addition, Treasurer Paul Keating announced the floating of the dollar and the deregulation of Australia’s financial markets which led to currency instability later on in the decade. In many fundamental respects, the new economic reforms was to destabilise the key assumptions upon which settlement and the Australian link
between capital and labour were founded – that is, arbitration, tariffs and a wage-
earners welfare state – although under Labor this challenge was incremental.

Through the election of the Hawke Labor administration in 1983, the economic
perspective adopted by the Federal Government was to demonstrate a marked
shift from the economic policies and direction of the past, particularly those from
1945 onward. A tripartite arrangement between the key sectors of Australian
industry as represented by the ACTU, the Government and Business was to take
place in the form of the Accord, an agreement that wages would not rise faster
than prices (and thereby negate any increase in the current level of inflationary
growth) in return for the Government’s commitment to steady wage gains, initially
in line with productivity improvements and growth rates, as well as the
implementation and increases in “social wage” programs such as Medicare
(Jaensch 1989: p.77). Trade union access to key government decision-making
processes was also granted, albeit through questionable mechanisms of
influence. Some theorists have argued that such mechanisms, including tripartite
consultative forums, were of little practical effect in allowing the trade union
movement to influence Government policy (see especially McQueen 1997).

In December 1983 the Treasurer Paul Keating successfully argued against
elements of his own party and persuaded the Government to accept the initial
floating of the Australian dollar. Although there is debate as to whether Hawke
enforced this position upon Keating or whether the Treasurer came to this
economic conclusion himself, there is little debate that it would significantly change the economic landscape and open the Australian markets to the prospect and reality of free-market deregulation (Jaensch 1989). Secretary to the Treasurer John Stone, generally considered to be “the bogeyman” to the Left of the Labor Party (due to his conservative economic views) was opposed to the deregulation of currency and said to Hawke during a briefing on the dollar, “you’ll live to regret this decision” reflecting the difference of opinion between the conservative and the monetarist analysts during this period (Stone in Goward 1994). Regardless of opposition from the left and some conservative segments of the right as to the inherent instability of the economy after such a reform, Australia had to accept the reality of economic competitiveness as well as the internationalisation of trade and monetary policy. It was to be the first reform which was to precipitate the move away from the stable economic arrangements of the past and pursue a direction of economic deregulation combined with an attempt at introducing a program of “progressive competitiveness”. This was complemented in the next two years through the removal of interest-rate ceilings for banks and the allowance of foreign lending institutions into Australia, thereby removing the banking agreement which supported the notion of the “big four” banks being pillars to the economy of Australia¹.

By 1986 the deregulated Australian economy began to experience problems which were not expected in the face of a recovery. As a result of the ongoing and

¹ The big four referred to the Bank of New South Wales (now Westpac) Bank, the National Australia Bank, the ANZ Bank and the then government-owned and operated Commonwealth Bank.
unaddressed terms of trade problems based on the structural weakness of Australia’s export goods in world markets as well as an increase in the value of goods imported and a sharp, unexpected increase in foreign debt prompted by a rise in private-sector borrowing, neo-liberal economic restructuring was accelerated rather than re-examined. This culminated in the now-famous “banana republic” statement made by Paul Keating in that year (Goward 1994). The focus of industry policy from that point was “driven by an imperative of transforming Australia from a farm and quarry [economy] into a competitive producer and exporter of high-value-added manufactured products and services” (Wiseman 1998: p.43). Unfortunately, the process of financial deregulation was more aggressively pursued than serious interventionist approaches, designed to allow the Australian manufacturing and high-end service sectors to adapt radically to this new model of export. It is questionable as to whether such progression and industry transformation is possible under a purely free-market system – but that will be argued later in the dissertation.

The Australian Government then attempted to promote the export of its product in world markets through an aggressive approach to bi- and multilateral free trade agreements designed to allow Australian product to be successfully exported. This approach started with the formation of the Cairns group and support for the freeing up of agricultural trade in the Uruguay round of GATT negotiations. A greater effort was focused on developing some form of regional trade alliance based around the Asia-Pacific region and the emerging “tiger”
economies (Hawke 1995). This culminated in the formation of the Asia Pacific Economic Co-operation forum (APEC) and subsequent successful trade negotiations (Hawke 1995, Jaensch 1989). Although the concept of forming an economic group from which preferred countries would be supported and through which such groups could better their own collective position appeared useful, insufficient attention was focused on Australia’s market position within the context of the world economy which resulted in a regional, rather than a truly internationally, export-focused approach. Furthermore, not enough importance was placed on forming national economic trading bonds based on the production of high-end and elaborately transformed and manufactured product and services. Such trade alliances were based on current patterns of production and growth in the domestic arena, not on future planning for the high-end export of manufactures and services, despite the political rhetoric.

Another step in promoting this form of global competitiveness was an extensive reform of domestic industry. Based on the dictum of neo-liberal microeconomic reform, tariff cuts were associated with key sectoral strategies for economic restructuring including that of the automotive, textile, footwear, steel and waterfront industries (Button 1998, Hawke 1995). This was designed to promote and enhance the economic competitiveness of the industry as well as increasing the quality of the product or service being offered. The criticism of this type of reform is that by abruptly reducing tariff levels, the level of domestic industry and therefore jobs would progressively and in some cases sharply be lost (Singleton
1997). Although it will be argued that progressive reduction in tariffs in conjunction with a serious interventionist approach to reorienting Australia’s economy to produce government-supported, high-end export product and services is consistent with successful economic restructuring, reductions in tariffs combined with unfettered market deregulation and lack of government support for affected industries simply led to increasing concerns over the long-term viability of many domestic industries, with many such businesses going into insolvency, subsequently increasing unemployment in these sectors.

The privatisation and commercialisation of key sectors were also pursued despite strong resistance from within the Labor Party itself and voter backlash to many such reforms. This focused on the public-sector areas of telecommunications, banking and transport and an examination of the validity of almost all industry coming under the realm of public ownership. Both Qantas and Ansett were examined in the context of free-market reform and a privatisation agenda for the state-owned Qantas was pursued (Jaensch 1989). This also happened quickly in the banking sector with the partial and then full privatisation of the key strategic financial asset of the government in the commercial and policy sphere, the Commonwealth Bank (Jaensch 1989). Some such as John Button have claimed that such policy was implemented not because the Australian Labor Party had a commitment to an unregulated privatisation agenda but because the current account deficit was becoming substantial and extra funds were needed quickly (Button 1998: p.236). The underlying assumptions on which the privatisation
agenda was based will come under review and it will be demonstrated that such an agenda is inconsistent with infrastructure development aimed at increasing the level of high-end product and services created. It will also be shown that after 1991 the newly appointed Prime Minister Paul Keating accepted this fact to some degree, although he did not take sufficient (or, some would argue, any) steps to correct it and in fact allowed it to continue, particularly after his election victory of 1993.

The union movement’s connection with the Labor Party through the Australian Council of Trade Unions (the ACTU) meant that some neo-liberal proposals were negated or at least effectively slowed, particularly in the area of tax reform and the “social wage”. However, it can also be argued that the lasting legacy of the union’s role in the development of promoting successful industry was that of unsuccessfully and somewhat half-heartedly arguing for interventionist industry policy and then grudgingly accepting most free market agreements imposed by Treasury (Button 1998). In particular, this took the shape of the Accord as mentioned above, for the purposes of controlling inflation and regulating economic growth. By the 1990s the Accord effected change which became the very antithesis of its earlier purpose: working conditions were lowered and tied at least in part to productivity increases, paving the way for neo-liberal industrial relations legislation and enterprise bargaining agreements. It will be demonstrated that for social-democratic corporatism to exist, the union movement must take an active role within government and directly contribute to,
and be integrated with, industrial and social policy, similar to the Scandinavian model.

The policy of an “active society” pursued by both Hawke and Keating when in government was both positive and negative, producing an intractable and perhaps predictable level of mixed results. Although the focus on expanding the skill levels of the unemployed (through providing them with appropriate access to educational facilities) can be considered both positive and consistent with overall corporatist principles of creating high-skill industries and jobs, the majority of labour market programs often simply focused on teaching workers how to successfully navigate and apply for jobs and how to build up their individual skill base, with little focus on the national economy, the labour market and the reality of unemployment (Singleton 1997). Motivational programs can encourage individuals to achieve more positive outcomes, but they do not change the fundamentals of the labour market.

The only continuing reform pertaining to the development of key productivity infrastructure through labour skilling was the expansion of Austudy as a social security benefit to support full-time and part-time TAFE and University Students, as well as the continuation of ALP Policy to allow broad access to university and higher education (Galligan, Roberts and Trifiletti 2001). However, despite the political support for accessible University education based on merit and supporting the development of key high-end export industries through the skilling
of the labour force, it was the Labor government who introduced the partial-deferment of tertiary education costs through the Higher Education Contribution Scheme, changing a system of free education into one of partial contribution (Wiseman 1998). It can be argued that this acted as a financial disincentive for many people wanting to enter university, particularly for those coming from lower socio-economic backgrounds.

The principle of access to high levels of education as well as the skilling and re-skilling of the population through appropriate labour market programs and support for tertiary study will be represented as being crucial to developing an appropriately skilled domestic workforce with which to support the emergence of value-added industry, particularly as this relates to IT, pharmaceuticals and science. It will also be argued that such intensive educational skilling has not been antithetical to retaining an educated populace and stemming the “brain drain” overseas, but has in fact been the long-term solution to it, when combined with appropriate infrastructure and industry changes, and provided that such infrastructure and industry changes have occurred at the same pace as educational development (United Nations Development Program 2001). However, the process of providing simple labour market programs did not provide a long-term solution as it was not integrated with the development of Australia’s emerging industries or economic situation (Button 1998).
During this time, export-oriented growth combined with a laissez-faire attitude to fiscal policy meant that most of the influx of capital funds did not go into research and development or infrastructure support, but rather into speculative financial investment represented by corporate takeovers, share purchases and other unproductive investments, often referred to as “flexible accumulation” (Harvey 1989). When the share crash of 1987 and the property crash in 1990 resulted, much of this fictitious growth was lost. The remaining infrastructure which existed from this, such as overpriced property investment of dubious value (e.g. newly-built resorts and timeshare arrangements) were greatly inflated and then often liquidated at fire sale prices (Goward 1994). The legacy of deregulation was that of significant speculative (and in some cases criminal) financial investment during the 1980s rather than a dramatic increase in infrastructure from private industry into high-end product and services. This pure market deregulation did not reform and restructure of industry to reflect increasing levels of high-quality manufactured product as well as a competitive, innovative service base. It will also be argued that the majority of industry groups who were placed in a privileged position as a result of market deregulation and the subsequent short-term accumulation of profits will resist a switch toward government-focused industry policy. Free market reform did not guide industry; rather, it made investment sporadic, chaotic and largely unproductive in the long term.

As I will detail later, the idea the Australian Labor Party presented – of supporting a highly competitive export-orientated economy with a system of social
democratic institutions grafted on top of this - paid insufficient attention to the areas of Australia’s historically corporatist-leanind industrial policy as well as neglecting the reality of the world economy. There was a continued focus on market deregulation as an indicator of efficiency and as the almost complete solution to productivity losses and decreased levels of growth in many cases (Button 1998). Although the focus on export markets was consistent with social-democratic corporatism, there was also insufficient industry policy focused on financial support for Australian product, with venture capital slumping (Haggard 1995). In many important respects, the policy of promoting export-led transformed product as industry policy by the Hawke/Keating Labor Government had a stronger base in political rhetoric than in quantifiable evidence. Although figures did show an increase in such product being produced domestically and exported internationally, the increase was proportionally small when compared to primary-based industries and as such the production of low-value commodities and raw agricultural and mineral reserves continued unabated as the main source of income for the country (Wiseman 1998).

As Peter Walsh, Minister for Finance under the Hawke Labor Government commented in an interview in 1994,

The big failure, which caught up with us in the end of course, was to get on top of the balance of payments problem which has been a chronic problem in Australia for the last
150 years…It’s not that the economy grew too fast, it’s just that it didn’t grow in the right sector (Walsh in Goward 1994 [video recording]).

This was a problem which the Liberal/National Coalition of 1996 was to attempt to redress through their aggressive pursuit of monetarist contractionary policy and neo-liberal philosophy, making the Hawke/Keating Government appear almost social-democratic and corporatist by comparison.

_Economic Rationalism under Howard_

In 1993 the Liberal/National Coalition, under the leadership of Dr. John Hewson proposed a radical program of market reforms including the reduction of corporate and personal levels of taxation (with the personal income tax component heavily favouring the wealthy, particularly in the initial draft completed before 1992), liberalisation of trade positions and associated reductions in tariffs, a more flexible agreement between labour and capital which allowed workers to “opt out” of centralised wage fixation agreements and particularly an all-encompassing consumption tax which was so similar to its New Zealand counterpart that it officially adopted the same name, being called the Goods and Services Tax or GST (‘Fightback!’ 1992 in Wiseman 1998: p.36-37). The series of reforms were known as Fightback! to the electorate and represented a significant attack on government services and the welfare state (Probert in Wiseman 1992: p.21).
The public was uncertain about such reforms. This prompted an attitude in the Liberal Party that since an electoral win was almost certain it was necessary to “go for broke”, according to Peter Costello, and introduce a complete program for the implementation of economic liberalism in Australia (Goward 1994). Awkward policy combined with Paul Keating’s statesman-like ability to “scythe” through the package and attack it on a politically effective level led to the success of the Labor Party in winning an unprecedented fifth term, securing a 13 year tenure which was considered the “sweetest victory of all...a victory for the true believers” by Keating (Keating in Goward 1994; see also Richardson 1994). It is arguable that the Australian population did not accept a free-market agenda even during difficult economic times as representing a real solution. This was the position accepted by key Liberal Party strategists after 1993 and used to great effect by John Howard three years later in the subsequent election campaign.

During the 1996 election, John Howard as leader of the Liberal Party claimed that Australians would not have to concern themselves with the social consequences of economic rationalism proposed by many in his party and that he would seek to make Australia more competitive but that this would be balanced with a social component to his policy. He stated that Australians would feel more “relaxed and comfortable” under his leadership (Quiggin 2003: p.1). Despite a well-known battle during the 1980s between himself (representing more libertarian, free-market views) and the conservative or “wet” leadership of
Andrew Peacock, most Australians seemed willing to give the Liberals and Howard a chance. It can be argued that in fact after 13 years of governance under the Australian Labor Party, few apart from a highly specialised number of academics and students in specific disciplines were aware of the full implications of electing a liberal government, oriented away from its traditional theoretical base of conservatism and geared towards unchallenged free-market reform (Singleton 1998: p.128). As Wiseman states, “many voters felt they were being offered a reassuring roast dinner and the ghost of Bob Menzies” (Wiseman 1998: p.48).

In addition to this, it can be said that John Howard as leader of the Liberal Party represented himself and his party as an essentially conservative and family-oriented party with some acknowledgement of the role of monetarism in supporting a healthy economy. Most importantly, economic liberalism was not represented as the dominant ideology of the Liberal Party platform during the election campaign; it was seen as complementary to the central goals of smaller government and what can best be described as an essentially conservative agenda put forward by the Liberals at this time (Singleton 1998: p.129). The stated platform of conservative and limited reforms was immediately forgotten after the election win and the true platform was undertaken, one based on a thorough liberalisation of the Australian economic system and essentially following the blueprint of Fightback!, although with a more cautious approach.
Economic Development

From the perspective of the economy there was to be a focus on dominant industries, the utilisation of a simple version of “competitive advantage” and a reversal of Labor’s funded programs which attempted to reorient the economy towards higher levels of production and service delivery. Microeconomic reform was to be the answer to the failings of the Australian economy; as will be demonstrated, this served to alienate progressive companies investing into research and development, and to increase the power base of the mining and agricultural industry. It also served to increase investment into the unproductive and highly speculative areas of the finance sector, again emphasising a libertarian focus on “flexible accumulation” and the “casino economy” (Harvey 1989; Chase-Dunn 1998).

The Liberal government put forward five main areas of policy development on its election in March 1996. These policy areas or “tracks” as they were known focused on greater labour market flexibility domestically and the extension and, where necessary, formulation of international free trade groups both unilaterally and bilaterally, internationally and regionally, and the loosely-stated goal of encouraging export industries through promoting free trade (Wiseman 1998). In addition to these principles, the Treasurer Peter Costello identified neo-liberalism as the dominant form of economic management in contemporary global society and argued that “the debate about alternative economic policy directions was
over” (Wiseman 1998: p.48). He stated that the focus for Australia’s economy, and for that of most of the world, was based on flexible arrangements of trade and domestic production through labour market reform, reduced government ownership through privatisation, sound fiscal policy based on continual government budget surpluses and the opening up of markets through the reduction of tariffs as well as countering prohibitive measures to free trade. In this, specific goals were advanced: bringing the budget into surplus within three years, reducing the ratio of government budget expenditure to GDP to 24% and reducing the Australian debt-to-GDP ratio from 20% to 10%. The highly disputed detection of an $8 billion “black hole” deficit left by the former Labor government provided some impetus to aggressively pursue these economic objectives (Singleton 1998).

Rather than attempting to guide capital flows and investment into certain types of technologies and production practices, the Howard Liberal government provided a number of solutions inimical to the development of such industries and instead focused on a privatisation agenda. The initial thrust of privatisation was directed at one of the government’s chief developers of telecommunications and computer technology, Telstra. Although international comparison had demonstrated that the publicly owned telecommunications provider was a world leader in many emerging technologies, particularly in the area of fibre-optics and establishing effective cellular phone networks, and that through this Telstra provided the Government with an important source of revenue for social
programs (and was making a profit of AU$1 billion a year) the partial sale of one-third of Telstra was pursued in 1997 (Wiseman 1998).

At this time, 33% of Telstra was offered for private sale through a public float with the remaining 66% in Government ownership, accepted with support from independent Senators Mal Colsten and Brian Harradine (DCTIA 2004). That goal was later revised up to a total of 49% in 1998 and one year later, another 16% was sold as a separate, share-listed “Telstra II” float, with the ultimate goal being full privatisation (Manne 2001: p.14). There was discussion with respect to the partial privatisation of Australia Post and the Australian Bureau of Statistics through managed floats on the Australian Stock Exchange (ASX) – even the ASX itself was privatised in 1998, raising concerns about the effective procedures for regulation of a body listing itself on its own exchange (Segal 2001). These moves toward demutualisation and privatisation of government services did not focus on specific recommendations regarding efficiency gains, but instead took the form of a general philosophical belief regarding the innate efficiency of privately owned businesses as compared to their public counterparts. As demonstrated empirically, such an attitude is politically specious and does not take into account modeling which shows that public provision of essential services is often more efficient than in the private sphere (for example, see de Bruyn 2000 for an extensive analysis of the efficiency of Medicare as compared to private healthcare funds).
Industry Policy and Support

Industry policy was largely guided away from interventionism as Howard attempted to reverse prior corporatist reforms which were implemented by Labor and previous governments designed to support and provide an incentive for the development of elaborately transformed manufactured product, high-end services, IT, scientific work and a productivist approach to creative development in the market. Deregulation was vigorously pursued and tax concessions for Research and Development, one of the pillars of a high-end market and a precursor to technological development of new product, was cut from 150% to 75%. Furthermore, the increase in Government support granted to R&D was reduced from the figure of 6.1% in 1995 (a figure which had remained constant from 1990) to just 1.6% the next year (Sheehan 1995: p.16). However, this was not to everyone’s liking, and a series of reports commissioned by both Government and by private industry led to the conclusions that it was necessary for the government to take a more interventionist role in economic planning. As a result, it was announced in August 1997 that Howard would “strategically intervene in industry to offset distortions and remove impediments to expansion” (Howard in Wiseman 1998: p.50). However, by November of that year, during the collapse of the Asian financial markets the government firmly rejected those same key industry recommendations, preferring instead to support a stronger free-market approach to industry policy (Singleton 1998).
It must be noted that under considerable pressure from business groups and the opposition, Howard did reverse the R&D concession back to 150% in 1999; but even if the rationale for this is not to be called into question, the Howard Government’s philosophical commitment to this scheme is.

**Education**

The concept of accessible and quality levels of education, a key component to a country being a successful producer of export based value-added goods and crucial to the supply of highly skilled labour, was severely eroded by the Liberal/National Coalition government on their election. A combination of free market beliefs relating to the provision of University education combined with attempts to increase Government revenue obtained from tertiary organisations led to the commodification of many areas of training and education, resulting in lowering University access for people from low and medium-income families.

Although some work was done in identifying learning difficulties at a primary school level (with the high-point being the Minister for Primary Education, Dr. David Kemp, implementing a number of standardised tests in state schools) it has been argued by many education and welfare groups, such as the various state Teachers’ Unions and the Australian Council Of Social Services (ACOSS), that this was largely used as an excuse to supply less, rather than more, funds to public schools through a restrictive agreement allowing private schools to receive
unqualified subsidies. Public schools had to meet a difficult and tougher set of criteria, which was not helpful given their relative lack of funds to begin with (Barns 2003).

As far as the tertiary sector was concerned, there was an immediate twin-attack on the accessibility of education: first, the Higher Education Contribution Scheme (HECS) implemented in 1989 by the Australian Labor Party was increased from a one-tiered to a three-tiered system – moving from a yearly rate of $2700 across all disciplines to a three-tiered rate of anywhere from $3300 to $5500 per year (Andrews 1997). This had the effect of penalising students who studied highly technical disciplines (such as Science and Technology, IT, and Medicine) over other courses. Furthermore, the rate of beginning HECS repayment (whereby a student would accrue a loan for their degree, payable once a certain income threshold was met) went from $30 000 to $20 701 and there were more incentives, as well as places, given to those who could repay their loans up front (DEET 1997). The looming mountain of debt accumulated by some students combined with a reduction of recurrent funds for Universities (as opposed to anticipated increases based on Howard’s election promises during 1996, with Howard himself later citing such funding as a “non-core” promise and therefore not requiring its implementation) is seen as contributing to the reduction of students enrolling in courses, particularly domestic HECS-deferred students. This led to a notable rise in overseas full fee-paying students admitted from 1998, providing a pool of students largely studying technical disciplines (such as IT, the
physical sciences and pharmaceuticals), many of whom remained in Australia and contributed their skills to the country, but this had the effect of excluding domestic students from such courses. The latest effects of this were most clearly seen in the significant shortfall in University places offered to Year-12 students during the first round of allocations in 2004 - which was itself reflective of a systemic trend toward reducing the number of offers made to students despite increasing demand. Subsequently, the number of university places provided to students has dropped by approximately 20% since 1998 (QTAC 2004). The following table illustrates the offers made mid-year to students in Queensland and the almost linear decline in places provided, with 2001 being a small exception:

**Table 1: Mid-Year Enrolments from 1998-2002**

<table>
<thead>
<tr>
<th></th>
<th>First-round offers made</th>
<th>Second-round offers</th>
<th>Third-round</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(by 7 Jun)</td>
<td>(by 14 July)</td>
<td>(18 Aug and later)</td>
<td></td>
</tr>
<tr>
<td>TOTAL MID-YEAR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>3,530</td>
<td>501</td>
<td>77</td>
<td>4,108</td>
</tr>
<tr>
<td>2002</td>
<td>3,954</td>
<td>592</td>
<td>§</td>
<td>4,546</td>
</tr>
<tr>
<td>2001</td>
<td>3,966</td>
<td>795</td>
<td>§</td>
<td>4,761</td>
</tr>
<tr>
<td>2000</td>
<td>3,626</td>
<td>694</td>
<td>§</td>
<td>4,320</td>
</tr>
<tr>
<td>1999</td>
<td>4,143</td>
<td>792</td>
<td>§</td>
<td>4,935</td>
</tr>
<tr>
<td>1998</td>
<td>4,049</td>
<td>906</td>
<td>§</td>
<td>4,955</td>
</tr>
</tbody>
</table>

**(SOURCE: QTAC 2004)** Mid-year figures were used in preference of full-year or combined total enrolment figures as they demonstrated higher levels of volatility, especially related to preference for full fee-paying students over HECS-based enrolments. However, these changes are mirrored in national averages.
Perhaps of more immediate concern was the alteration of Austudy payments to disqualify many students under the age of 25 from receiving any form of benefit at all. Prior to 1996, students over 21 years living at home (as well as students living away from home who where 18-21 years of age) were provided with a full allowance not subject to parental income. The new 1997 assessment of eligibility for Austudy support tied payments directly to family income, until such time as the student turned 25 (Singleton 1998). Because this meant that an adult from the age of 18 to 24 now had to “hope” their parents income was below $22 550 or lose most of their benefit, this had the practical effect of forcing many students out of University – and significantly increasing the workload of those who remained. In effect, most students had to stay at home and obtain part-time work, with the option to move out from all but the poorest family unit becoming financially untenable (Barns 2003).

More on these changes will be examined later in the context of providing a highly-skilled labour pool - in conjunction to a more thorough analysis, it will be demonstrated that the Federal Government’s education reforms during this period are incompatible with both a high-end productivist market culture of the type described in this thesis and historical approaches to education in Australia as a corporatist phenomena. It is equally incompatible with the values of a welfare state and points to another direction in government policy. Such reforms are indicative of the Howard-led move away from corporatist (and corporatist-
influenced) systems to liberalism as the dominant ideological underpinning of public policy.

_The Corporatist Market Economies_

An important part of this dissertation will focus on the ability for Western European corporatist economies to function in the World-System as competitive, export-oriented nation states while using the proceeds from taxation to offset distortions in the market and provide a high-level of complementary social programs. Through a comparison with the social-democratic nation states of Scandinavia and Western Europe, patterns of production, export focus, methods of administration and income distribution will be analysed and contrasted with the Australian system, particularly in terms of production and export. More comparative work will be completed in the next chapter.

From the early 1990s, laissez-faire advocates of free-market deregulation have made specific criticisms of the welfare states of Western Europe and Scandinavia, claiming that they represent an unacceptable “middle position” between socialism and the free market. This position, according to the critics, is doomed to failure due to the lack of productivity, artificially high wage rates, usurious taxation levels and burdensome government regulation (Streeck 1994). Peter Costello supported US Republican Senator Dick Armey when he said that the result of such social market policies has been “a stagnant economy,
persistent unemployment, and little incentive to further achievement” (Armey in Pontusson 1997: p.119). Armey further expands on this by saying that though the Europeans, the traditional inventors of the Welfare State, are not prepared to eliminate their mechanisms of control over social programs or financial markets completely, even they “are themselves getting on board the freedom train” (1997: p.119).

Other critics have been quick to acknowledge the equitable advantages of Western European welfare states but claim these levels of equity come at a price. Lester Thurow (1995) accepts the lack of equality in the US system when compared to the more socially generous economies of Europe, but states that social-democratic policies applied in Western Europe force the “same tectonic pressures that are producing falling wages in the United States into rising unemployment…since workers cannot be fired, they don’t have to accept real-wage reductions that are forced upon Americans…but if it is expensive or impossible to fire labour, firms will not hire” (Thurow 1995: p.36). Thurow concludes that when the market is not allowed to absorb a position of relative equilibrium with respect to profits and wages, companies will not employ new labourers, leading to a high level of unemployment, particularly for young entrants. When this is combined with generous social welfare benefits found in Scandinavia it creates a situation where the real participation rate of eligible workers can be as low as “67 per cent in Europe” (Thurow 1995: p.36). Other economists such as Saunders state that although the social-democratic system
may appear to be more egalitarian than pure free-market approaches, the
“dynamic and creative drive” inherent in the capitalistic system is being negated,
leading to a long-term drop in living conditions, even if the current level of
domestic production and profits is being equally distributed (Saunders 1994).
Saunders give the example of the material living conditions of impoverished
workers being higher in the US compared to their middle-class counterparts 100
years ago – capitalism has worked to ensure steady increases in living standards
across the class spectrum (see Goldthorpe [1984] for another examination of this
argument). He argues that as a result of economies of scale and incentive for
firms to cut prices and open up markets thus generating higher levels of market
share, there is a trickle-down effect in product, if not wages (Saunders 1994).
The lack of efficiency in a social market economy is cited as being the cause of
high and persistent unemployment, a lack of productivity and the decline in living
standards, even if it is considered to be more equitable in the short-term.

But is the microeconomic analysis of contemporary social democratic systems
correct? In a direct sense, all first-world countries (even the United States) have
a welfare state in some form, particularly in terms of some residual
unemployment benefits and some public healthcare (Garrett 1998). The
European Union seems to represent the most politicised trading bloc in the world,
with a focus not just on free trade, but on standardising social provisions and
taxation rates and accepting the concept of a moderate “welfare-union” rather
than just a welfare-state, where social benefits extend to the European Union as
a geopolitical bloc rather than being limited to the nation-state (Thurow 1995). According to Thurow, this would take political autonomy away from the nation-state, but would deliver a more unified approach to social-democratic policy across Europe – making it difficult for any other hegemonic power (including the United States) to challenge these policies (Thurow 1995). The European Union as an economic and political force can be seen to represent the most consistent and effective grouping of nation-states in the world, being far more integrated and coordinated than other more limited free-market groups, such as NAFTA or APEC. “Fortress Europe”, contrary to what many US economists have said, has not only survived – it has demonstrated renewed potential to challenge other sections of the world economy (Taylor 2002).

Examining individual nation-states in Europe provides a picture which is counter to the arguments asserted by neo-liberal theorists: available statistical data, including GDP figures and employment rates show the social-democratic states in Europe to be largely competitive, profitable and able to sell their goods as “price-making” on world markets (Chase-Dunn 1998). Consider the following macroeconomic figures of the core European corporatist states as compared to the more liberal-oriented non-corporatist countries:

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2 Thurow (1995) argues the EU has been more successful than APEC and NAFTA due to its articulation of a unified political vision which allows greater coherence in the application of macroeconomic policy.
Table 2: Corporatist and Liberal GDP and Industrial Growth Rate

**Comparison: 2003**

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment</th>
<th>GDP (p/c)</th>
<th>Industrial Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Corporatist States:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>4.8%</td>
<td>$27900</td>
<td>3.8%</td>
</tr>
<tr>
<td>Denmark</td>
<td>5.1%</td>
<td>$28900</td>
<td>1.4%</td>
</tr>
<tr>
<td>Finland</td>
<td>8.5%</td>
<td>$25800</td>
<td>5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3%</td>
<td>$27200</td>
<td>0%</td>
</tr>
<tr>
<td>Norway</td>
<td>3.9%</td>
<td>$33000</td>
<td>1.2%</td>
</tr>
<tr>
<td>Sweden</td>
<td>4%</td>
<td>$26000</td>
<td>0.9%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.9%</td>
<td>$32000</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Core Liberal states:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>6.3%</td>
<td>$26000</td>
<td>4.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>7.6%</td>
<td>$29300</td>
<td>2.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.2%</td>
<td>$25500</td>
<td>-3.4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.3%*</td>
<td>$20100</td>
<td>3%</td>
</tr>
<tr>
<td>United States</td>
<td>5.8%</td>
<td>$36300</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

(Source: CIA 2002)

* New Zealand is arguably moving toward corporatism since the election of a Labour/Progressive coalition in 1999 but is still considered economically “liberal” as of 2005

As these figures demonstrate, contemporary core corporatist countries are competitive in world markets with relatively low rates of unemployment and healthy GDP figures. More importantly, none of these countries experienced negative industrial growth, a statistic which plagued non-corporatist core states such as the United Kingdom and even the United States (CIA 2002).

Another criticism made with respect to the viability of corporatist modes of production relates to the assertion that trade efficiency will be compromised, because government-supported industries will be inefficient. It is argued that this
will occur because such corporations will become government-focused rather than market-focused in their output, and will therefore be uncompetitive in international markets. This will particularly affect the European nation-states which will suffer considerable balance of payments problems as a result. This supports the argument that corporatism provides levels of “covert protectionism” to industry, albeit indirectly and in a complex manner. The principal problem with this neoliberal argument is that, just like the assertion relating to high unemployment, such a position runs counter to available data: the only social-democratic corporatist state which has not been running a consistent balance of payments surplus since 1999 is Iceland, while almost all of the developed liberal democratic economies have experienced consistent deficits. Consider the following table illustrating balance of payment figures as of 2003:
Table 3: Corporatist and Non-Corporatist Balance of Payments
year ending 2003

<table>
<thead>
<tr>
<th>Country</th>
<th>Balance of Payments on Current Account (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporatist:</strong></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.2%</td>
</tr>
<tr>
<td>Finland</td>
<td>5.5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.6%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9.5%*</td>
</tr>
<tr>
<td>Norway</td>
<td>12.8%</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.8%</td>
</tr>
<tr>
<td>Austria</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Iceland</td>
<td>-5.6%</td>
</tr>
<tr>
<td><strong>Non-Corporatist:</strong></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>-4.9%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Australia</td>
<td>-6.0%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.1%</td>
</tr>
<tr>
<td>Euro Area (Total)</td>
<td>0.6%</td>
</tr>
<tr>
<td>Advanced Economies (Total)</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

* This can be arguably anomalous, based on Switzerland’s status as a tax-haven. (IMF 2004)

It can be observed that according to the International Monetary Fund’s own figures, the balance of payments problem tends to occur in the developed liberal economies; with the exception of Iceland (which is an island-state and therefore requires constant imports to maintain a high standard of living for its small population). Austria is the only developed corporatist economy with a negative balance-of-payments figure, and this is only in the order of -0.1% (with this figure being +0.3% in 2002). In contrast, all of the developed liberal economies have
experienced high negative figures, with Canada being the sole exception.

Considering the weighting placed on such indicators by the IMF, it appears that their own policy prescriptions are not having the intended effect; countries who have adopted liberalisation policies and focused on “comparative advantage” in order to focus export production have demonstrated consistently higher balance of payments deficits than the social democratic corporatist states.

Despite claims that the European and Scandinavian welfare states will “wither away” or lose their productive edge in world markets, this simply is not observable empirically (Pontusson 1997: p.119-121; also, see IMF 2004: Table 26). As an example, the core countries that have successfully run a twin balance-of-payments and trade surplus all come from Western Europe, with the exclusion of Japan. Another criticism is that unemployment is high in the Scandinavian states due to low productivity and restrictive employment policies, but this is again counterfactual: with the exception of Finland, all of the Scandinavian countries have unemployment running lower than 6% as of 2002, with Norway’s figures consistently lower than 3% (Oberg 2002). Combined with large wage disparities between US and Western European workers and generous social programs not found in the Anglo-Saxon states, the corporatist states of Western Europe appear to produce a mix of highly competitive export-driven product and social programs. Even the CIA admitted this when it stated in its CIA World Report that the Nordic countries had an “enviable mix of efficient export production and comprehensive welfare provisions” (CIA 2002: p.2).
But how is it possible that these states effectively ignore many tenets of monetarist prescriptions, allowing only some restructuring to their respective welfare states and wage arbitration systems, and still have a competitive economy by world standards despite disobeying economic orthodoxy? It will be argued that properly targeted industry policy supports the production of elaborately manufactured and transformed product and services for export. This includes “structural adjustment” programs, reskilling of labour and government-led industry support packages, resulting in more profitable export-oriented production being pursued as compared to other countries - and quicker Government responses to economic crises in world markets (Katzenstein 1984, 1985, 2003).

**Historical Production in the European Welfare States**

It is necessary to recognise that the corporatist economies of Europe are a product of their original patterns of industrialisation from the late 1800s to the 1920s and were influenced by the social reality of a more communal, as opposed to an individualist, approach to life. Compared to Great Britain and the United States, such economies were based on agrarian production before the birth of the Industrial Revolution, thus the process of concentration and centralisation of capital was less pronounced. As an example, most of Scandinavia had significant population dispersion amongst the largely rural economies in the 1800s, causing
a certain amount of decentralisation and a focus on community interests.

Private capital was less concentrated in specific areas and less capable of being directed towards industrialisation – further, when manufacturing did begin in the mid-to-late 19th century, centralisation of production was only moderate compared to Great Britain, with 75% of males still working outside the major cities by 1900 (Wiseman 1998: p.121). The late development of manufacturing combined with a gradualist movement in the development of Germany, France and most other Western European countries, equity markets and private investment were far less important than the role of banks, which played an important (and continue to play an understated) role in directing savings and capital flows through engaging in long-term loans designed to finance and stimulate industry. With the exception of the Netherlands, this pattern of investment is applicable to most of the Western Europe social market economies, with many banks taking an active interest and pursuing a directing role in the development of high-level industry (at least in terms of forward planning) rather than allowing equity markets to dictate production (Peter-Martin 1995). It has been argued that a combination of this and significant government regulation over industry has led Western European capitalism to be more “organised” or “coordinated” as compared to its Anglo-Saxon neighbours. It is a form of capitalism whereby investment can be guided in the national interest, rather than purely in terms of profit motives for the concerned participants (1995: p.123).
After World War II, an acceptance of the Bretton Woods agreement and demand-management policies taken from Keynesian economics led to a successful combination of high growth, full employment and state welfare in the developed world. The problem of achieving price stability and checking inflation under conditions of labour demand and increasing real wages led to more centralised forms of wage bargaining being adopted (Schwartz 1994). In Scandinavia, unions and employees jointly agreed to economy-wide arrangements related to wages and conditions during the 1950s. Most post-war governments in the Nordic region progressed beyond social welfare reform to enact various legislative measures designed to integrate employees and unions into the decision-making process of production. This included appointing union representatives to policy positions within the executive wing of government, state control and integration of the economy (through democratically elected governments) and formal input from union groups to government with respect to labour market policy (Thurow 1995). Unlike Japan, this was and largely still is integrated through a process of co-determination laws and civil service activism. Because this framework is relatively independent and is enacted through parliament, labour was given a more independent role in this process than labour in Japan. This system of a restricted “collectivist” market economy combined with union participation and significant government intervention and support, all in the context of a post-war/modernist/Keynesian world economy, was highly effective and relatively unchallenged in regards to its efficiency until the late 1960s. The world slump of 1973/74 altered economic choices and responses and it is
instructive to see how the Scandinavian and small Western European states dealt with the changes in the world economy.

*The World Economic Crisis in Social Europe*

After the mid-1970s it became increasingly clear that there was a persistent and continuous world crisis (as opposed to a temporal downturn) in the world economy and that Keynesian counter-cyclical policy did not appear effective in negating this, at least at the nation-state level (Schwartz 1994). This crisis ensured that only certain goods and services were being rapidly absorbed into the world economy – there was a general production glut. A host of economic formulae used by Keynesians (particularly the Philips Curve) failed to respond and the Aggregate Demand-Aggregate Supply (AD-AS) function so prized by Keynesian economists in promoting macroeconomic stability increasingly shifted from the national to the global market, thereby reducing the effects of nationally-based Keynesian interventionism, at least in its traditional form. While the Anglo-Saxon countries adopted neo-liberal solutions based on microeconomic reform as an alternative to previous post-war policies (and in most cases continue to apply these) the Scandinavian and European market economies chose a different track – sustaining their welfare states and creating new forms of growth through export-competitive, high-level product and government-supported structural adjustment programs (Katzenstein 1985). This was a case of small states using corporatist responses to the world economic crisis.
During this time, most developed Anglo-Saxon countries began to move away from a theoretical acceptance of Keynesian orthodoxy towards monetarism, a specific form of economic policy closely linked to liberalism and spawning from the Chicago School of Economics based on the writings of Milton Friedman. In response of this economic crisis, most Anglo-Saxon governments (such as the United States, Britain, Australia and New Zealand) adopted this new economic doctrine by the early 1980s while a number of small states in Western Europe generally responded with a corporatist, rather than a liberal, approach to systemic crisis (Katzenstein 1985, 2003). As a result, the Scandinavian welfare states did not alter their welfare philosophy radically but used other techniques to deal with the global crisis. This included macroeconomic responses such as successive devaluations of currency to make product more export-competitive, as opposed to lowering national expenses through reducing labour costs and government spending. This allowed three of the four major Scandinavian welfare states (namely, Sweden, Norway and Finland) to maintain reasonably low levels of unemployment and national levels of debt while actually expanding welfare state entitlements during most of the 1980s (Stephens 1996: p.33). Only Denmark appeared as an exception to this, with uncharacteristically high unemployment levels fuelling neo-liberal criticism. By 1993, all three countries experienced historically unprecedented levels of unemployment coupled with increasing debt levels. Despite claims by right-wing commentators that this was the end result of an inefficient and bloated corporatist welfare state, such high
unemployment figures and large amounts of public debt coincided with a brief period of implementation of neo-liberal reforms during the early 1990s. Once these were abandoned, employment began to stabilise and the twin deficits were reduced, moving into surplus (Olsson 2003).

The economic difficulties that Sweden experienced in the 1990s have been widely cited as evidence that globalisation has removed the option for distinctive national economic policy – certainly, the problems experienced by Sweden were more acute than in other small states (such as Norway) and this is therefore cited as an example of the failure of “alternative economic policy” in a globalised market (Thurow 1995). In truth, the example of Sweden demonstrates what can happen to a small corporatist state if microeconomic changes are suddenly implemented – as happened in the early 1990s. The relatively high levels of unemployment directly correlated with the partial adoption of liberal economic policy, and subsided when a return to corporatist mechanisms ensued in the late 1990s, with unemployment being lowered to about 5% (Blyth 2003: p.263).

A further examination of the small state policies of the small Western European economies will be provided in Chapter Two. However, an introductory examination of the Scandinavian welfare states is useful to provide comparison to Australia, with Sweden being a useful test case. A brief explanation of the Swedish welfare state model and corporatist response to the world economic crisis in the 1980s and 1990s will now be given.
An Example of Crisis in the Corporatist Welfare States: Sweden

Previous to the world economic slump which began around Christmas 1973, there was an effective tripartite relationship between the employers’ association, representing the pursuit of international productivity and domestic profits, centralised labour unions and the government. Initially, the employers’ association attempted to defeat the union movement in the early 1900s. When this failed, it attempted to limit labour’s political influence; and when this also failed, it acted to preserve private ownership and employers’ prerogatives as well as private sector control over investment. The labour movement, represented by the LO, was widespread and well established after World War II. The government, initially constituting a coalition of conservative partners but largely consisting of Social Democratic governance by the 1930s, took direct control over many aspects of the market system.

Under this system, the centralised agreement between capital, labour and government was accepted (though often renegotiated) until 1991, when the SAF (Swedish Employers Federation) withdrew from all negotiations with the LO and government, citing a willingness to follow a more free-market path. However, previous to the 1970s a strong export-led economy guaranteed compliance from all sectors of the economy and steady increases in profits. After the first economic shocks in the mid-1970s, the Swedish government was forced to
review its position on economic and social policy – but unlike Australia, the Government did not revoke large portions of social citizenship rights or create a process for the free flow of capital. Economic control and stability were largely retained, though some moderate cutbacks to government expenditure were enacted.

Prior to examination of the 1973/74 economic slump, and subsequent factors which placed Swedish Corporatism in jeopardy (if not “crisis” as often asserted) an understanding of the development of the Swedish system must be provided. Ernst Wigforss, the Finance Minister from 1932-1949 was a Marxist revisionist and social democrat who put in place the political arrangements governing the SAF-LO (capital-labour) arbitration processes (Coronel 2002: p.3). In 1951 two economists, Gösta Rhen and Rudolf Meidner from the Swedish Confederation of Trade Unions (LO) provided a formal postwar economic system for corporatism. In a paper titled “Trade Unions and Full Employment” presented at the LO Congress, Rhen and Meidner laid out what was to be Sweden’s post-war strategic management of the capitalist economy, with the goals being defined as maintenance of full employment and economic equality (2002: p.4-5). Meidner later claimed that this system did not actually equate to consensus between economic actors, but rather, recognition of unbridgeable class-based differences leading to a formal structure for decision-making (2002: p.6). While perhaps valid during the early stages of implementation, many political scientists claim that the initial SAF-LO system developed into a trust-based form of consensus by
the late 1960s. This transformation was arguably based on the dominance of the model, an expansion of the arbitration processes and favourable economic circumstances over this period (see Katzenstein 1985 and Olsson 2003).

As with the other Scandinavian countries, the Swedish government initially treated the 1973/74 world economic crisis as temporary phenomenon and reacted through standard Keynesian counter-cyclical measures. As economic and social difficulties continued in spite of Keynesian macroeconomic policy being implemented, a coalition of conservative coalition parties took power in 1976 and reacted through a combination of restrictive and expansive fiscal policy. Although this was the first thread of liberalism to be attempted, it was largely seen as “fumbling” at the time, because it resulted in the adoption of short-term economic policy, which was not successful and was seen as conflictual (Mjoset and Wallerstein 1993). To halt the decline in employment rates, the government nationalised failing industries and provided subsidies to others. Finally, by 1980, some modest restrictions on entitlements were proposed and implemented including reduction of compensatory payments for part-time pensions and introducing one waiting day for sick pay (Marklund 1988: p.44).

In the 1982 Swedish elections a major revolt ensued against the “sick pay waiting day” implemented in 1980 and this brought the Social Democrats back to power, demonstrating the wide public support for a fully comprehensive and universal welfare system encapsulating the full range of social citizenship rights. The new
social democratic government responded with social policy, but realised that certain systemic changes in policy were necessary to deal with a globalised economy in crisis (Stephens 1996: p.41-43). A report commissioned by the Social Democratic government and containing leading Social Democratic economists confirmed that although neo-liberal policy could be, in effect, “fought against” in a global context, public expenditure as a percentage of GDP could not be expanded – therefore, any further expansion of the welfare state would have to be financed by other budget cuts, resulting in an undesirable “zero-sum game” amongst government services and payments, or through increased levels of economic growth (Plough in Kautto 1999: p.92). In reality, the Social Democratic Government reduced spending as a percentage of GDP in the 1980s while introducing new welfare reforms and providing a general deregulatory impetus in the finance sector, as well as partially privatising some state enterprises and directing all publicly owned companies to make profitability their main priority.

Liabilities as a proportion of GDP increased significantly over this period, particularly those relating to non-financial corporations, which significantly contributed to private debt and the overall proportion of liability. By 1983 the Swedish government attempted to reduce its own liabilities considerably, but did not have great success immediately.

Consider the following table as it relates to corporate and government liabilities as a proportion of GDP during the period under consideration:
# Table 4: Liabilities as percentage of GDP – Sweden

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-financial Corporations</th>
<th>General Govt. liabilities</th>
<th>Household liability</th>
<th>TOTAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>82.1</td>
<td>61.3</td>
<td>56.8</td>
<td>200.3</td>
</tr>
<tr>
<td>2001</td>
<td>85.8</td>
<td>60.5</td>
<td>54.5</td>
<td>200.8</td>
</tr>
<tr>
<td>2000</td>
<td>79.5</td>
<td>70.4</td>
<td>51.8</td>
<td>201.6</td>
</tr>
<tr>
<td>1999</td>
<td>75.7</td>
<td>77.8</td>
<td>50.0</td>
<td>203.5</td>
</tr>
<tr>
<td>1998</td>
<td>74.5</td>
<td>90.4</td>
<td>48.5</td>
<td>213.4</td>
</tr>
<tr>
<td>1997</td>
<td>73.0</td>
<td>91.6</td>
<td>47.7</td>
<td>212.3</td>
</tr>
<tr>
<td>1996</td>
<td>70.5</td>
<td>94.5</td>
<td>46.8</td>
<td>211.8</td>
</tr>
<tr>
<td>1995</td>
<td>76.2</td>
<td>90.2</td>
<td>49.7</td>
<td>216.1</td>
</tr>
<tr>
<td>1994</td>
<td>82.6</td>
<td>90.4</td>
<td>53.8</td>
<td>226.8</td>
</tr>
<tr>
<td>1993</td>
<td>95.8</td>
<td>86.1</td>
<td>57.5</td>
<td>239.4</td>
</tr>
<tr>
<td>1992</td>
<td>101.1</td>
<td>77.4</td>
<td>58.3</td>
<td>236.7</td>
</tr>
<tr>
<td>1991</td>
<td>94.1</td>
<td>58.1</td>
<td>58.9</td>
<td>211.1</td>
</tr>
<tr>
<td>1990</td>
<td>97.3</td>
<td>49.2</td>
<td>62.9</td>
<td>209.4</td>
</tr>
<tr>
<td>1989</td>
<td>90.8</td>
<td>52.2</td>
<td>65.7</td>
<td>208.8</td>
</tr>
<tr>
<td>1988</td>
<td>81.7</td>
<td>59.4</td>
<td>66.8</td>
<td>207.9</td>
</tr>
<tr>
<td>1987</td>
<td>75.7</td>
<td>65.5</td>
<td>60.6</td>
<td>201.7</td>
</tr>
<tr>
<td>1986</td>
<td>70.8</td>
<td>72.2</td>
<td>57.5</td>
<td>200.6</td>
</tr>
<tr>
<td>1985</td>
<td>66.1</td>
<td>74.7</td>
<td>52.4</td>
<td>193.2</td>
</tr>
<tr>
<td>1984</td>
<td>64.5</td>
<td>76.0</td>
<td>52.9</td>
<td>193.4</td>
</tr>
<tr>
<td>1983</td>
<td>63.4</td>
<td>74.6</td>
<td>53.6</td>
<td>191.6</td>
</tr>
<tr>
<td>1982</td>
<td>62.9</td>
<td>70.8</td>
<td>54.9</td>
<td>188.6</td>
</tr>
</tbody>
</table>
It can be seen that while government liability as a proportion of GDP was relatively moderate for most of the 1970s, this figure increased from 33.4% in 1976 to 51.5% in 1980. It subsequently skyrocketed to 70.8% in 1982 and remained around 70%-76% until 1987, when it appeared to be reducing dramatically. Non-financial corporations’ liability continued to climb and has not abated.

Although some small cuts were being made to the Scandinavian welfare state in the early 1980s, welfare programs generally remained intact and it was considered politically and philosophically incorrect to change the ethos of “continual progression”, or progressive welfare implementation. Therefore, a new economic policy was necessary to guarantee economic growth through increasing the profitability, or at least the export-competitiveness, of Swedish product in global markets to finance this. Because export markets had always

<table>
<thead>
<tr>
<th>Year</th>
<th>Gov. Liability</th>
<th>Corp. Liability</th>
<th>Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>60.8</td>
<td>53.3</td>
<td>175.0</td>
</tr>
<tr>
<td>1980</td>
<td>59.2</td>
<td>52.5</td>
<td>163.2</td>
</tr>
<tr>
<td>1979</td>
<td>60.7</td>
<td>52.7</td>
<td>159.3</td>
</tr>
<tr>
<td>1978</td>
<td>61.8</td>
<td>51.4</td>
<td>154.2</td>
</tr>
<tr>
<td>1977</td>
<td>63.8</td>
<td>50.1</td>
<td>149.9</td>
</tr>
<tr>
<td>1976</td>
<td>61.5</td>
<td>48.2</td>
<td>143.1</td>
</tr>
<tr>
<td>1975</td>
<td>56.8</td>
<td>51.4</td>
<td>143.2</td>
</tr>
</tbody>
</table>

Compiled from Statistics Sweden (ENS95 and SNA68 figures)
(source: Statistics Sweden 2004)
been a high priority to the Scandinavian market economies, there was no major problem in promoting profitable export-oriented production (a position very different to that of Australia). Although wage restraint was pursued, this was still not effective in increasing growth rates substantially, but did contribute to lowering inflation rates. Therefore, a new macroeconomic policy was adopted – an aggressive devaluation of the Krona was assumed, resulting in a 26% reduction in the value of it by late 1984 and simultaneously increasing the export and price competitiveness of Swedish goods – an ironic social democratic adaptation of liberal economic policy imposed on developing nations by the IMF during this period (Naylor 1994). Due to the relative success of this policy, the Social Democratic party enjoyed popular support for its “third road” policy, utilising a significant variation of Keynesian Macroeconomic policy and expanding the welfare state (Feldt 1991: p.44).

As a result of their success, the Social Democratic Party won the 1985 elections and by 1988 the “third road” of economic policy appeared to be on first glance a complete success. The budget deficits which were at 8% of GDP revenues in 1982 were eliminated; balance-of-trade figures indicated a surplus; new social policy had been passed, satisfying the criteria of progressive increases in universal welfare state benefits; government liabilities had been reduced from 76% to under 50%; and most importantly, the unemployment rate was close to pre-1974 levels at under 2% (Rothstein 1992). With these apparent successes, the Social Democrats campaigned in this year with policy positions reminiscent of
the post-war Keynesian approach combined with equal opportunity quotas in employment positions. Generous benefits were argued for, including the introduction of six weeks of vacation, an extension of parental leave insurance from 9 to 15 months, and the provision of government day-care centres for all pre-school children over the age of one and a half.

Unfortunately, within one year of these proclamations the Swedish economy had moved into downturn. As a result of the world economic slump and a reduction in demand for high-end goods on international markets, combined with a rejection of the principles of wage restraint on the part of the union movement, the government did not deliver on any of its stated policy objectives and instead implemented welfare cuts – an unpleasant precedent for the party (Steinmo 2003). In February of 1990 a wage freeze and subsequent strike bans were put forward as policy to be considered but defeated in the parliament. However, two months later a reconstituted but similar austerity package was successfully passed into law with the help of the Liberal Democrats - the conservative opposition which, somewhat ironically, requested that the more aggressive policy of strike bans be softened. However, the proposals once implemented had an immediate and noticeable effect on the welfare state: amongst other cuts, the replacement rate for sick pay was changed from 90 per cent to 65 per cent for the first three days and to 80 % for the remaining 86 days (Steinmo 2003). The Social Democrats also reversed their stance on the concept of the European Union, favouring membership and European economic support. The elections
were held in 1991 with the Social Democratic Party urging voters to accept cutbacks to welfare. The apparent precedent in social cuts combined with a worsening economy lead to the worst electoral defeat for the Social Democratic Party of Sweden since 1928.

Conservatism in Sweden

The conservative-led minority coalition government continued to implement a range of economic cuts to expenditure after 1991 and presided over the largest decline in terms of employment and the economy since before World War II. Unemployment went from 1.6% to 7.7% in 1993. Based on actual participation figures in the labour market and not simply on the percentage of people obtaining benefits, the final unemployment figure jumped to 12.5% in 1994 (Haggard 1995). Worse still, GDP growth was negative from 1991 to 1993, leading to a large round of government cuts in exchange for two crisis packages to support the ailing Krona. When these measures failed, the Krona was reluctantly floated, thus negating the future ability of the Swedish government to successfully engage in the deliberate and direct macroeconomic devaluation of currency for the purposes of ensuring export-competitiveness. In addition to this, most social benefits were reduced and many matters of public provision were liberalised, including citizens being introduced to a “user-pays” system for certain services for the first time in their lives (Mjoset and Wallerstein 1993). These ranges of reforms had the statistical effect of deepening the recession and directly
contributed to the sharp rise in unemployment through the systematic reduction of the welfare state and connected losses of some integrated aspects of job production. It is ironic that this period of economic crisis, overseen by the conservative party and based on microeconomic reform, is the sole example cited by most neo-liberal advocates as an example of why highly regulated social market economies such as those in Scandinavia cannot work when exposed to international competition (Garrett 1998). As can be seen in the SNA68 Swedish Statistics table presented before, both private and public liabilities as a percentage soared, with Government assuming a liability ratio of 77.4% in 1990, climbing to 90.4% of GDP in 1994. Despite the supposed business support claimed by the conservative government (and the hypothetical corporate and investor confidence provided to the economy as a result), private liability was at an all-time high – a crisis figure of 101.1% of GDP in 1992. This was only gradually eased by some softening on previous conservative policy by the government.

Eventually, slow levels of growth returned in 1994 and began to increase after 1995. The Social Democratic party won back its natural constituents, particularly in response to the reduction in social spending advocated by their liberal-leaning opponents, and won the 1994 election convincingly (Steinmo 2003). This resulted in an immediate increase in benefits and a restoration of productivity rates combined with the gradual reduction of the underlying national deficit. The unemployment problem was gradually solved and after a temporary increase in
unemployment, the figures were reduced to approximately 5% after 2000. Social infrastructure programs and specific industry-targeted benefits have increased the strength of the economy, particularly the Krona, and there seems to be a return to a corporatist consensus (Olsson 2003).

Such an analysis demonstrates the difference in political philosophy (and therefore the difference in effect) caused by the intervention of government into the market when compared to Australia during the same time period. While Australia accepted certain corporatist processes such as the original drafting of the Accord and establishment of Medicare, the central goals of microeconomic reform were evident in the 1980s and 1990s. Sweden as representative of the most successful corporatist welfare state during this time largely concentrated on business support and devaluation of currency to complement high-end export competitiveness. Although a world economic downturn affected Sweden during the early 1990s, it was only when regressive policies were implemented by the conservative coalition parties that the Swedish economy – and particularly the employment and participation rate of labour – dropped sharply (Steinmo 2003). Government intervention combined with a focus on export-oriented product was restored after this, and as a result the economy has largely recovered from the slump.

This has not fully occurred in Australia. The reluctance of the conservative Liberal/National coalition government to strategically intervene in any area of the
economy has provided Australian manufacturers with adjustment failure in many cases. There is no current attempt at restructuring production, providing public services or ensuring economic stabilisation through intervention. The events which occurred in Sweden in the early 1990s may have been reduced if the state had not moved away from corporatist responses.

The important point to be articulated from this examination of Scandinavia and Swedish corporatist policy during is that social market economies react differently than their laissez-faire counterparts in the Anglo-Saxon world. Such productivist economies provide social and economic stability, instituting only mild cutbacks to welfare in the worst cases and then focusing on production growth once the world economy is on a cyclical upturn. Production and service provision in export-focused areas is supervised and government-backed to increase the value of goods being produced in exchange for significant taxation levels to fund social programs. This interconnected system allows industries to transform, with government support to meet the new demands of the global economy.

*Corporate Finance and Governance in Social-Democratic Europe*

Perhaps the most important reforms made by social economies relate to the substantial amount of public investment provided to education at all levels and laws which encourage private investment into human skilling and development.
Combined with a post-war attempt to re-skill workers affected by structural unemployment, this policy has seen a highly skilled and specialised workforce come out of such economies, which is reflected in the types of industry which exist in Europe (Sum 2003). The policy of providing exceptionally high levels of free or accessible public education at all levels is one of the key factors in producing an industry base geared towards high-level export-oriented production and also to high-levels of transformed service provision. It will be shown that the provision of high levels of quality and accessible education in the tertiary sector is critical to producing the domestic labour necessary to supply such an economy. If education is not provided for these industries, such industries will probably go abroad; if education is provided without infrastructure and industry development, skilled labour will simply move overseas to find employment. The commitment to a balance between high levels of support for industry, government intervention and a strong commitment to public education and worker training has allowed social market economies, particularly in Scandinavia, to produce a strong welfare-state reliant on its highly profitable source of exported transformed product.

The current performance of the social market economies is conversely opposite to the models posed by laissez-faire supporters and academic economists\(^3\). While the dominant neo-classical economic belief is that welfare spending leads to inefficient allocations of resources that undermine economic growth, the social

\(^3\) See Friedman and Friedman (1990) as a good example of this form of criticism lodged against government-supported industries.
markets of Northern Europe are amongst the world’s most affluent nations. 

Statistics show that five of the eight major Western European welfare-states had a higher GDP per capita than the United States in 1990 and that such economies are heavily dependent on international trade and export production - negating the argument that government-supported industries are uncompetitive (Katzenstein 2003). Western European export product has a well established reputation for high quality control. Evidently, then, such countries have passed the test of competitiveness in the World-System. It can be said that the social arrangements of such welfare states combined with industry support for specific high-value product and services and a commitment to investing in the skilling of labour have produced a more efficient export-led economy; this is the argument which will be made in Chapter Two, when comparing the corporatist welfare states of Scandinavia with the more free market countries of the developed world.

The best claim which can be made in accuracy by academic neo-liberal economists relates to the relatively high levels of unemployment in Western Europe. Statistics do not support this neo-liberal claim. Sweden and Denmark recorded high levels of unemployment only in the early to mid-1990s, with subsequent reductions demonstrated after this time (Steinmo 2003). Further, the rate of recorded unemployment is arguably more accurate in the social-democratic states of Western Europe when compared to the arguably “understated” figures of the US (See Appendix One). But it must also be noted
that their economies are largely providing the unemployed with the option of re-skilling to compensate for structural adjustments in the economy as well as providing compensation in the form of welfare benefits and other social programs.

**Australia in World Markets**

It is impossible to correctly identify the economic structures that will apply to Australia in the context of a global economy if no serious analysis is given to the political and ideological responses of Australia within this system. This will be examined in great detail before any definite conclusions are drawn as to the extent of ideological influence over Australia’s response to government intervention within the economy. A brief examination of the relevant theoretical positions within this context will now be given. Historical data and evidence in relation to them will be presented in Chapter Three.

Just as there is a range of different approaches to growth in an advanced capitalist economy, so there is also a range of political and economic responses which contribute to this. It is useful to examine the main theoretical responses to globalisation and the argument made for each to see why certain policy positions have been adopted in the past. Global markets will affect countries irrespective of government prejudice, but it is often the ideological position of the government which determines how the country will change and adapt to external
circumstances, and how far it can change without significantly altering its own national norms, cultural values and levels of stability. Therefore, some space will be provided to examining ideological critiques of the existing capitalist system, both in Australia and in world terms.

The main ideological analyses used to examine production, growth and equality in relation to Australia’s position in current global markets are:

- **Neo-classical and neo-liberal analysts**, favouring an expansion of laissez-faire ideas with minimal government intervention - the ideas of Friedman, Hayek and policy prescriptions of Thatcher, Reagan and Howard generally fit here;

- **Conservative analysts**, criticising capitalism for not supporting the family or community structure and for promoting a valueless world – most comparable to the Menzies Government in Australia and to some extent Fraserism;

- **Functional left-wing analysts**, critiquing unequal power relationship in capitalism between classes and claiming this is inevitable under capitalism, but not offering a solution other than that of revolution – The Leninist groups represent this approach⁴, and

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⁴ Leninists in this sense refers to academics such as Harman (1984) or McQueen (1986). In this functional leftism, the capitalist state *always* operates in the interests of the bourgeoisie.
• **Social-democrats and progressive competitors**, accepting the market system but arguing that government intervention and social reforms must be made not only to increase equality and stability in an inequitable system but also to aid in the process of production itself – this is where corporatism is placed and such an approach relates to a high proportion of Western European countries as well as Japan to some extent.

*Classical and Neo-Liberal Analysts – the Current Australian Orthodoxy*

There are many competing theoretical and analytical arguments relevant to the Australian debate. The classical economic theory of “comparative advantage”, whereby the geographic location of industry is explained through examining the natural endowments of a given country or location provides justification why Australia has developed significant industry based around the production and extraction of minerals and production of agricultural product in the past.

The position advanced by more sophisticated neo-liberal writers such as Milton Friedman is that while world commodity prices are declining, this is largely as a consequence of productivity, rather than as a result in the declining need or demand of such product (Friedman and Friedman 1990: p.163). In this situation, both the producer of raw materials for export and the purchaser of this product
for export-oriented elaborately transformed-manufactured product enjoy a 
symbiotic relationship with each other; as long as the raw or untransformed 
product is in demand for the production of such manufactured product, both 
markets will expand and both the supplier and producer will be enriched through 
serving their own self-interest (1990: p.210). However, this analysis, although 
superficially credible, ignores the central concern with the production and export 
of (largely) untransformed raw product: the value of export prices are declining, 
not because of productivity, but because modern products use fewer and fewer 
natural resources (Thurow 1995: p.67). Such a theory does not accurately reflect 
the declining value of both raw materials and uncompetitive manufactured items 
in world markets – a decline of over 60% from 1975 to 1995, correcting for world 
inflation and currency fluctuations (Thurow 1995: p.65). It also ignores the 
concept of an unequal process of exchange occurring between countries and 
contributing to exploitation within the World-System (Wallerstein 2000). There is 
significant evidence to suggest that less raw product will be used by high-end 
producers in the future, particularly in the growth areas of computerisation and 
pharmaceuticals. Therefore, it is reasonable to argue that Australia is involved in 
an export industry where the world pays less for the (primary) product in the long 
term.

Some contemporary economists oppose the simplistic assumptions behind 
classical comparative advantage or the process of “profitable symbiotic 
exchange”, which allows for relative economic equality between raw material
supplier and high-end producer, but do state that government interference will have negative effects nevertheless. Thurow (1995) argues that because the requirement for raw materials is declining, those countries previously rich in natural resources – such as Argentina and Chile – are no longer able to claim any significant form of comparative advantage, allowing countries with next to no resource base, such as Japan, to become world industrial leaders (1995: p.67).

In this rather extreme view, because of the new level of technology related to production and particularly transportation, anything can be produced anywhere and sold anywhere; this negates the need to have manufacturing industries physically located near areas of raw materials, such as near mine sites. It is argued that skills and knowledge rather than types of capital or raw product available are the only form of long-run competitive advantage available to a nation and that this requires infrastructure development into key areas, particularly in tertiary education (Thurow 1995: p.74-76).

Kenichi Ohmae claims that because the “tyranny of distance has been overcome”, information, money and product can be moved from any particular location to another with minimal cost to the consumer (Ohmae 1995: p.18). Because of this, comparative advantage is no longer effective in supporting profitable industry: rather, all markets have to be liberalised to allow for the free flow of capital and investment from overseas. Mary O’Hara-Deveraux and Robert Johansen support this neo-liberal view, adding that competitiveness in world markets necessitates supporting a system which allows for market clearing and
that national markets must adapt to global change to allow their industries to structurally readjust, suggesting that liberalised industries will spontaneously adjust to the demands of the global marketplace or go out of business (Johansen in Wiseman 1998: p.19). David Marsland claims that the central problem of countries supporting inefficient primary industry is caused by a lack of investment and work incentives, largely due to the dominant activity of the welfare state in most countries except the United States – developing advanced economies capable of high-end production and service delivery comes down to individual effort, creativity and inspiration, as well as a curtailment of government power in the marketplace (Marsland 1996: p. 98).

Dependency Theory, where a country is excluded from ownership of the means of production by the developed world, thereby excluding it from first-world export and forcing them to supply their raw materials at low prices to economically-advanced countries, is argued to be flawed by neo-liberal critics. According to Saunders, “while such theories are understandable, what is preventing countries from purchasing such technologies and implementing them in stages?” (Saunders 1994: p.43). Von Mises (1994), tutor and friend to noted Austrian libertarian Fredrick Von Hayek, argued that second and third world countries support “quasi-socialistic” schemes for the same reasons individuals do: to allow the real possibility of individual failure amongst nations in the capitalist economy to be overlooked (Von Mises 1994). According to Von Mises, “in any successful system, individuals who have failed need a scapegoat…disgruntled nations,
intellectuals, writers, literati and workers become vocal foes of the system” (Von Mises 1994: p.2).

Neoliberal economists and philosophers appear unconcerned with the restructuring of industry and are largely opposed to structural adjustment through government intervention - with the possible exception of the finance sector in certain second and third world countries (designed to ameliorate the effects of "crony capitalism"). Generally speaking, it is assumed that as only profitable industry will survive, the market will force companies to adjust to existing economic realities or perish. According to this neo-liberal viewpoint, interventionism is not only unnecessary, but also harmful, because it will reduce long-term productivity through attacking the incentive to independently adapt and be self-sufficient.

Conservative Critics

The supposed triumph of laissez-faire capitalism as an unstoppable force on the political right in the 1980s and 1990s has increased the split between the free-market supporters and the strictly conservative right. This has been evident in a number of ways in Australia: the criticism by Robert Samtamaria, the key figure in the Catholic-influenced Democratic Labor Party (DLP) in the 1960s and 1970s concerning the Liberal and Labor Party’s acceptance of globalisation, from the early 1980s the struggle for political power in the Liberal party between the “wets”
and the “drys” (Fraserite conservatives and neo-liberals, reflected in a battle between Andrew Peacock and John Howard for leadership), the rejection of many tenets of economic rationalism from the National Party and other industrial groups opposed to National Competition Policy and the elimination of tariffs, and particularly the rise in the conservative backlash against economic liberalism from the right, evident from the formation of Pauline Hanson’s One Nation party (Brain 1999: p.37; Goward 1994; Wiseman 1998: p.22). Additionally, some conservative theorists have expressed concerns over the effects of globalisation and the ordering of production in Australia, primarily focused around the social impacts of such changes.

Many conservative theorists criticise free-market institutions based on the alienation of the family unit (created by a market system promoting increasing work hours), less societal stability and the negative social impact of transnational corporations (with unchallenged power in terms of capital mobility and great influence over national conditions). Michael Lind argues that the increasingly dominant position of neo-liberal ideology is causing “deep concern about the social impacts” of rationalist policy from many different sections of the right as well as the left (Lind 1995: p.85). However, these groups of conservatism, although numerically significant and concerned about the impacts of globalisation, do not have the support of capital and so do not have as much political influence as their liberal counterparts on the political right (1995: p.85).
Frances Fukuyama, the conservative philosopher who used the phrase “the end of history” to describe the post-cold war relationship between the global market system and national economies and the apparent “triumph” of capitalism over other social forms of organization such as socialism or communism, has also provided a conservative analysis of contradictions in capitalism. Primarily, Fukuyama argues traditional economic support bases and interrelationships have been based on relationships of trust and mutual respect (Fukuyama 1995: p.42). These societal principles were formed, he argues, through the process of conservatism in the postwar decades and are necessary for effective communication and positive links between society and business, not to mention effective trading relationships between corporations themselves. However, such principles are not created through the philosophical maxim of capitalism, the maximisation of individual self-interest, but are expressed only as “individual preferences”, rather than morals or ethics in the free market. Without community principles and shared values, large communities cannot coexist with each other and in terms of production, effective business relationships cannot transpire (1995: p.43). Furthermore, the social costs of not providing basic moral values, such as teaching children not to steal, are too large to ignore from both a social and economic perspective and would result, if ignored, in social instability and huge economic burdens for the protection and securing of private property (Thurow 1995: p.162).
Conservative theorists such as Lind (1995) have argued that some entrepreneurs are beginning to accept the neo-liberal vision of the individual maximisation of wants combined with an eclectic approach to philosophy and are acting on this belief-system in the material world – through aggressively avoiding paying any significant amount of tax to first-world governments and barricading themselves into their own houses, complete with a private security firm and electric fencing to shut the rest of the world out (Lind 1995: p.90). This, Lind calls the process of “brazilianization” of modern society, with two distinct bipolar realities for two different classes of people (1995: p.90).

The anxiety of market liberalisation affecting employment and wages has produced right-wing responses to free-market solutions, albeit in oft-undesirable ways. In the United States, right-wing nationalist figures such as Lyndon La Rouche and Pat Buchanan have enjoyed popular support with many Democrats and Republicans articulating increasingly isolationist roles, at least in economic if not military terms, since the coming to power of Bill Clinton in 1992. Newt Gingrich’s *Contract with America* may have represented the articulation of classical right-wing ideology, but many areas of policy presented in the document actually rebuked the concept of unrestricted international capital forces affecting Americans and argued for nationalistic, rather than global, approaches to employment, production cycles and business in general. It tended to support a combination of free market solutions to welfare provision combined with quasi-corporatist industry policy calling for strategic interventionism, particularly in
manufacturing, and continued support for the government-funded military-
industrial complex (Silk and Silk 1996: p70). Only with the events of September
2001 has the Republican Party accepted a “nation-building” agenda, with the
younger President Bush articulating similar approaches to his father in terms of
world politics – albeit with less of a focus on industry.

The significant rise of nationalism and parties described by many areas of the left
as “soft-fascist” have also contributed to an anti-globalisation sentiment, usually
communicated in terms of a specific loss of cultural identity, stemming from the
alienating processes of capitalism, particularly in terms of unemployment.

However, the solutions provided by these groupings are questionable at best and
often represent reactionary solutions in content. As such, nationalist parties in
Austria, France, Australia and throughout Europe largely recommend a similar
approach: the reduction in numbers or wholesale deportation of ethnic minorities
(Wiseman 1998: p.33). This poses some interesting questions as to the validity of
any one right-wing group in claiming to be legitimate owners of a country
(particularly in the case of Australia, where One Nation has expressed concerns
with the current level of immigration but has also attacked the rights of
Aborigines, despite their historical claim to the land) but the fundamental reason
for the existence of such right-wing groups cannot be discounted: a loss of
cultural identity and a willingness to return to the domestically-focused
Keynesian-Modernist period after 1945 rather than accept the reduction in
wages, conditions and living standards imposed as a result of the systemic world

Surprisingly, some business leaders including currency trader George Soros have accepted many aspects of the conservative analysis and have agreed that Fukuyama’s theory of the “social contradiction in capitalism” – the idea that capitalism promotes a “valueless world” in which there are no social norms or shared national values, thus destroying the social fabric underpinning capitalism. However, in his political analysis of the world economy entitled The Crisis of Global Capitalism, he expands on this approach to provide a strong resultant conclusion: according to Soros, “the development of a global society has lagged behind the growth of a global economy. Unless the gap is closed…and a societal structure exists…the capitalist system itself [sic] will not survive (Soros 1998: p.25). Soros points out that there are elements of the conservative right that have some political reason to rebuke free-market capitalism as a valueless system, and other groups which have used fear of that system to rally for anti-migrant, protectionist, isolationist and sometimes racist policies to gain electoral support. However, he also sympathises with the Marxist critique, particularly that supporting an inherent contradiction in the capitalist system, and states that global markets are exacerbating this condition as there is a clear and growing inconsistency between the global economy and global (societal) values.
Regardless of the conservative analysis used, the rejection of pure free-market ideology from some sections of the conservative political right is real; however, as stated earlier, such representations are not dominant in the political agenda, because this section of the conservative right does not currently enjoy the economic support of the ruling class.

*Functional Left Analyses*

The most prominent critiques and criticisms of Capitalism in terms of production and particularly in relation to relative equality in the 20th Century and before have arguably come from left-wing functional/socialist theorists. Although there is a natural overlap between functional left and social democratic thought, a distinction will be made, in that functional left analyses usually call for extreme and direct action to be taken as a solution, or argue that no solution is present, while social democratic, democratic corporatist and “progressive competitive” supporters believe that the inequalities in the system can be changed through government intervention, typically through democratic process through the established legislature or parliamentary body. Functional leftists see all reformism as functional to capitalism, preserving it by delaying revolutionary action against it. It will be demonstrated that such theoretical distinctions are not artificial or arbitrary, although some sections do overlap.
Although many social and political theorists have critiqued the workings of a capitalist system based around the private accumulation of profit (it is arguable that Plato’s *Republic* provides a scathing interpretation of a profit-driven system, in that “The consequences of suffering over lack of distribution [in terms of wealth] are obvious, and ignoble too, even to the blind” (Plato in Jowett 1946: p.156) – although perhaps this better fits with the conservative criticisms of capitalism) the theory of the traditional left will be examined in the context of the last 200 years. Karl Marx has been perhaps the most influential political theorist during this time, and many contemporary critiques have been built around this.

According to traditional functional Marxist theory as espoused in such political documents as the *Communist Manifesto*, the nature of production in the world economy is entirely geared towards supporting the profit-making enterprises of the capitalist class. This class, the bourgeoisie, own and control the means of production, distribution and exchange and as a result of their monopoly of resources they exclude the proletariat, the working class, from ownership (Marx and Engels 1990: p.33). The proletariat only have their labour power to sell, and must therefore work for the capitalist. According to Marx, all profit comes from the worker, and therefore the rate of exploitation exists and can even be calculated as a ratio, assuming all figures are known (Marx and Engels 1990: p.19; see Harman 1984 for a specific application of this). What is certain is that the bourgeoisie, according to classical Marxist and functional analyses, are supported by and control the nature of the state; therefore, all instruments of the
state are made to support the will of the bourgeoisie, and subvert the interests of
the proletariat. Although this model is convincing and academically powerful, no
government change can be enacted or can be effectual, because these state
mechanisms always function in the interest of the ruling class (the bourgeoisie)
and exploit the working class (Callinicos 1986: p.42; Rees 1995: p.29). What is
needed is a genuine revolution of the proletariat, most likely obtained through a
general strike occurring from union participation (which occurs through the
solidaristic process of workers being forced together in one location during the
process of production and experiencing the same levels of exploitation jointly,
leading them to become aware of their true relationship to the means of
production) – the development of true class consciousness (Rees 1995).

From this perspective, many functionalist Marxist theorists have attempted to
interpret the world economy. Chris Harman, economist and writer for the
International Socialist Organization, has claimed that although the great post-war
boom and subsequent “golden age of capitalist development” (1945-1973/74)
appeared to contradict much of traditional Marxist theory, the boom was always
temporary. This was because part of the post-war reconstruction boom combined
with US and Soviet military spending allowed some of the contradictions of
capitalisms (such as the tendency for the rate of profit to fall) to be temporarily
negated. However, since 1973/74 the capitalist economy has been in crisis and
the contradictions causing these problems can no longer be challenged or
slowed by governments (Harman 1984: p.78). A revolution is now necessary, as
the parliamentary system creates a scenario in which even well meaning left-wing governments (such as the Callaghan-led Labour Party in the late 1970s in Britain or Gough Whitlam’s Labour Government from 1972-75) are powerless to stop international finance and end up running the system on behalf of the interests of the bourgeoisie, rather than reforming it.

This is the typical functional criticism of the exploitative nature of capitalist production and of the reformist response to it: “The state is not neutral … the way in which it is organised reflects and seeks to defend the interests of big business [sic]” (Callinicos 1986: p. 24). Further, “the state is an instrument of class rule…it is the final guarantee of class power” (1986: p.25). Therefore, any attempts to implement reformist countermeasures against the global forces of capital will lead to defeat. Ultimately, all production comes from the efforts of the working class, organised into collectives through “the occupation of factories and offices” through the means of production. The tendency of the rate of profit to fall, combined with the increase in the organic composition of capital (the tendency for machines to replace workers) will lead to the inevitability of worldwide recession and class conflict, with government being powerless to stop it (Harman 1984: p.120). No reform to the economy will be effective in negating the contradictions inherent in the global economy, or in altering the factum naturalis (exploitative nature) of the system.
Many contemporary political economists have expanded on this functional analysis, interpreting the World-System in terms of class conflict and locating production as a fundamental function of the capitalist World-System. Canadian political economist Robert Cox argues that political institutions of the nation state have become “transmission belts” for conveying the interests of transnational corporations into particular national areas (Cox 1992: p.58). The result of this process is a reduction of national sovereign power combined with the creation and maintenance of a network of “intangible, shifting and unaccountable relations of international governance dominated by the financial institutions and money markets” rather than as part of an inevitable process of globalisation (Cox 1992). Therefore, reformist responses, including social democratic corporatist policies, are subject to the “largely invisible but very real” edicts of global capital, and government must act within this framework.

Functionalists such as Miliband and Poulantzas see the expansion of globalisation as part of the inevitable process whereby the power of class struggle is minimised, so as to reduce the role of the state in interfering with capital transfers. Although the state remains “for all practical purposes the state of the ruling class”, the degree of autonomy enjoys in relation to social forces and capital regulation is directly proportional to the level of class struggle present in a given nation (Miliband 1983: p.64). Therefore, globalisation allows for the ideology of capital relations between the proletariat, nation state and capital to be “broken down” so that the “hegemony of the [ruling] class” is not challenged in a
national context (1983: p.67). Poulantzas states that because of this, a change in policy approach will not change the fundamentally exploitative nature of the system or allow for the genuine conciliation of fictitious "national interests"; the only national interest corporatism can pursue is that of increased growth, of which the bourgeoisie are the greatest beneficiaries. Direct class struggle and "theoretical" revolutionary pressures are the only means to counteract the forces of capital.

Although there are a number of other theorists which subscribe to the functional Marxist viewpoint and alter it somewhat, one principle is consistent throughout such varied analyses of both the global economy and of Australia: the role of the state is to support the ruling class, and as such it functions in the interests of capital at all times. Therefore, every alteration and change made to the system is ultimately an attempt to defend the rights of capital, even if not explicitly so. In this analysis, corporatist policies can only act to placate the workers, distort their perception of class (by providing illusory "common goals" which act in the interests of capital) provide real wage reductions (as latter revisions of the corporatist Accord did in Australia during the late 1980s) and temporarily delay the inevitable "contradictions of capital" inherent in the system (Vance in Harman 1984). That is the role of a purportedly "conciliatory" corporatist system, according to these theorists.
Social Democrats, Corporatism and Progressive Competitors

At the other end of the left-wing political spectrum, many social democratic theorists have challenged the functional Marxist critique and have provided an analysis of capitalism which acknowledges the nature of the system and resultant inequalities which spawn from it.

Social democratic theorists accept the systemic inequalities inherent in a capitalist system and show how the means of production can be modified through using national governments and institutionalised systems inherent in the current World-System. Importantly, such theorists can point to working examples of their critiques, with countries which fulfill (or are very close to) the ideals of true social democracy, such as most of the Scandinavian nations. There is also a constructive examination provided of other countries which are somewhat committed to most or many elements of the social democratic project, such as most western European nations and many Anglo-Saxon countries with a progressive government in power. Most social democrats can point to the relevance of their position in challenging the power of multinationals and the implementation of unfettered economic liberalism, particularly in contrast to the lack of an example of a successful Marxist-Leninist socialist state.

Arguably, one of the first social democratic analyses of major theoretical significance after Marx came from Karl Kautsky in the form of his pamphlet
attacking Leninism. Written in 1918, the manuscript described the means of victory and the implementation of democratic processes as being crucial to the continued success and application of true socialism in a national and global scale. Kautsky argued that the only form of true socialism is one where the “great masses of people participate in the political process, particularly through universal suffrage and are enabled to do so through civil liberties such as freedom of speech, freedom of the press and freedom of organization” (Kautsky 1919: p.vi). Otherwise, the process of revolutionary change becomes corrupted and the Leninist state is conducive to top-down interference and inefficiencies of production. The prerequisites for socialism were thus: “an interest on the part of the proletariat in socialism, superior proletarian numerical strength and large-scale industry” (1919: p.xx).

Although Kautsky can be seen to be closely aligned to traditional Marxist analyses of capitalism in many areas, the distinction between his form of ideology and that of Lenin was in the application of Marxist theory; his purpose was to ensure that the democratic component in socialism was upheld, with basic civil rights being guaranteed and a broad commitment to the fairness of the process. Therefore, the process of transformation (and arguably of the materialist conception of the Dialectic itself) was a gradual one, theoretically possible through the pre-existing processes of the state apparatus (1919: p.xx). The possibility of altering the essential nature of the state with a change in the class-based form of elected governance is implied by Kautsky and is variable.
depending on which political party holds power. Importantly, Kautsky affirms Marx’s position in relation to world development, stating that true socialism will occur in the most developed countries within a democratic context. This will include centralised national economic development but with democratic safeguards and policy input provided by the key economic actors, as well as considerable state-labour relations. This is entirely consistent with the concept of social-democratic corporatism in the core states and goes beyond liberal democratic values and civil rights to a socialist mode of production.

Hirst and Thompson give an accurate account of the social democratic analysis in terms of the world productive processes and the myth of the “unstoppable forces of globalisation”. They argue that the present highly internationalised economy is not unique to the modern era and that the organization of production and labour are not necessarily new to all industrial areas. It is suggested that the most highly skilled jobs and positions have traditionally been those with the least amount of geographic movement and that this situation has existed since the 1860s (Hirst and Thompson 1996: p.2). Production in the context of pure unfettered globalisation is rare; most production in a capitalist economy is completed within the framework of a national base and many elements of production are related to this – therefore, most large companies are headquartered in the developed world and run much of their production through their country of origin (Hirst and Thompson 1996). As an example, the production plants of most automotive companies are generally located in the developed
world, with exceptions such as South Korea providing examples of semi-peripheral areas which are moving toward the core, rather than representing capital flight by multinationals. Investment remains heavily based around developed world countries, with semi-periphery and particularly peripheral investment being considered globally marginal at best (1996: p.1-3). This implies that the quality of production and level of technological advancement and labour skilling in the core has an express tendency to attract investment, either through share investment or loan support, particularly when related to the Germanic pattern of investment (euphemistically known as “Rhineish capitalism”) used in many parts of continental Europe.

According to Hirst and Thompson, the centre of high-technology and dynamically transformed goods and services is located firmly in the nexus of Japan, Western Europe and the US, despite the moderate attempts of some governments to increase the knowledge and skill base in some parts of the semi-periphery. This indicates that an increase in funding and support by national governments for skill-based occupations combined with a specific plan for industry policy which supports value-added production and competitive export product can be highly effective in changing the productive focus of industry within a country, with Japan and South Korea as outstanding examples (Sheehan 1995: p.1). However, it is acknowledged that it is difficult for the poorest of developing nations to emulate this, due to their reliance on first-world technology and their mutual exclusion
from ownership of the high-end means of production based on their lack of capital (Cammack 1988: p.23).

World-Systems Theory, first defined by Terence Hopkins and Immanuel Wallerstein in the early 1970s, will be used as the primary mode of analysis to qualify and interpret Australia’s economic position within global markets (Wallerstein 1974b, 2000). Through examining Australia’s place in the World-System, the contradictory nature of the Australian export economy will be examined relative to the “developed world” living standards enjoyed. A thorough investigation of current economic processes in Australia will demonstrate why value-added production with an export focus has been talked about as a matter of political rhetoric, but generally ignored in terms of actual implementation. There is far more influencing the development of such policies than simply a lack of political will and a myopic view from the ruling class with regard to the development of high-technology industry in Australia; rather, the primary export leaders in agriculture and mining have a political interest in continuing Australia’s reliance on primary industries as they are the principal economic actors which dominate export, and benefit from this position.
Wallerstein and Katzenstein

This brings us to an examination of the two dominant theories relating to Australia’s pattern of export production and subsequent location in the world economy. An examination of the historic processes of production will demonstrated that Australia’s continual reliance on agriculture (and most particularly mineral extraction) in relation to export is not ahistorical but can be seen to follow a direct economic and political precedent due to a number of factors.

Australia’s position in world export markets will be observed. It will be argued that Australia has historically moved between corporatist and liberal forms of political governance in response to the world economy and that as a result, Australia has moved both toward and away from the core of the World-System at differing historical periods. Further, the forms of corporatism undertaken will be discussed, including colonial corporatism, conservative corporatism (during the Menzies years) and true social-democratic corporatism (as per Whitlam). The last chapter of this thesis will detail these corporatist and liberal movements historically.

It will be demonstrated that in the periods where Corporatism displaced Liberalism as the dominant form of ideology (such as with the development of formal arbitration commissions and substantial government intervention in the economy in the early 1900s) production patterns changed substantially and
began to reflect a focus on manufacturing and other forms of secondary production, with an equivalence to “high-end” export production today. When Liberalism became the dominant ideology, the reliance on primary product for export returned and the development of technologically advanced goods and services was largely ignored. Such a change led to Australia moving closer to the core of the World-System during periods of corporatist economic development and further away from the core during periods of economic liberalism.

This will be considered from two main perspectives. Theoretically, it will consist of an examination of World-Systems Theory outlined primarily by Immanuel Wallerstein (1974b) and particularly by interpretations of corporatist small state theory forwarded by Peter Katzenstein (1985). From a synthesis of these two perspectives, a qualitative and original extension of World-Systems Theory will be developed for the purposes of allowing theoretical congruency with the Australian experience. Historically, the main focus will be placed on the development of Australian settlement, the battle between corporatist and liberal ideas expressed by the “protectionists” and “free-traders”, the development of corporatist approaches since the early 1900s and the move back to strong liberalism after 1996.
Accordingly, the next section of the thesis will include the following:

- An examination of the academic debates and criticisms relating to World-Systems Theory and Corporatist Small States Theory as this is relevant to Australia. This will entail a detailed examination of social-democratic corporatism;
- Consistencies and conflicts between the two theories;
- Examining countries in a framework entailing a synthesis of the two theories and a full examination of World-Systems Theory as related to Corporatist Small States Theory; and
- Social-democratic links between World-Systems Theory as a way of locating a states position within the world economy and the application of corporatist Small-States Theory to demonstrate historical movement of small states within the World-System.

There will also be some consideration of modernisation and dependency theory in this context. The purpose of the second section is to provide a deep and theoretically accurate synthesis of World-Systems and Small States Theory to demonstrate that movement does occur in the World-System, and how this movement occurs, as well as addressing criticisms of corporatist Small States Theory as this pertains to the antipodean condition.
This is necessary to support the central thesis:

To the degree that corporatist strategies have been employed, Australia’s position on the global commodity chain improves so that it moves closer to the core and further from the periphery in relation to the World-System.

While Australia is used here as the example of a small state which has historically seesawed between the implementation of corporatist and liberal economic policy, it is important to note that such a theoretical comparison could conceivably be applied to other small-states in the World-System as well, particularly other small developed states, such as New Zealand.
Chapter Two:

World-Systems Theory and Small-States Theory:

A Theoretical Comparison

To accurately examine production patterns related to Australia and to specifically address the movement of Australia within the world-economy based on the adoption of different economic systems of production (as the main focus of export-led GDP) a theoretical framework must be adopted from a range of possible macro-theories. This framework will be derived from a number of key disciplines, primarily Macroeconomics, Politics, Political Economy and Sociology and extrapolated in an interdisciplinary manner. This will then be used to determine exactly how Australia has moved within the global economy since settlement.

As demonstrated in the last section, there are different perspectives in relation to such production patterns. Specifically, this thesis will address World-Systems Theory and show how this can be reconciled with Small-States Theory to assess how Australia’s movement within the World-System occurs. This requires a rigorous theoretical comparison of both theories and the leading proponents of them - both in terms of Australia and as a stand-alone theoretical synthesis.

Comparisons and quantitative conclusions in relation to Australia will be made in the final section of this thesis. This section will consist of a purely qualitative
comparison, analysis and synthesis of both theoretical streams. Without the application of this synthesis, appropriate conclusions with respect to Australia and the rest of the world could not be drawn. An extension of the synthesis will also be provided, demonstrating a new development in the examination of nation-states in Political Economy and a new look at commodity chains, particularly in terms of nation-state movement within the current World-System and how this is related to production patterns and political/ideological persuasions.

For the purposes of analysis it will be considered that Australia has moved toward and away from two specific forms of governance: corporatist-leaning on one hand, and, on the other hand, Liberal or Laissez-Faire forms of production, as specified in the introduction. This will be fully outlined in the final section, but will be accepted *prima facie* for now.

Accordingly, the following areas will be addressed:

1. Description of World-Systems and corporatist Small-States theory – commodity chains, production patterns, development of the World-System and patterns of hegemony;

2. Comparisons of both World-Systems and corporatist Small-States theories;
3. Analysis of how each theory contributes to the argument, including the strengths and weaknesses of both;

4. Synthesis of theoretical elements from both, reflecting legitimate criticisms and hard macro-data provided; and

5. An extension of the new synthesised theory, particularly utilising macro-theory and available data.

World-Systems Theory Addressed

The first major theoretical perspective advanced in this thesis will come from World-Systems Theory, a macro-theory oriented around the modes of production and the distinction between core/periphery relations. Before elaborating on how this theory specifically relates to Australia I will give a brief explanation of what World-Systems Theory is. The chief proponent of World-Systems Theory is Immanuel Wallerstein.

What is World-Systems Theory?

In his own first definition, Wallerstein (1974b: p.23) said that a World-System is a "multicultural territorial division of labour in which the production and exchange of
basic goods and raw materials is necessary for the everyday life of its inhabitants. This division of labour Wallerstein first refers to relates to the forces and relations of production of the world economy as a whole and it leads to the existence of two interdependent regions: the core and the periphery. These are geographically and culturally different, with one focusing on capital-intensive production, and the other on labour-intensive production respectively (Goldfrank, 2000). The core-periphery relationship is structural. Semi-peripheral states act as a buffer zone between the core and periphery, and they have a mix of the kinds of activities and institutions that exist in them (Skocpol, 1977).

Many theorists have since contributed to the construction of a World-Systems approach. Among the most important structures of the current World-System is a power hierarchy between core and periphery, in which powerful and wealthy "core" societies dominate and exploit structurally-economically weak peripheral societies. Technology is a central factor in the positioning of a region in the core or the periphery. Advanced or developed countries are the core, and the less developed are in the periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status – there is a form of dependency operating between the core countries, which own and control the major means of high-profit production, and the peripheral zone, excluded from ownership of high-technology production due to systemic inequalities in wealth (Chase-Dunn and Grimes, 1995). The differential strength

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5 Later Wallerstein (2000: p.160) definitions have been more cryptic: “World-Systems analysis is not a theory about the social world...It is a protest against the way social science inquiry was structured”.
of the multiple states within the system is crucial to maintain the system as a whole, because strong states reinforce and increase the differential flow of surplus to the core zone (Skocpol, 1977). This is what Wallerstein called unequal exchange, the systematic transfer of surplus from semi-proletarian sectors in the periphery to the high-technology, industrialized core (Goldfrank, 2000). This leads to a process of capital accumulation at a global scale, and necessarily involves the appropriation and transformation of peripheral surplus. On the political side of the World-System a few concepts need highlighting.

For Wallerstein, nation-states are variables, elements within the system. States are used by class forces to pursue their interest, in the case of core countries. Imperialism refers to the domination of weak peripheral regions by strong core states: it is a move from direct colonial rule to economic control of a country, often referred to as “neo-colonialism”. Hegemony refers to the existence of one core state temporarily outstripping the rest. Hegemonic powers maintain a stable balance of power and enforce free trade as long as it is to their advantage (Wallerstein 1974b). However, hegemony is temporary, due to class struggles and the diffusion of technical advantages. Finally, there is a global class struggle. All of this was first articulated in his seminal paper, “The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis” and subsequent follow-up book, *The Modern World System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (Wallerstein 1974a).
The current world-economy is characterized by regular cyclical rhythms, which provide the basis of Wallerstein's periodization of modern history (Arrighi and Goldfrank 2000). After the current stage (1945-present), Wallerstein envisions the emergence of a socialist world-government, which is the only-alternative World-System that could maintain a high level of productivity and change distribution, by integrating the levels of political and economic decision-making (Wallerstein 1983: p.107). This is a general statement which has been highly debated even within World-Systems circles: based on the analysis provided, it would be plausible to suggest that the reverse could occur, whereby the strongest capitalist nations assert their position at the core to further exploit dependent peripheral nations. However, the general consensus is that the US hegemony, which was at its strongest from 1945-65, has been declining and with this decline the World-System will go into a period of indeterminism, with no specific actor being able to act as a world hegemonic power. There will then be political, economic and military conflict in an attempt to assert dominance on the World-System (as of 2005, this may come from the European Union or possibly the Asian states). Because of this, modes of production will be transformed and some form of world socialism will be implemented, probably in the next 150 years or so (Wallerstein 2000).

For the purposes of this analysis it is more useful to think of World-Systems Theory as a macro political-economic approach to the ordering of production on
a global scale used to determine where nation-states sit in relation to each other (and why) rather than simply as a program of world development, which occurs due to political and hegemonic struggle. World-Systems Theory will be used here to determine productive capacity and to locate Australia’s world economic position based on production and the existence of hegemonic alliance (through commodity chains) rather than through using more simple measurements such as GDP statistics. Macroeconomic data will be useful but only so far as they provide indications of production through the world economy and Australia’s position based on this, rather than simple export figures taken prima facie.

**Historical Development of the World-System**

Wallerstein argues that Europe moved towards the establishment of a capitalist world economy in order to ensure continued economic growth. However, this entailed the expansion of the geographical size of the world in question, the development of different modes of labour control and the creation of relatively strong state machineries in the states of Western Europe. In response to the feudal crisis, by the late fifteenth and early sixteenth centuries, the world economic system emerged (Wallerstein and Hopkins 1982). This was the first time that an economic system encompassed much of the world with links that superseded national or other political boundaries. The new world economy differed from earlier empire systems because it was not a single political unit. Empires depended upon a system of government which, through commercial
monopolies combined with the use of force, directed the flow of economic goods from the periphery to the center. Empires maintained specific political boundaries, within which they maintained control through an extensive bureaucracy and a standing army. Only the techniques of modern capitalism enabled the modern world economy, unlike earlier attempts, to extend beyond the political boundaries of any one empire (Wallerstein 1983).

The new capitalist World-System was based on an international division of labour that determined relationships between different regions as well as the types of labour conditions within each region. In this model, the type of political system was also directly related to each region’s placement within the world economy. As a basis for comparison, Wallerstein proposes four different categories: core, semi-periphery, periphery, and external, into which all regions of the world can be placed. The categories describe each region’s relative position within the world economy as well as certain internal political and economic characteristics (Wallerstein 1979: p.84).

The core regions benefit the most from the capitalist world economy. In the 18th and 19th century, much of northwestern Europe (England, France, Holland) developed as a core region. Politically, the states within this part of Europe developed strong central governments, extensive bureaucracies, and large mercenary armies. This permitted the local bourgeoisie to obtain control over
international commerce and extract capital surpluses from this trade for their own benefit (1979: p.84). As the rural population expanded, the small but increasing number of landless wage earners provided labour for farms and manufacturing activities. The switch from feudal obligations to money rents in the aftermath of the feudal crisis encouraged the rise of independent or yeoman farmers but squeezed many other peasants off the land. These impoverished peasants often moved to the cities, providing cheap labour essential for the growth in urban manufacturing. Agricultural productivity increased with the growing predominance of the commercially oriented independent farmer, the rise of pastoralism, and improved farm technology.

On the other end of the scale lay the peripheral zones. These areas lacked strong central governments or were controlled by other states, exported raw materials to the core, and relied on coercive labour practices (Wallerstein 1974b). The core expropriated much of the capital surplus generated by the periphery through unequal trade relations. Two areas, Eastern Europe (especially Poland) and Latin America, exhibited characteristics of peripheral regions. In Poland, kings lost power to the nobility as the region became a prime exporter of wheat to the rest of Europe. To gain sufficient cheap and easily controlled labour, landlords forced rural workers into a "second serfdom" on their commercial estates. In Latin America, the Spanish and Portuguese conquests destroyed indigenous authority structures and replaced them with weak bureaucracies under the control of these European states. Powerful local landlords of Hispanic
origin became aristocratic capitalist farmers. Enslavement of the native populations, the importation of African slaves, and the coercive labour practices such as the *encomienda* and forced mine labour made possible the export of cheap raw materials to Europe (Wallerstein and Hopkins 1982). Labor systems in both peripheral areas differed from earlier forms in medieval Europe in that they were established to produce goods for a capitalist world economy and not merely for internal consumption. Furthermore, the aristocracy both in Eastern Europe and Latin America grew wealthy from their relationship with the world economy and could draw on the strength of a central core region to maintain control.

Between the two extremes lie the semi-peripheries. These areas represented either core regions in decline or peripheries attempting to improve their relative position in the world economic system. They often also served as buffers between the core and the peripheries (Wallerstein 1979). Good examples of declining cores that became semi-peripheries at the early stages of the capitalist system are Portugal and Spain (in the 1600s) which predate western European hegemony. Other semi-peripheries at this time were Italy, southern Germany, and southern France. Economically, these regions retained limited but declining access to international banking and the production of high-cost, high-quality manufactured goods. Unlike the core, however, they failed to predominate in international trade and thus did not benefit to the same extent as the core. With a weak capitalist rural economy, landlords in semi-peripheries resorted to sharecropping (Wallerstein 2000: p.201). This lessened the risk of crop failure for
landowners, and made it possible at the same time to enjoy profits from the land as well as the prestige that went with landownership.

According to Wallerstein, the semi-peripheries were exploited by the core but, as in the case of the American empires of Spain and Portugal, often were exploiters of peripheries themselves (2000: p.201). Spain, for example, imported silver and gold from its American colonies, obtained largely through coercive labour practices, but most of this specie went to paying for manufactured goods from core countries such as England and France rather than encouraging the formation of a domestic manufacturing sector. One can see how Australia would arguably fit into this conception of the semi-periphery given the historical lack of high-quality manufactured goods for export, a theme which will be touched on later.

External areas maintained their own economic systems and, for the most part, managed to remain outside the modern world economy. Prior to the 1917 Revolution, Russia fitted this case well. Unlike Poland, Russia’s wheat served primarily to supply its internal market. This country traded with Asia as well as Europe; internal commerce remained more important than trade with outside regions. Also, the considerable power of the Russian state helped regulate the economy and limited foreign commercial influence (Wallerstein 2000).

Many other theorists have contributed to and expanded upon the original World-Systems framework since the mid-1970s. Christopher Chase-Dunn deserves a particular mention, as his work is both contributory to World-Systems research
and to the development of this dissertation. Chase-Dunn states that since 1945, quantitative changes have existed in the world economy and that capitalism has here entered a new stage. These changes were identified and quantified by Chase-Dunn in *Global Formations* (1998: p.71). It is claimed that in the last 50 years five key changes have taken place or are observable as traits within the World-System. This relates to the changes observable with respect to Australia’s position within the World-System after 1945 - the transnationalisation of capital, the extraction of technological rents, the new international division of labour, world classes and world-state formation and a socialist world system.

*Transnationalization of Capital*

The first area of consideration relates to the acceptance of the increased transnationalization of capital. Since 1945, it is clear that transnational firms have grown in size and importance, expanding and operating in a range of core and semi-peripheral countries. Such firms are generally concerned with both merchant capitalism (buying cheap and selling dear, usually from outside the core into it) and productive capitalism in the core itself, although there is a move away from merchant capitalism toward productive capitalism (1998: p71).

Ownership of such transnational firms is almost always by capitalists of a single

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6 Szymanski (1978) also identified similar changes in the World-System after 1945 but does not provide a clear World-Systems examination of this.
core state, as Mandel’s study confirms (Mandel 1975). Although some theorists such as Hirst and Thompson do argue that transnational capital was just as prevalent in the 17th century (through shipping and merchant capitalism from China and India to Europe, thereby ensuring a wide distribution of capital and investment globally), there is little doubt that the growth of transnationalization is far more significant than it was prior to World War II (Hirst and Thompson 1996). As Chase-Dunn says, “the fact that some capital was Transnational in the seventeenth century does not contradict the contention that it is more Transnational now” (Chase-Dunn 1998: p.72). A by-product of this transnationalization is both the power of capital and the management required to sell products and services internationally: to maintain influence or control over core states where the highest potential number of sales will be made, the “threat of capital flight” is not enough. Corporations must support friendly politicians, paying taxes and demonstrating good corporate citizenship, which ties into their marketing strategy. As discovered in the 1980s, international (US-based) advertising exported to the rest of the world does not work as effectively as producing locally-based advertising to sell a global product and responding to national tastes. All of this suggests that to some degree, states can dictate to capital the conditions of entry provided a good deal is offered (1998: p.75).
Technological Rents

Post World War II capitalism differs from any time before it, in that the largest companies compete with each other to obtain “technological rents” from the application of technology and science to the productive process (see Habermas 1970, Mandel 1975). Unlike previous competitive regimes (where the goal was to cut costs and therefore prices), large firms compete by developing new and technologically superior products against each other. Product differentiation is also a major component of this and allows transnationals to effectively compete on many different levels and in many different countries. This focus on technological rent – the production of high-end (value-added) products and services in order to produce price-making goods allows nation-states to provide a stable environment amenable to such production and gives countries in the first-world the ability to engage in a “race to the top” rather than a “race to the bottom” (Chase-Dunn 1998: p.76).

The New International Division of Labour

Chase-Dunn expands on Wallerstein’s original definitions of this phenomenon and claims that while labour has been divided and territorialised according to the

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7 Arrighi (1982) argues that this focus on technological rent and product differentiation rather than price competition led to the production of stagflation in the 1970s - although this is disputed by Goldfrank (2000) who claims that stagflation was simply the time lag between production and prices catching up, suggesting a somewhat “normal” stagflation period on the A-phase of the K-Wave. This had a specific effect on the breakdown of US hegemony since the late 1960s and has influenced Australia’s position.
The position of countries in the core, periphery and semi-periphery, this division is not static and that there has been movement within the system. The international division of labour has been reorganised a number of times in the last 500 years to reflect production needs (Chase-Dunn 1998: p.81). The original system of extraction from external areas of the system (plundering the New World) was replaced by the more efficient form of production using forced labour.

Infrastructure investments into electricity, transport and communication allowed low-end production and exportation by core and peripheral capitalists. Lately, manufacturing has emerged in some non-core states where conditions allow. Newly Industrialising Countries (NICs) are a reflection of these phenomena, with core companies outsourcing some of their production functions to the semi-periphery (1998: p.79). Irrespective of this, labour in the core countries is more highly paid than in the semi-periphery and this can be seen to be workers enjoying a higher aggregate wage through productively “exploiting” those in the semi-periphery (who in turn exploit those in the periphery) in a classic Wallerstein-inspired three-tiered system. It can also be seen as a reflection of the value of commodities produced, depending on whether such goods are price making or price taking.
Despite conflict between states and a heightened sense of disunity amongst the international community, an argument has been advanced stating that the world-bourgeoisie is becoming more integrated. As Chase-Dunn asserts, this is a new formulation of an old debate amongst the Second International about “superimperialism” vs. “continued imperialist rivalry” (Chase-Dunn 1998: p.83).

The original formation of the world bourgeoisie has existed, but has represented a competitive and conflictual relationship. Although current corporate cooperation is questionable, intracorporate alliances within specific sectors of the world economy have certainly increased in the last half-century, leading to the possible lowering of competitiveness in the system. What is more interesting is a pattern of political integration in the emergence of the United Nations, a consequence of increased economic integration and the cold-war need for mediation of conflict between the USSR and the US prior to 1991 (so as to avoid a nuclear war).

States are directly integrated within the world economy to such a degree that there are very few ways of “opting out” of the World-System without reversion in a country’s economic position. However, what many economic liberals do not examine when espousing the necessity of participation within globalisation is the

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8 This involved the Trilateral Commission attempting to coordinate the economic policy of Europe, North America and Japan, with limited success. More successful has been the World Economic Forum in Davos, Switzerland.
way in which states can react to the global economy – there have clearly been success stories not based around microeconomic solutions but quite the reverse, government participation and planning of the economy, usually with an export focus to respond to international demand (1998: p.84). This is aptly demonstrated by the position of Germany, France, the small states of Europe and Scandinavia and Japan – in fact, just about all of the non-Anglo-Saxon core countries. A country’s integration into the World-System is almost inevitable; how that country reacts to the global market is a different matter.

A Socialist World-System

The creation and establishment of socialist states within the World-System since the beginning of the 20th century is the final major component of change. Although a number of Communist states have developed since the October 1917 Russian Revolution (and particularly since the 1950s elsewhere) they have generally begun as independent nation-states, usually with some connection to the other Communist states, but have been reincorporated back into the international capitalist economy (1998: p.85). This has clearly accelerated since the fall of the USSR with the remaining Communist world-power, China, completely subsuming itself to capitalist demands. This includes the highest level of production of cheap low-end and manufactured goods for export, based on extremely low wage and taxation rates. Again, this characteristic indicates that it
is difficult for individual nation-states to opt out of the system, irrespective of size, with the possible exception of the world hegemon (such as the United States) due to its position of political and economic strength.

**Australia’s Position**

It is clear that World-Systems Theory can be used to examine and analyse Australia from the perspective of historical patterns of production. This is where the theory becomes most useful to the examination of Australia’s position in relation to other states in terms of the nature of production, not simply in terms of economic indicator figures such as GDP, FDI or other such measures. World-Systems analysis is a complete system for the placing of nation-states as they relate to each other (in terms of the dependence or interdependence of the world’s countries).

However, there have been some criticisms of using a strict World-Systems approach to place countries into a hierarchy of dependency. How does one address movement within the system? How can certain countries’ movement from underdeveloped to developed or, as is more usually the case, developing, be explained? How can the dependency of certain countries be explained while many others supposedly in the same position have broken free of this dependency?
Even if we dismiss neo-liberal attacks on the nature of World-Systems Theory in terms of the availability of technology transfer and questioning as to what is stopping semi-peripheral and peripheral countries from purchasing the necessary means of production, how is it that countries which, according to World-Systems Theory, should be locked into a cycle of apparently hopeless dependence (such as Singapore or Korea) have managed to become leading economies in their own right? How can the enigma of Japan be understood within this context (as a “small” state economically before the 1950s, if not in terms of population) when it has virtually no natural resources, was thoroughly dependent on core countries after World War II (most directly, the US) and had no significant provisions which would allow for development, particularly given the recurring cycle of dependence it should have been locked into after 1945? This is where Peter Katzenstein’s Small States Theory becomes important to understanding fully how countries can move within the framework to the World-System.

Small States Theory

The second major theory used in conjunction with World-Systems for the purpose of this thesis will be Katzenstein’s Small States Theory. Although it is arguable that some previous theorists had assessed the way in which small nation-states in the developed world reacted to economic change as opposed to large ones (for example, see Korpi 1989) this was not necessarily seen in terms
of capital/labour interests coming together in a non-pluralist manner to jointly pursue national interests or establish common goals. Some analyses of small states prior to Katzenstein’s work came from a structuralist position and asserted the irreconcilability of class interests, thereby not even considering corporatist arrangements as being conciliatory and effective. In addition to this, it has been difficult to see advancing corporatist trends in many countries until the 1980s due to the post-war boom. This period provided a level of prosperity to the developed world, clouding the success of real structural adjustment policies being made in many small states.

Peter Katzenstein’s Small States model presents a pattern of industrial and social policy that has characterised small European states in the Post-World War II period as the result of a broad class compromise around an ideology of domestic compensation based on the implementation of Corporatism. This class compromise was initially formed in response to the external economic and political pressures facing small European nations during the 1930s. It is based around flexibility in production combined with the structural adjustment of industry focused toward export markets. Katzenstein maintains that business-government cooperation centered on a social-democratic form of Corporatism has produced the best economic results. This laid the foundation for an industrial policy of economic openness combined with extensive social protections which compensated those adversely affected by free trade. Katzenstein argues it was the institutions created by this compromise which are responsible for the small European countries pursuing this type of industrial policy and consequently
experiencing superior economic and social outcomes in the context of the general economic downturn that affected advanced capitalist economies during the 1970s.

Katzenstein conducted the first development and assertion of corporatist Small-States Theory from 1983 onward, culminating in his major work *Small States in World Markets* (1985) and the earlier *Corporatism and Change* (1984). Under three specific sections – international liberalisation, domestic compensation and industrial adjustment – *Small States in World Markets* attempts to categorise political and economic processes throughout seven small European states and compare these to five large ones⁹.

In *Small States in World Markets*, Katzenstein argues that in the small European nations during the interwar and immediate post-World War II years extreme economic vulnerability combined with an inability to alter the terms of integration into the world economy (given the apparent structure of US hegemony under the Bretton Woods agreements) produced economic and political crises. These crises were resolved through interest group or class compromises which preserved economic openness and social policy. These compromises occurred both economically, with state-industry cooperation and integration through corporatist policies, and socially, through the implementation of social-democratic policy, including a relatively universalist welfare structure and accessible education for retraining. The twin combination of free trade (forcing a focus on

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⁹ The seven small states studied are the Netherlands, Finland, Sweden, Norway, Denmark, Austria and Switzerland. These were compared to the non-corporatist liberal states of the US, the UK and Canada, as well as the more corporatist-leanig large states of (then West) Germany and France.
international standards of production) and government-driven corporatist policies ensured responsiveness of the economy to the demands of export markets. It appears that corporatist policy and traditional social democratic goals have been used in tandem – some theorists have even asserted that such systems are symbiotic (see Garrett 1998 for an example of this).

The initial observations given in the first book indicate that small states in Europe have supported openness in terms of trade and flexibility with respect to labour and economic policy since the 1950s. They have done so because small states have to be competitive to maintain a certain level of sales in international markets, their domestic market not being sizeable. Because small states cannot successfully defend their domestic product through tariff walls or other monopolistic behaviour, they have favoured an export-focus with quality control and product competition being the key to success. Free trade (though not free finance) has been endorsed by these small states in an attempt to sell product competitively and on a “level playing field”, compared to their larger neighbours such as Germany and France (Katzenstein 1985). The focus of production has had to be on high-end manufacturing, world-class design systems, quality control and value adding in order to be able to sell “price-making” goods on international markets while retaining high domestic wages and quality of life.

Flexibility and openness has been achieved in the small European states through a social-democratic corporatist framework in which social policy is implemented in order to facilitate cooperative and agreeable flexibility arrangements with labour. This includes the provision of a comprehensive safety net but particularly
focuses on re-skilling of labour and the provision of relatively high wages in exchange for efficiency and creativity gains. The reason these tripartite corporatist systems have held together is because of the position of these small states in volatile world export markets: “perceived vulnerability generates an ideology of social partnership that had acted like glue” (Katzenstein 1985). This has led to the acceptance of structural adjustment and domestic compensation programs, but always within a social and agreed outcome-focused framework in which capital, the state and labour come together collectively to pursue national interests (Katzenstein 2003: p.12). *Corporatism and Change*, written a year prior, helped to inform these findings with a direct comparative analysis between Switzerland, representing a form of “liberal-based” corporatism (due to its status as a tax-haven), and Austria, demonstrating a more common social-democratic approach to corporatist policy.

The main plank of this industrial system has rested on social-democratic corporatism as a mechanism to ensure export competitiveness and a universal welfare state concurrently. It is argued by Katzenstein and others (Castles 1988, Garrett 1998) that this corporatist element is critical to addressing the needs of labour, capital and government and in satisfying all interest groups – while at the same time surviving in international markets and allowing for a first-world standard of living. According to recent work by contemporary small-states theorist Geoffrey Garrett, this system has worked well in the small Western European states because it has consisted of four key elements:
• **Redistribution policies** to protect those affected by global markets through free trade;

• **Promotion of investments** in human capital and infrastructure undersupplied to the market – the supply of “positive externalities” as it is known in Macroeconomics;

• **A tie-in between wages and the profitability** of each competitive industry relative to international standards rather than relative to other domestic competitors (which encourages efficiency and creativity); and

• **A stable environment** for production during uncertain economic times, especially if labour is highly-skilled (Garrett 1998: p,130).

The key assertion made by Garrett is that such an approach may apply to other small states as one possible way of meeting the challenge of Globalisation:

Of course, this ‘virtuous’ response to the pressures of Globalisation should not be expected everywhere…but it is not just still viable, but perhaps even exportable (Garrett in Pierson 1998: p.464).

Corporatist Small-States theory has been influential on many theorists and has been considered in relation to Australia and New Zealand. Most notably in this area it has had clear influence on the Domestic Defence Model developed by
Francis Castles in relation to the antipodean states. Castles argues that the policy patterns that have characterised Australia and New Zealand for much of the twentieth century are one built upon four major interdependent historical components: tariff protection, arbitration, immigration controls and a residual welfare state (Castles 1988, 1989b). Once these were established, it is argued that these arrangements exercised considerable influence over the pattern of economic and political development in Australia in the 20th century. They particularly shaped the development of industrial relations and social policy and it is argued that set wages combined with high employment altered the pattern of distribution in Australasia providing the functional equivalent of what the states provided in Europe through social insurance programs, or “social protection by other means” (Castles and Pierson 1996). To Castles, this represents a separate and uniquely antipodean response by small states to the uncertainties of global markets as compared to European states but with corporatist tendencies existing in both, particularly in the area of wages through arbitration (a system implemented by the state during an economic downturn in the very early part of the 20th century) and representing a corporatist compromise between capital and labour during an economic downturn and subsequent increase in the labour supply. It must be noted that wage restraint in corporatist systems does allow for real wage maintenance through restraining money-wage increases, particularly during times of inflation.

It is also important to note that corporatist theory is useful for explaining the movement of nation-states in the post-1974 economy and does cast some
doubts on nation-state movement using traditional Keynesian countercyclical policy in the current economy, particularly at a domestic level in the small states in Europe – as discussed directly in Katzenstein’s work. Lester Thurow has argued that the vicissitudes of the global market have disenabled Keynesian strategies for recovery from recession and even questions whether small European and Asian states really employed this Keynesian strategy domestically to any significant level during the 1950s and 1960s, outside the United Nations/World Bank framework of macroeconomic policy. Therefore, Thurow claims that productive changes within these states after WWII can be attributed to something else, most notably sustained structural adjustment as opposed to focusing on the domestic “pump-priming” of the economy (Thurow 1995). This is supportive of Katzenstein’s analysis of small states: according to Katzenstein, small states could not exercise independent Keynesian Macroeconomic policy during the 1950s to the 1970s and had to pursue a different path, responding to crisis rather than trying to mitigate it (Katzenstein 1985, 2003). Thurow further states, “Keynesian countercyclical policies are blocked by the emergence of a global economy that has made one-country national Keynesian economies impossible for all but the world’s very largest countries…but [traditionally] this has not been done by smaller, successful nations anyway” (Thurow 1995: p.216).

This does provide an interesting contrast to the dominant historical political economy viewpoint in relation to the economic development of small states from 1945-1973/74: it is arguable that many smaller successful states were not pursuing such strategies, understanding that many of these policies would not
have effect on a small economy in international markets. There is evidence to suggest that many of the social-democratic nations in Europe during this time (most notably the Netherlands and Austria) were not just pursuing post-war Keynesian strategy but also reacting to price signals from the global market in the form of exports - which may explain why these states have been relatively successful in prospering in a global economy where the economic strategy have changed. Again, Katzenstein addressed this in his work and highlights the bias toward large-Keynesian analysis in terms of the smaller states during the second half of the 20th century.

Given the examination of small independent states given by Small-States Theory, it is reasonable to adapt this argument to Australia. Both Australia and New Zealand are good models for a testing of the applicability of corporatist Small-States Theory to other nations outside Europe – in “technical terms the two countries [Australia and New Zealand] represent almost perfect real-world examples” of states which might fit the Katzenstein model (Wailes 2001). Like the small European states, Australia is a small country dependent on world-markets and has faced the pressures of economic vulnerability as stated in corporatist literature (Schwartz 1994). In particular, Australia has historically relied on international trade in commodity markets in which it is importantly a price-taker in low-end product as discussed in chapter one. This makes Australia more vulnerable to international shocks in the world economy than the European price-making economies and thus more sensitive to rapid nation-state movement within the framework of the World-System.
Specific Criticisms of Small-States Literature

As demonstrated so far, this thesis asserts that Katzenstein’s Small States Theory can provide a unit of analysis for the antipodean states with respect to their location in the World-System. However, small-states theory is a relatively new (and quite Eurocentric) theory which posits the need for a detailed examination of current small-states literature and criticisms of it. This is because of the relative lack of academic work involving corporatist small-states theory as compared to World-Systems Theory and particularly due to criticisms made by a number of theorists as this relates to the tenability of corporatist policy and practice in a liberal economy. These specific objections need to be considered before a full Wallerstein-Katzenstein synthesis can be confidently applied.

Therefore, at this point it will be necessary to examine the specific elements of small-states literature as this relates to Australia while addressing direct criticisms of the corporatist small-states work. The review will be extensive and will cover all main areas of theoretical criticism.
The Globalisation Thesis: Instability in Corporatism

The most significant criticism of Katzenstein’s work is that it is an analysis conducted at the beginning of the implementation of neo-liberal policy and so discusses changes made during a transitional period, where small states could afford to keep existing social programs in exchange for some initial steps toward market liberalisation and more flexible labour arrangements; when unemployment proved to be a permanent feature of core countries and capital became increasingly more mobile in the 1990s, business began to pull out of corporatist arrangements in favour of less restrictive investment in semi-peripheral areas. Combined with the advent of flexible accumulation (Harvey 1989) or Casino-Capitalism (Chase-Dunn 1998) this has led to capital flight from the most regulated areas of the core and a focus on the accumulation of currency and short-term financial instruments (liquid capital) rather than geographically located physical assets where possible. Simply, this criticism asserts that Small-States Theory is outdated and was relevant only to initial economic restructuring in the 1980s.

There has also been the assertion that the expansion of international business opportunities has been facilitated in the 1990s through increased communication and has led to a negation of corporatism. This phenomenon was extensively examined by Harvey and called by him “a compression of time and space” in that technology allowed people to communicate more quickly and to, in effect,
“closer” to each other (Harvey 1989). According to critics of Small States Theory’s contemporary relevance, the advent of further communication technologies such as cellular phones (with international roaming and personal 24-hour communication becoming the norm) and the Internet (with high-speed Graphical User Interfaces and almost universal Email amongst businesses) combined with an almost universal drop in tariffs has led to almost unlimited investment opportunity in the 1990s and beyond (Gobeyn 2001: p.5). The critics continue that because there is a focus on flexible accumulation and liquid assets, hard currency can be directed almost anywhere, with near-perfect information in terms of investment available through communication. Any new investment opportunity can be quickly absorbed in a way that could not have happened even in the 1980s: what could have taken six months in the 1960s and 1970s and perhaps 6 weeks in the 1980s can now take less than 24 hours in terms of a transaction (Gobeyn 2001). With increased investment options available to them, most businesses will not invest within a corporatist system, according to the critics.

Gobeyn (2001) has extensively studied the arguments relating to social-democratic Corporatism in small states and argues that while corporatist arrangements do promote some industrial flexibility and labour complicity at a national level, such arrangements are increasingly less palatable to large corporations in a sophisticated global economy. It is argued that centralised and tripartite political bargaining arrangements concerning representatives from trade unions and capital (with the state arbitrating and setting policy objectives) have abated, with decentralised systems of neo-liberal or pluralist forms of bargaining
replacing this – this is considered “micro-corporatism”. Critics focus on the unacceptability to transnational corporations of policymaking structures based on cooperative relationships in a time of economic crisis and high unemployment.

Empirically it is stated that corporatism is in crisis. Based on information provided by Regini (1986), it is claimed that there has been a general decline in the stability and effectiveness of corporatist arrangements and a subsequent decline in stability of such systems. Further, the effectiveness of corporatism is placed into question. According to critics such as Goebyn, neither the social democratic conception of the corporatist state (with tripartite cooperation, conflict-minimisation and the development of welfare state mechanisms) nor the Marxist-Leninist interpretation (with class conflict through working-class uprising proving to be inevitable, despite the efforts of capital and the corporatist state to mitigate them) correctly take into account the flaws and biases inherent in corporatism.

The social democratic interpretation focuses on the conflict minimisation and stabilising qualities of an efficient corporatist state. However, according to Goebyn this fails to take into account the current “wave of corporatist decline and instability” (Goebyn 2001: p.4). According to him, corporatist systems are efficient at ordering production and avoiding conflict only when the economy is on an upturn and not in slump. Because of the current world economic crisis, the following factors have led to business increasingly choosing not to be part of a corporatist system:
• The arrival and subsequent entrenchment of relatively high rates of structurally-based unemployment;

• The increased mobility of capital;

• Reductions in tariffs and the virtual elimination of international trade barriers; and

• The expansion of significant investment opportunities internationally for capitalists (2001: p.5).

Due to these reasons, international corporations can take advantage of more lucrative investment opportunities and do not have to give up control over the process of production to the national government. According to Streeck, it is also suggested that the imposition of rigid and uniform standards on firms (with deviation available only every year in negotiated agreements) does not allow capitalists to respond closely to the specific needs of the international consumer (Streeck 1994: p.147). Further, it is argued that the current world slump can no longer guarantee tripartite solutions to economic problems because to do that, all interest-groups would have to benefit - which would require the union movement to have increasing real wages, the government to have an expanding welfare state and business to have increasing real growth concurrently.

The Marxist-Leninist interpretation predicts the fall of corporatist arrangements through worker dissatisfaction. Because the state inevitably acts in the interests of the ruling class, corporatist arrangements will work in the interests of capital (Gobeyn 2001). This is due to the need to satisfy the ruling class (capitalists) to
avoid punitive consequences, such as capital flight, and to encourage needed investment\textsuperscript{10}.

A slightly more sophisticated argument based on this functional approach claims that although corporatist processes may initially provide what Marx called "countervailing tendencies" to mitigate class conflict, eventually an economic slump will occur (Harman 1984). At this point, workers will be increasingly dissatisfied with the inequitable policy outcomes demanded by business and approved by the state – in fact, corporatist structures will end up being utilised as a formal mechanism for wage restrictions and reductions in working conditions. Marxist-Leninist theorists such as Panitch (1981) have maintained that the workers would “create unrest and instability” within corporatism, finally challenging the system through a revolutionary uprising or at least some form of direct action as a result of this (Panitch 1981: p.35).

Empirically, Gobeyn challenges this by claiming there is no empirical evidence that labour has been discontented with corporatist policies and that in practice, virtually no union has withdrawn representatives from corporatist policy structures, irrespective on how dissatisfied the leadership may be (Gobeyn 2001: p.12). Rather, it is suggested that Marxist-Leninist theorists are incorrect because it is not the rank-and-file who are dissatisfied and question the efficacy of social-democratic corporatism, but the \textit{corporations} which are concerned with the real benefits accruing from such a system. As such, “capitalists…should be seen as

\textsuperscript{10} The famous phrase instituted by Lenin being “if you run the state, you end up running capitalism” thus implies that the state has to run capitalism at a profit or risk collapse, irrespective of the ideological perspective of Government (Lenin 1917).

Gobeyn concludes his research by stating that social democratic Corporatism in the small states is a “fair weather friend” – it is most effective in times of boom and can serve as a means of maintaining a high level of capital accumulation under such favourable conditions, such as the period between 1945 and 1973/74 (2001: p.20). However, contemporary economic trends such as labour-saving technology, high structural levels of unemployment, the free flow of capital and above all, slow economic growth rates in core countries make the adoption of corporatism unnecessary for the majority of transnational and multinational corporations (2001: p.14). They can obtain better outcomes through employing pluralist, interest-group strategies in their approach to industrial relations.

Taylor (2002) provided an in-depth study into Gobeyn’s 2001 research and concluded that many of the criticisms made by a large number of political and social scientists as to the nature of corporatist bargaining structures were unfounded. He claims that the main crux of such criticism lies in the assertion that capitalism has moved into a new and dynamic phase where “flexible specialisation” has become the main focus of production and government structures, based on interest-group involvement are both no longer required and are also a hindrance. Simply, such attacks on social-democratic corporatist arrangements are predicated on exaggeration, an extreme attitude to globalisation (presupposing wealth as being represented only by free finance), a misunderstanding of free trade, a lack of examination of the most successful
corporatist states outside Sweden and a fashionable attitude toward globalisation (Taylor 2002: p.419).

Historically there is a tendency to downplay the fact that successful corporatist arrangements came about as a response to economic crisis, not simply as arbitrary social policy in times of boom. Social-democratic corporatist strands developed due to economic difficulties and almost never as a result of a rising market: in times of economic boom, each group would simply lobby for what it wanted in a pluralist fashion\textsuperscript{11}. It also appears that contemporary political analysts seem to have accepted the specious and unproven claim that administrative inefficiency and failure are systemic to a bureaucracy not financially accountable, even if it is seen to be democratically responsive (2002: p.419).

Although most theorists accept that government is more democratic than the private sector and thus more socially progressive, some inefficiency is seen to exist with departments not integrated into the market mechanism\textsuperscript{12}. This inefficiency may be acceptable or even ideal to some if social policy is being pursued within a democratic framework, but it also implies that government should not interfere directly with the production or supply of commodified goods, thereby suggesting a tacit negation of corporatist structures. This “bureaucratic

\textsuperscript{11} So labour would demand wage rises and left-leaning Governments would use their surplus to implement welfare policy, usually without consultation with business.

\textsuperscript{12} Libertarian theorists argue the market mechanism is more democratic than government in that people “vote with their wallet” every time they make a purchase, democratically determining supply (Friedman and Friedman 1980) – presumably ignoring the different amounts of money in people’s wallets and the reason for this inequity.
governance” hypothesis stems from the world economic crisis of the 1970s and the perceived inability of government to deal with market inefficiencies either through replacement strategy or organisational policy (Habermas 1979). It has informed debate within left-leaning organizations and has provided justification for liberals (and even some people who call themselves social democrats) when it is insisted that government should only institute social policy if it can be afforded. Government should concern itself with the distribution, rather than production, of profit in a market economy. This is antithetical to the corporatist strategy, although not necessarily opposed to a “moderate” or “third way” social democratic model with pluralist leanings such as that proposed by Giddens – if that is to be considered social democratic, a highly debatable point (Giddens 1994, 2001).

As a result it is argued that criticisms of social democratic corporatist states, most particularly the Small States hypothesis provided by Katzenstein et al., assumes that macro-political organizations within government are necessarily rigid and inflexible in their mode of operation and that this is (somehow) systemic. In contrast, the conflictual nature of pluralist forms are “portrayed as more flexible and efficient” in the marketplace (Taylor 2002: p.420). Theorists such as Goldthorpe (1984) have argued that the observable difference between pluralist and corporatist systems reflects the changes in the world economy binding states since the mid-1970s. According to this view, the main benefit of corporatism in this system has been for labour to guarantee wage restraint in exchange for an influence on labour and public policy, perhaps even extending to the decision-
making powers of corporations. In comparison, pluralist systems are said to work in that they exclude interest groups and many of the associated democratic processes. The true focus of such pluralist systems, according to this approach, is on powerful groups and associations with economic influence, limiting discussion on production and employment to the market mechanism, rather than to social relations and concerns (Goldthorpe 1984: p.319). This places corporatist systems under threat, in that corporations are more willing to exclude rather than include interest groups from discussion. They would instead lobby states for influence within the context of high structural unemployment and ask for government concessions, irrespective of the lack of benefit to labour in doing this. This is consistent, according to Goldthorpe, with the increase in influence by the private sector and the restriction of government power in economic decision-making (1984: p.334).

Streeck (1994) has also asserted a theoretical schema criticising the nature and significance of wage restraint in a world economic system with high unemployment. Wage concessions from the working class were considered beneficial during the world economic boom (1945-1974) in which full employment allowed labour to have significant strength. Also, stable economic growth allowed the setting of steady real-wage increases, something difficult to attain except through some form of government-led arbitration or negotiation (Streeck 1994). Since the economic crisis, corporations have had to adapt to international market contingencies to make a profit. Due to a lack of guarantee regarding annual economic growth, transnational firms must respond quickly to existing market
conditions or risk losing money, according to Streeck. Therefore, corporatist systems are seen as remarkably “non-international” in approach and therefore, inflexible, in this view. Streeck has claimed that organised and highly mobile international firms have contributed to the steady corporatist decline since the early 1980s and that the initial investments multinational corporations and banks began to make into developing areas (of the semi-periphery) in the mid-1970s was the beginning of this. This largely began after the 1973/74 OPEC oil crisis and was designed to capitalise on apparently high growth rates in developing nations and the easy access to credit provided by “petrodollars”, the economic surplus obtained from a sharp rise in oil prices by OPEC nations.

As stated before, the main criticism launched at Goldthorpe and Streeck concerns the nature of a priori assumptions made, particularly with respect to flexibility. While Goldthorpe makes mention of and subsequently criticises the rigidity in corporatist arrangements, he does not explain sufficiently where these rigidities lie or go on to identify them. Although suitable identification of the flexibility afforded by the liberal pluralist approach is made, the “inflexible” arrangements existing in arbitration or social democratic systems emphasising corporatist conciliation are not defined (Goldthorpe 1984). More critically, no specific examples are given with respect to the lack of flexibility provided by a corporatist process or indeed any form of capital flight occurring in countries employing such strategies, making the this argument empirically unsupported. As the “inflexibility” and “rigidities” of corporatism are never defined, demonstrated or
proven, there is an element of unconscious bias constructed from the argument Goldthorpe advances coming from Smith’s *invisible hand*. As Taylor states:

A more useful distinction [between corporatism and pluralism] one which does not carry the assumptions of efficiency implicit within the metaphors of rigidity / flexibility would be to argue that corporatist and dualist [pluralist] responses to crises offer both opportunities and constraints. Formulated in such a manner, the framework does not assume…dualism is more flexible than corporatism as a response to crisis. (Taylor 2002: p.427)

Seen in this manner, pluralism and free-market responses to crisis offer opportunities and constraints. Savings in (unskilled) labour costs and taxation can be realised\(^\text{13}\). The displacement of areas of government responsibility to the private sector allows greater control by business and reduces the initial conflict between elected governments and business, particularly in the areas of labour relations. To an extent, the responsibility of unemployment is also diminished for both parties. It could allow government to only focus on social policy rather than regulation or to provide tax cuts to lower income groups. However, this also produces instability between labour and capital, restoring the visibility of the inevitable class conflict which is assumed by Marx to exist in capitalist societies

\(^{13}\) Although some theorists would also contest this claim with respect to wages; as an example, see Walsh (1993) who provides an extensively researched labour study claiming wage differentials between corporatist and non-corporatist states are relatively static.
(Marx and Engels 1990: p.32). Labour in high-skill areas may demand increasing wages, not reliant on real growth in an industry but solely based on labour scarcity in a tight labour market. Keynes also supposed the potential for the “anarchy of the market” to manifest in times of economic paucity if government does not intervene (Lekachman 1980). There are no “counterveiling tendencies” to the tendency of the rate of profit to fall in a free market, as companies bid themselves down in price competition rather than focusing on innovation and product specialisation, causing uneven growth and micro-slumps as well as larger economic downturns (Garrett 1998).

Even if production and distribution are ordered and wages are still kept relatively low, labour is often unskilled and constitutes a lower socio-economic demographic; thus, social stability is compromised. Corporatism can be seen to ameliorate all of these concerns through reciprocal arrangements, labour stability amongst skilled as well as unskilled workers, infrastructure support, government intervention and support of structural adjustment, the provision of a skilled labour market (through low-cost education provision) and of positive externalities (such as free healthcare) as well as social harmony through appropriate public policy (see Garrett 1998, Oberg 2002, Schmidt 2003). This is particularly suitable for corporations focusing on high-end production of price-making commodities in internationally competitive markets, precisely the type of industry most governments wish to encourage. A further element is found in the long-term corporate planning attributed to corporatist organisations, which is quite distinct
from the short-term orientations of laissez-faire corporations and allows for more sustained, as opposed to purely cyclical, growth.

Taylor summarises by stating that the inherent “bureaucratic inefficiency” hypothesis supposed in most criticisms of social democratic modes of corporatism has not been empirically demonstrated and yet is assumed by most papers questioning corporatist arrangements. Some forms of low-end commodity producers and low-end service providers may be better suited to a free-market model as opposed to a corporatist one because low input costs are necessary to compete in a price war “to the bottom”. However, since such businesses do not produce large amounts of taxable revenue per unit and offer comparatively low wages, such operations are not particularly desirable to core countries, particularly as they generally have a short-run future. Rather, high-end product and service providers relying on cutting-edge technology to produce high value, price-taking goods are desirable because of their high taxation component, responsiveness to social movements and relatively high wages. Such corporations are competitive in the long-term and are usually more amenable to corporatist processes. Non-class forces also have to be taken into consideration, with managerial strategy being more than a reduction in wages and taxation in crisis (Walsh 1993). Finally, the continued success of corporatist arrangements in many small states such as Norway and the Netherlands (with both registering a reduction in unemployment since 1997) indicate that criticisms of macro-
corporatism are not just theoretically flawed but also empirically premature (see Appendix one)\textsuperscript{14}.

*Selective Compliance: the Critique of “Weak Corporatism”*

There is also discussion of the problem of “selective compliance” within corporatist countries: many transnationals may enter into a corporatist agreement, but only selectively and legalistically comply with agreed policy outcomes in such a way as to secure maximum benefit for the company. This can include outsourcing certain areas of labour-intensive production to semi-peripheral states (or indeed subsidiary firms in other core states) while keeping necessary technology-reliant production or direct service provision in the core states through “active non-compliance” with stated policy (Gobeyn 2001: p.434). Jessop (1990) mentions that actions taken by certain firms could undermine the consultative process through exclusion of many areas of concern. Companies could be prepared to make compromises, but only in given areas and only for maximum benefit. This would necessarily favour the commercial interests of capital (good infrastructure, government concessions and special treatment) as

\textsuperscript{14} Sweden is often attacked for having a high recorded unemployment rate, but this is clearly counterfactual - unemployment was recorded at 4\% in 2002. Further, an examination of Norway, another small corporatist state provides unemployment rate of only 2.7\% (2002). See Appendix 1.
well as providing substantial benefits to the business that only a core nation can provide\textsuperscript{15}.

This tactic, if successful, would promote “weak” forms of corporatism in which labour only had certain power and negotiation was limited to specific areas, defined by capital. Again, it is argued that the threat of capital flight and the internationalisation of production allow companies to operate in this manner and set the agenda. Such weak forms of selective corporatist bargaining may be extremely agreeable to global business, particularly from the perspective of satisfying social concerns and providing the perception of being both nation-based (being seen to support one country) and a good corporate citizen. The principles of corporatist conciliation and spirit of policy development along mutually agreeable outcomes, including non-economic outcomes, would be lost.

The main criticism of this analysis consists of examining the empirical evidence related to this potentially plausible scenario and the tight \textit{interwoven} construction of corporatist processes. The premise of corporatist structure is based upon conciliation between interest groups, most notably that of labour and capital: for concessions to be granted to capital, an increasingly wary labour movement must receive tangible and observable benefits. More importantly, government will not grant concessions unless common targets are agreed upon and followed and practice has demonstrated government has the ability to enforce these. Swenson (1989) has stated that through empirical observation of the major small states in Europe, it can be noted that capital, once agreeable to corporatist processes, is

\textsuperscript{15} These include infrastructure, wage restraint for highly skilled labour and other benefits already discussed.
subject to them by interlinking systems designed to overlap in order to realise common interests. If existing political and institutional realities are taken into account, it can be seen that firms agreeable to all areas of corporatist policy are often granted what all capitals desire: monopoly rights and the reduction of competitive pressure (Swenson 1989).

The more restricted (but still large) European market is systemically different from the freer markets in the US and as such, political intervention can be seen to be as effective as economic power - see Streeck (1981) and particularly Thurow (1995) for a description of this phenomenon. Failure of a firm to follow all areas of policy simply leads the government to begin talks with other interested businesses. Furthermore, specific studies into approaches to corporatism have demonstrated that when individual transnationals are withdrawn from such arrangements after only legalistically complying, destabilisation of corporatism does not occur in any observable manner (Swenson 1989). Usually, noncompliant transnationals have simply replaced by other opportunistic ones, prepared to enter into agreement in exchange for special consideration, particularly preference at the domestic-market level (Thurow 1995). Although the legalistic approach to corporatism appears possible, and may represent a real threat to corporatism in theory, it has not been observed to work for sustained periods due to the anti-pluralist, anti-legalist approach systemic to corporatism, the strong level of state regulation and the interwoven nature of corporatist processes.
Inefficiency of Corporatist systems

Another criticism of corporatism relates to the efficiency of production. Even if company compliance is assumed, the eventual efficiency of production must dictate a corporation’s actions in a market economy. Investors will not favour systems where growth is too low, even if stability is accepted as a highly valued attribute for international investors looking for consistent growth in times of economic crisis. Economists have claimed that even if corporatism is beneficial to some companies through restricting price competition and providing the attractive combination of wage restraint and high social stability, this will not be sustainable if such corporations are inefficient, particularly considering the export focus assumed by small states in social democratic corporatist systems - see Burda (1997) and Andersson (2000) for recent critiques of this argument. In this situation, corporatism may look more like protectionism than the end product of negotiated outcomes for structural adjustment to world markets. This is a common criticism of contemporary corporatist systems and serious consideration will now be given to it.

The economist Andersson (2000) argues that corporatist systems are often attractive to business, particularly if this relates to special consideration being given to supply of the domestic market. However, Andersson claims that poor economic performance in terms of production and high unemployment rates in previously successful corporatist states such as Sweden indicate that
Corporatism promotes market inefficiencies which are eventually terminal. It does this through selective and preferential policies benefiting specific corporations which have been seen to be supportive of macroeconomic corporatist approaches (Andersson 2000). Because corporations are supportive in the short-term, these inefficiencies are not perceived and the system may work well for a period, even in times of significant economic crisis. However, this can only operate successfully as long as international consumers are purchasing export product. Once these inefficiencies reach a critical mass, structural problems in corporatist arrangements are quickly exposed and production, as well as employment, drops dramatically (2002).

Sweden is considered to be the archetypal example of a corporatist system in stagnation, according to Andersson. Due to high union participation and centralised union representation in Sweden, the process of mediation is required to avoid capital/labour conflict and has been encouraged by the government. In 1999 negotiations between the trade union confederation and the central employers confederation on reforming an alliance for growth-oriented production and service provision have been encouraged by the ruling Labour Party with former Prime Minister Ingvar Carlsson as a mediator, indicating a return to a “strong” form of corporatism after a brief foray into individual negotiation in the early-to-mid 1990s after unemployment rose quickly (Steinmo 2003). It appears that these actions are an attempt to restore the idea of corporatist cooperation as a mechanism to govern the domestic sphere and deal with the changes in the world economy.
It has been argued that using corporatism as a means of promoting efficiency is not the most effective way of dealing with systemic inefficiencies caused by previous corporatist arrangements in the first instance. This is particularly related to Sweden and Finland, with high levels of unemployment and sluggish growth per capita in the mid-1990s cited as evidence. These two small states are used as empirical examples of a “political capitalist” state, in which production is sacrificed to political preference; corporatist agreements may appear suitable (being initially acceptable or even supported by business) but in the long term this is self-defeating. According to theorists such as Burda (1997) such policy can be likened to a government imposition of tariffs for heavy manufacturing: the majority of business supports it as such policy provides short-term gain, but this leads to systemic inefficiencies and a lack of international competitiveness which is ultimately rejected by business in favour of free-market alternatives (Burda 1997). In this view, corporatist policy does not make a small-state immune to persistent and high levels of structural unemployment, as evidenced by the relatively high unemployment cycles in Sweden and Denmark.

The problem is that empirically, this view is flawed: as stated earlier, Sweden has unemployment statistics of 4% and Denmark of 5.1% as of 2002-03 (Steinmo 2003: p.31). There was a problem with growth and employment in the early to mid-1990s, but this was largely due to the period in which right-wing parties challenged corporatist policies - see appendix one for unemployment comparisons between the corporatist and non-corporatist states. This is because of the nature of the organization: the first manifestations of inefficiency within a
A corporatist system will often encourage business to structurally readjust, particularly with government support (Burda 1997). This is particularly the case if a welfare state allows for great social stability despite other factors.\textsuperscript{16}

The empirical grounds for the efficiency of a small-states system is also challenged by a number of scholars. Calmfors and Drifill (1988) and Jacobsson (1999) state that while there is strong empirical evidence that social-democratic Corporatism at one time provided a strong base for the negotiation and production of combined national interests and the subsequent negation of economic ailments (such as unemployment, low growth and high inflation), this has not been conclusively demonstrated since the mid-1980s. Divergent patterns of growth have been particularly evident in the 1990s with Norway and Austria providing evidence for the efficacy of corporatist systems, but the classic example of Sweden, Finland and to some extent Denmark have demonstrated the opposite and given substance to the “systemic inefficiency” argument (Jacobsson 1999). However, neither of these objections appear to consider business sentiment and corporate support where it counts: based on an examination of the effectiveness of corporatism in providing to certain sectors of the economy, particularly those based on the high-end production of commodities and services. There is good evidence to suggest that most corporatist states can attract high-profit corporations (Katzenstein 2003). While this is encouraging, these critics claim that it does \textit{not} predicate an efficient

\textsuperscript{16} This can include factors such as a decline in real wages and a considerable drop in living standards, as well as unemployment. It would be hard for another system to provide such a comprehensive demonstration of social stability when exposed to these factors at a macro-level.
national economy free from unemployment because, according to them, past
government attempts have demonstrated that enticing corporations with tangible
benefits and protectionist arrangements does not guarantee efficient enterprises
in the long term.

Perhaps most importantly, according to Jacobsson’s argument, because
companies compliant with corporatist systems are given preferential treatment in
domestic markets there is no guarantee that a multinational company in a
corporatist state will focus on internationally-competitive export product. Many
businesses will be agreeable to accept a protected slice of the domestic market
in exchange for support of social policy and may not expand past this. This is
demonstrated by the significant number of multinational businesses that have
entered the Swedish market since the mid-1990s but have focused on production
for domestic consumption rather than export - with a great deal of ancillary
market demand met through the import of cheap substitutes manufactured by the
company offshore (Jacobsson 1999).

Although literature addressing the fiscal impacts of corporatist policy are lacking,
there are a number of analyses focusing on the macroeconomic effects of
corporatist policy implementation in terms of both wage differentials and national
growth. Tarantelli (1986) examined wage and price structures with respect to
social-democratic corporatist policies in the small states of Europe based on an
expansion of Katzenstein’s original work. It was accepted that corporatist
responses to crisis were initially useful in providing a moderate level of inflation
while retaining social benefits and real wages, but this was based on the short-
term reduction in real wage growth in exchange for an increase in social wage conditions while providing incentive to business (Tarantelli 1986). While this was not problematic in itself, both unions and business were only prepared to accept such solutions in the short-term and such policies were not sustainable for long periods in times of systemic economic slump or potential crisis. Business would require further concessions to remain part of the corporatist framework, or defect – these further concessions, if awarded, were potentially damaging to real wages and conditions, though probably not to social policy. However, such concessions were also economically self-defeating as individual firms were given increasing preference in domestic markets, making competition a matter of political influence rather than promoting effective market competition (Tarantelli 1986).

Mulder (1993) argues that corporatist policy, based principally on wage centralisation, provides nation-states with systemic inefficiency irrespective of corporate support. Mulder claims that the major defining characteristic of social-democratic corporatism in the small states relates to centralised wage bargaining. This manifests itself in “bureaucratic wage arbitration” and pattern bargaining, with little relationship between wages and prices, let alone real growth and inflation – a politicisation of wage determination (Mulder 1993). Although some areas of centralised wage fixation do benefit corporations with intensive technologically-based production (the argument being that under such conditions, a highly skilled labour base and strong social stability are more desirable than lower wages) the resultant efficiency losses means that in time, nationally-based corporations will be at an efficiency disadvantage as compared
to their competitors. The efficiency loss is not static but exponential: as wage rises outstrip real growth in a national sector of the economy, the difference between growth and wage increases will represent an increasing inefficiency for business, given that wages will not gradually adjust but must continue to rise. This burden will be unsustainable and companies will be forced to turn away from corporatism or become nationally-based, rather than export focused (1993).

The above hypotheses tend to suggest the conclusion that corporatist systems may be based upon protectionism rather than support for product innovation. It is also implied that corporatism may give preference to allow multinationals access to the domestic market, rather than supporting and maintaining an export-oriented focus for domiciled companies. Through these two mechanisms – protectionism and domestic market preference – corporations may be happy to become involved with corporatism and even support various processes, such as government-sponsored social policy, but this is done for immediate gain and political preference, not long-term product support and national stability. Therefore, various theorists assert that efficiency is compromised, and such a system cannot continue indefinitely.

*Reply to Critics of Corporatism*

The main problem with the “inefficiency/protectionist” theories of corporatism is that the two pillars of this assertion are difficult to substantiate and the majority of
corporatist literature explicitly rejects both of these ideas. Burda (1997) begins by pointing out that the small corporatist states have been the first to support free trade agreements (and the concept of a “level playing field”) rather than erect economic barriers. Such an export policy includes product innovation and cutting-edge technological transformation as well as a strong export-focus and would appear to be the opposite of protectionism (Burda 1997). The small corporatist states of Western Europe have, since the 1950s, lobbied for a reduction of tariff barriers and the lessening of government-led subsidies to internationally non-competitive industries (Katzenstein 1985). Evidence suggests that corporatism is, through the implementation of corporate-labour programs, supportive of exports. Furthermore, it would be difficult to find any particular process that could be labelled as protectionist. Critics often display a misunderstanding of corporatist systems. This is particularly a problem for Anglo-Saxon economists who do not appear to properly understand economies outside Britain, the US and the antipodean nations - see Friedman and Friedman (1990) as a good example.

The argument that business may support corporatism in order to (primarily) gain preferential access to domestic markets does not take into account the nature of small corporatist states. Such states are indeed small, and cannot rely on domestic production for consumption as a means of sustaining and adding growth to their economy, thus their vigorous export focus. Preferential access to a very small national market is not reason enough for a company to locate there and adopt corporatist policies. Booth (1995) has argued that most companies locating in a corporatist state do so because of the very tangible benefits of the
corporatist policies themselves, including help from national governments, and has statistically showed that in most cases the vast majority of profit is made internationally, even when access to domestic markets is provided. Entry to national markets can be considered to be a minor (albeit valuable) “fringe-benefit” of accepting corporatist institutions and a bargaining chip of government. The main reason for investing in a corporatist state is because of the stability offered through centralised wage arbitration and the high amount of industry support and assistance programs systemic to social-democratic corporatism (Booth 1995). This is seen as more important than qualified entry into a limited market.

Empirical studies demonstrate that the export advantage of companies located in small corporatist states clearly outweighs any market benefit accrued through domestic entry. Pekkarinen (1992) analysed the impact of corporatism on various areas of the economy. They demonstrated that the largest area of growth came from export, with little increase in domestic consumption. Statistically, there is little correlation between corporations entering such small states and growth for their product in the local market: domestic consumption remains steady (Pekkarinen 1992, Katzenstein 1985). However, there is evidence to suggest that such companies do become far more export-competitive, with the requirements of adjustment supported by government and trade unions as well as business (Pekkarinen 1992). This suggests that the benefit derived from entry into the corporatist system comes from areas other than access to the domestic economy.
Perhaps the most powerful criticism of the inefficiency hypothesis is the direct examination of growth and efficiency within the small states cited: the stated “inefficiency” of corporatist systems is, on examination, simply not supported empirically. Olsson (2003) presents a highly relevant commentary refuting the apparent inefficiency and lack of flexibility which the critics of corporatism claim to exist. He argues that growth has been consistent and not subject to the major boom/bust cycles seen in more liberal capitalist economies. Further, growth in the corporatist countries is real and not based on speculative capital growth, “flexible accumulation” or focus on a “casino economy” (Chase-Dunn 1998, Harvey 1989). The international demand for goods is still large, considering the relatively small population bases of these states. Growth is based on demand for high-end manufactured product (“hard” growth), not speculative finance (Olsson 2003: p.5).

With the exception of the early-to-mid 1990s, most corporatist states have adjusted significantly and secured steady rates of growth in innovation as well as production. Some states, such as Norway and Austria, have become extremely successful utilising an adaptive and highly responsive corporatist model and have high rates of growth coupled with low unemployment and strong social systems (Olsson 2003). The examples of the least successful social-democratic corporatist states still demonstrate flexibility and responsiveness to international markets with the living standards and conditions of a core country, including some of the highest wages in the world.
Another point to be considered is that in a corporatist system, alleged inefficiencies are often subordinated to more social democratic goals such as full employment, a strong structural adjustment system for surplus labour or equality of democracy. This is considered to be a trade-off – some absolute efficiency gains are sacrificed for a more equitable system, as has been seen in Denmark in the 1990s.

Perhaps more importantly, economic slumps do not appear to be as deep and pronounced as in the more free-market economies, with the Kondratieff B-phase apparently more subdued. Recessions, particularly those concerning speculative financial dealings, were less felt by the members of the major corporatist countries. This is due to a combination of less of a reliance on speculative capital growth (particularly the domestic share market) in favour of “hard” (i.e. real) growth and a more notable level of stability within speculative finance itself. As an example of the latter, most of the stock markets during the 1987 world share crash in the non-corporatist countries suffered large losses (Australia with a 29% overall decline, US 26% drop, UK 23% drop and New Zealand 22%) while many of the corporatist states recorded smaller overall drops in their markets during this period (Austria with a 6% overall decline, Denmark 11%, Sweden 15%)17. The high levels of success demonstrated by corporatist states such as Norway combined with comparative figures of overall, long-term growth in the major corporatist countries (as opposed to comparing growth during periods of world

17 See Harvey (1989: p.197) for a full example of this.
economic boom) demonstrates no lack of competitiveness in comparison to the liberal market economies, particularly as this relates to export competitiveness.

*Universality of Small-States Theory*

The final major criticism of corporatist Small-States Theory cited refers to the specific unit of analysis considered in Katzenstein’s original work and in subsequent analyses of these phenomena. Simply stated, although the specific small-states critique may relate to small Western European countries quite effectively, the generalisability of this theory has come into question, especially as this relates to the antipodean nation-state examples of Australia and New Zealand.

It is argued that the specific corporatist characteristics seen in Western European countries (e.g., a regulated labour market, a strong welfare state, concern for social policy) are not just specific to small states but have also been adopted by most of the large ones, such as Germany and France. The “small” states phenomenon is actually a continental-European model of government-led growth and is specific to the individual traits and dispositions of the mainland European countries. As can be evidenced by the UK, it is not necessarily applicable to the Anglo-Saxon bloc and must be accepted as being a distinctively European response to economic crisis, based on European characteristics and societal structures. This criticism is important to consider as a large part of this thesis.
rests on the contention that Australia can be seen as adopting corporatist traits in the past and acting like a “small state” to some extent.

Beilharz (1994) has contributed to the debate over corporatism in the Australian context. He observes that many theorists are concerned over the alleged corporatist nature of Australian economic policy, particularly from 1983 to 1996 during the Keating-inspired reforms and the period of the price-wages Accord. While christening this period the “long Labor decade” he refutes claims that the Accord, or Labor programs in general, were progressive, beneficial or corporatist in nature. This is particularly evident in his 1994 piece, where he states

In the 1990s, with Keating as Prime Minister, Labor was searching not for industry policy but for slogans that would keep it in power, enable it to continue the policy of managed deregulation while managing to look different from the federal opposition (Beilharz 1994: p.145).

This was a clear reference to the form of industrial relations enacted and continued by the federal Labor Government in the 1990s.

Stated simply, Beilharz takes a critical left position, claiming most manifestations of corporatism in Australia were actually managed forms of deregulation (as opposed to unmanaged approaches, such as those taken by the Howard Government since 1996). This echoes the Leninist sentiment relating to the logic of capitalism, and the inexorable contradiction arising from a reformist party attempting to change this internal logic. Higgins (1985) has also raised a similar hypothesis, although he is more positive about the general approach taken by Australia in terms of implementing corporatist policy (Higgins 1985, Dow 2002).
Ramia and Wailes (2002) maintain that the corporatist response to crisis seen in the small European states is specific to the social patterns encountered in continental Europe and cannot be generalised to refer to other small states such as Australia and New Zealand. They maintain that the Castles (1988) domestic defense model is an explicitly antipodean version of Katzenstein’s small states model and has been accepted by many social theorists as a way to understand Australian social policy without critical analysis. Further, they criticise writers who maintain that a small-states model of industrial development represents an alternative response to economic crisis (as opposed to the application of economic liberalism) and can be universally applied. They claim that due to the very different structural and historical circumstances surrounding non-European states, such sweeping application of small states literature cannot be made.

According to them, the structure of the Australasian colonial system and the harsh realities that both capital and labour experienced in the late 1800s and early 1900s demanded a protectionist, as opposed to corporatist, strategy of wage arbitration and union recognition with little emphasis on social policy (Ramia and Wailes 2002). It is also argued that theorists such as Castles and Harworth seem to assume Australia and New Zealand operated as individual nation-states during the 18th and 19th century, making choices in response to international markets. This was not the case, as both countries were subject to colonial subjugation and production was focused on supplying Great Britain, not

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18 See Mitchell (1992) and Gardener (1995) as just some examples of scholars who tend to support the domestic defense model in terms of understanding social policy in Australia; also, see Esping-Andersen’s (1990) usage of this model.

19 Bray and Harworth (1993) provide another example of this argument.
on enriching the colonies. The Government in Great Britain was responsible for the overall focus of industrial policy. Therefore, little direct strategic choice could be exercised by the Australian or New Zealand administration with respect to production, labour relations and the export-focus of goods (Ramia and Wailes 2002). Most directly, the government responses in the small European states appear to be quantitively different to those of Australia and New Zealand - while the European states focused on class conciliation, the provision of a comprehensive social welfare system and prioritisation of national goals, the antipodean response was to deemphasise social welfare and focus almost exclusively on wage arbitration.

According to these theorists, Katzenstein’s argument relating to small states has been profoundly influential on Castles’s widely accepted domestic defense model. Castles’s concept of domestic defense relies on four major interdependent areas: tariff protection, legal (arbitrated) wage regulation, immigration limitations (and the strategic use of quotas to replace labour in certain sectors) as well as a residual welfare state. Once established, these four pillars of Australian policy provided for a set of institutional arrangements which exerted considerable influence over further responses to the world economy (Castles 1988: p.82-88). Castles maintains that despite the instigation of some protection through a tariff barrier, Australian (and New Zealand) industrial policy generally represents a similar response to crisis in the 1890s as that demonstrated by Sweden in the 1930s and represents a “functional equivalent”
of corporatist policy implemented in the small social-democratic European states as a response to crisis, according to Castles (Castles 1988).

Mitchell even stated that Australia and New Zealand formed a “radical” world of welfare capitalism, in that social policy and arbitration mechanisms were implemented as a response to a world economic depression and there was a resulting focus on national production as this related to profitable export markets at a very early stage (Mitchell 1992). This was possible because of a number of unique factors: the singular focus on export product, monumental working class interests expressed primarily by the trade unions, a relatively flexible administration prepared to meet the needs of all classes and not burdened by historical prejudice, the relative wealth experienced in the 1870s and 1880s (particularly in Melbourne) when compared to the rest of the world and most particularly, the weakness of the bourgeoisie as compared to the government (Bray and Harworth 1993). According to Bray and Walsh, subsequent industrial policy has reflected these radical corporatist roots, as can be seen through the solidification of the Arbitration system in the 1920s and 1930s, the implementation of welfare policy in the 1950s, the development of a comprehensive range of social policy in response to labour demands during the 1970s and the corporatist incomes policy through the Accord in the 1980s (Bray and Walsh 1995).

Ramia and Wailes claim that such analysis of Australian settlement and the comparison of antipodean industrial policy in the early 1900s with that of Europe is a distortion as it fails to take into account the broad range of unique
circumstances surrounding Australia during this period. The limitations of the
domestic defense model lie in the “lack of historical grounding” and “assumptions
about the nature of working class power” (in that it is assumed the workers had
considerably more political and economic influence than capital in the 1800s) as
well as a loose, rather than technical, approach to comparative analysis when
examining policy responses of the small European states and Australia/New
Zealand (Ramia and Wailes 2002: p.7).

Watts (1997) argues that Castle’s domestic defense model, along with the
characterisation of Australia as a “wage earners’ welfare state” is poorly
supported empirically. Wailes also agrees with this, arguing that most corporatist
analysis of Australia tends to assume a structural-functionalist approach and an
over-reliance on positivist methodology. Watts continues to question corporatist
applications of Small States Theory to Australia, arguing that such approaches
are based on an “already settled theoretical conviction that there is a significant
causal connection between social democratic and working class mobilisation and
extensive welfare state provision” using this to examine the growth of the
Australian industrial state (Watts 1997). This causes a problem for labour
theorists, especially in the area of capital/labour class relations and the latter’s
political strength, because it is generally accepted that Australia had a strong
working-class movement combined with a relatively undeveloped welfare state. It
is argued by Watts that labour movement theory – with its emphasis on working-
class agitation for the provision of social values – is at the center of this problem
and has provided unquestioned a priori principles for supporters of the domestic
defence model and those who believe in the applicability of a corporatist system to examine Australia (Ramia and Wailes 2002: p.7). These principles must be examined.

Labour movement theorists have varying forms of analysis but tend to be united in stating that gradual welfare state development in Australia was as a result of the labour movement pushing for increased rights. Different types of social protection should arise from differences in the strength and unity of working-class interests. The labour movement view of social policy construction is supported by theorists such as Castles (1988), Korpi (1989) and Esping-Andersen (1990) and is arguably implicit in the analysis undertaken by Katzenstein himself. Despite the wide acceptance of this form of analysis, there are a number of notable labour theorists who disagree with this examination (see; Fulcher 1987, Pontusson 1984 and Swenson 1991). According to these critics, such a labour theory has a propensity to present a one-dimensional view of the power resources available to the working class at a given time (Swenson 1991). There is also a tendency to assume that labour is a single, homogeneous group which can exercise strategic choice with little or no barriers or concern for internal factors (1991). Further, the success (or potential success) of labour appears to be equated with the supposed weakness of capital in a given period or nation-state (1991; see also Pontusson 1984). According to Pontusson, none of these key premises can be necessarily assumed, particularly considering the fragmentation of the trade union bodies and employees associations scattered throughout the Australian continent in the mid-to-late 1800s (Pontusson 1984).
The failure to fully address these shortcomings and subsequent *a priori* assumptions is the reason why any application of corporatist theory either directly or indirectly (through the domestic defense model) to the antipodean region is questionable, according to Ramia and Wailes. The domestic defense model “reifies these key shortcomings of labour movement theory” through arguing that the labour movement in Australia was highly unified and that it was able to utilise this high degree of unity to make “strategic political choices” which would further the interests of its membership (Ramia and Wailes 2002). This is particularly questionable in policy areas such as the negation of sexism and racism, which Castles attributed to mature policy development by the labour movement in recognition of the combined interests of their class (Castles 1988). According to Ramia and Wailes, such areas of policy development cannot be related primarily to working-class agitation, but were implemented as a result of interventionist policy by social liberals in the early 20th century; further, there is not one piece of evidence to suggest the working class as a movement was concerned with either area of policy until the left-inclined liberal figures (such as Kingston and Higgins) considered it, and racist policies such as the White Australia Policy were actively supported by the Labor Party and labour movement during this period (Wailes 2001). Castles also claims that the relatively strong position and organisation of workers in Australia, combined with the lack of labour available and evidence of full employment, helped to provide labour with a significant benefit over capital in the 1800s, providing political concessions and the comparatively early advancement of social policy implementation (Castles 1988: p.57-58). In
developing this conclusion, it is claimed that Castles appears to ignore the impact of economic downturns on working class organisational power and the development of what ended up being a minimalist welfare state (Ramia and Wailes 2002).

Another criticism of corporatist analyses of Australia and the domestic defense approach is the tendency to see labour movements as a general unit of analysis being able to exercise singular political choice, according to Ramia and Wailes. It is arguable that Katzenstein makes this error as well, although with some justification, given the considerable level of homogeneity witnessed in continental European labour movements. As stated, Western Europe has a history and culture of negotiated outcomes and a coordinated focus in terms of policy development, labour relations, export markets and industrial production. This can be witnessed from the 1930s in Sweden and particularly after 1945 in the other Western European states during the post-war reconstruction period with the development of the European Economic Community, culminating in the current development of the European Union and the single currency (Bieling 2003: p.203). According to Ramia and Wailes it is therefore more reasonable, although still somewhat specious (due largely to the historical differences between European labour markets), for Katzenstein to attribute one specific and coordinated approach to the labour movement in Western Europe (Wailes 2001). However, attempting to utilise this approach to classify the significant but fragmented interests of the labour movement in 19th century Australia is certainly problematic, according to these critics.
A common technique used in comparative analysis of Australia using corporatist techniques is to draw parallels between the introduction of arbitration in Australia and the small European states. Wailes claims there is a tendency to oversimplify the level of conflict within the various labour groups in Australia in the late 1800s and early 1900s. Theorists such as Castles use a similar epistemology as Swedish labour theorists when examining the choices of the labour movements: there seems to be a parallel asserted between Australia after 1891 and the Swedish labour movement, with the subsequent decrease of industrial conflict in 1936 after the Saltsjobaden Agreement was signed as a long-term industrial agreement between capital and labour (Watts 1997). In this way, it is argued that there has been a significant “rewriting of history” in terms of the labour movement in Australia, particularly concerning the aims and objectives of the movement as a group (Watts 1997). Theorists such as Castles treat the introduction of arbitration in Australia as the result of a political and tactical compromise by labour in the early part of the 20th century, following the failure to secure increases in wages and working conditions through strike action, according to Watts. It is argued that this presents an oversimplified view of homogeneity within the labour movement, implying that the connection between the individual unions and employers associations, the ACTU and the newly-formed Labor Party were straightforward and unproblematic.

There is also a functional approach taken in terms of comparing the power of labour with the weakness of capital. The general approach taken by many labour historians is that government concessions (such as social policy but particularly
industrial arbitration) provided to labour was a direct result of the weakness of capital and the comparative strength of labour and the Australian government during the early 1900s. Castles claims that capitalist forces had great trouble in providing a united front against social reform and labour demands (Castles 1988: p.63). This was particularly pronounced in the divisions demonstrated by the rural and urban bourgeoisie. As a result, there was no entrenched ruling class in Australia and a strong labour movement was able to make representations to the colonial administration and the government, lending support first to the “protectionists” and then to the union-constructed Australian Labor Party (Castles 1988). All of this is based upon a linear approach to analysing the labour movement and does not, according to Ramia and Wailes, reflect the level of fragmentation and competition exhibited by the individual labour groups or the anomaly posed by a strong labour movement with entrenched systems of wage arbitration, yet exhibiting a small welfare state and limited social policy (Ramia and Wailes 2002: p.9). As such, Australia represents an industrial anomaly which is not easily comparable with the small corporatist welfare states in Europe.

Response to applicability criticisms

The most obvious problem with the criticism relating to the applicability of the small-states approach to Australia is the narrow description of what constitutes a “corporatist” mechanism: clearly, Australia does not have to follow a specifically
European pattern of industrial development to quantify as corporatist definitionally. There appears to be a failure to see the implementation of corporatist systems in Australia as necessarily corporatist, both in terms of initial policy approaches (such as arbitration systems put into place) and more contemporary trends (through capital/labour conciliation as represented through the Accord in the 1980s). Garrett (1998) states that arguments restricting the corporatist Small States model to Europe tend to emphasise cultural influence in the formation of corporatism in the small states in Western Europe from the 1930s to the 1950s. Such arguments tend to dismiss direct comparisons between European states and Australia using highly rigid arguments, rather than acknowledging that there are different forms of corporatism that may exist in different historical contexts (Garrett 1998). There is also a failure to acknowledge the underlying economic and political reasons for the cultural acceptance of such processes. This includes a specific failure to see corporatist policy as a response to economic crisis, rather than a distinctly cultural “communal” response, stereotypically limited to European groups (Garrett 1998).

There appears to be an overemphasis placed on negating many aspects of the domestic defense model and then linking this directly to corporatism: the emergence of corporatist systems does not rely on the full-proof accuracy of the domestic defense model, despite Wailes claim that it does (Wailes 2001). It is fair to suggest Castles’s interpretation of the development of industrial relations in Australia can be seen to be based on some presumptions regarding the homogeneity of labour interests which could be claimed to be overgeneralised;
nevertheless, the domestic defense argument does highlight the significant and unique influence Australian labour exercised on the formation of industrial arbitration and social policy\textsuperscript{20}. Ramia and Wailes argue that this argument relies on the perceived strength of labour and the disorganisation of the bourgeoisie during the 1890s, stating that such an analysis is flawed and subject to interpretation - but they do not provide any evidence to the contrary. Rather, there is strong evidence to support Castle’s contention that capital was relatively weak and disorganised partially due to the decentralised nature of capital within the Australian economy during the 1800s and early 1900s (see Castles 1988, Gollan 1996).

The difference between Australia and the small states of Western Europe in terms of industrial and social policy does not negate the applicability of corporatist arguments to Australia, but simply demonstrates a different type of corporatism may have existed. This will be dealt with at length in the next chapter, but the Australian form of “embryonic corporatism” exhibited in the early part of the 20\textsuperscript{th} century may have been gradual (as a result of historical processes stemming from the requirements of a centralised colonial administration combined with a strong labour movement) rather than representing an immediate and direct political compromise by all major economic actors such as occurred in Sweden in the 1930s. Further, antipodean corporatism has been historically challenged by the ideology of economic liberalism, placing pressure on a number of corporatist mechanisms implemented

\textsuperscript{20} A detailed description of this is provided in Chapter Three.
in Australia and suggesting more free-market alternatives to economic and social
maladies (Hirst 1996). This has resulted in the construction of differing levels of
corporatism based on political movements at given historical time periods. Such
a theoretical divide has also obscured the full development of corporatist systems
in Australia, in a way not faced by the small European states.

It also is incorrect to dismiss comparative studies between European states and
Australia as inapplicable; a well-defined comparative analysis between the
successful corporatist small states of Europe and Australia does provide
similarities. According to Thelen and Steinmo (1992) both groups contained a
strong labour movement and a centralised form of government, capable of
restricting the interests of capital to some degree. Both were nationally export-
focused in terms of product and citizens had relatively high standards of living
conditions as compared to their counterparts in other larger core nations. Most
importantly, it appears that in the European and Australian case, industrial
arbitration and social policy were implemented as a result of a political
compromise between labour, government and capital during a time of economic
crisis, a typical corporatist response (Thelen and Steinmo 1992). Further, it is
wrong to suggest corporatist reform is time-limited and necessarily circuitous in
the Anglo-Saxon antipodes; anglicized nation-states have been the most active
in implementing recent corporatist reform, irrespective of ideological or structural
bias inherited from the United Kingdom (ILO 1999). Ireland provides an
established example of a successful small-state corporatist reform program
(which began in the late 1980s) and New Zealand’s recent trend towards a
knowledge-based form of corporatism since 1999 demonstrates that the small
Anglo-Saxon-influenced states represent the most recent areas of corporatist
reform in the developed world. Despite accepted differences between the
development of industrial and social policy in terms of time periods and
implementation, there are marked similarities between the European and
Australian condition, as there are between contemporary Irish and New Zealand
economic reform processes and that of Western Europe (see Appendix Two). It
is therefore incorrect to define corporatist responses to economic conditions as
simply a Continental European approach.

Welfare Gains through Corporatism: The Microeconomic Criticism

The welfare gains provided by Corporatism in a social democratic framework are
a matter of considerable debate. Many free-market theorists such as Friedman
and Friedman (1980, 1990), maintain that stated welfare gains are not made as
there is no overall level of improvement within government-integrated models of
a capital economy. While redistributive policies may appear equitable, they
adversely affect production, discourage job-seeking and do not allow the welfare
recipient to respond to the demands of the labour market.

Other microeconomists have been more concerned with a number of purely
positivist economic factors, particularly Pareto improvements or Pareto
optimality. A Pareto improvement occurs if a government policy or market
change causes nobody to be worse off, but at least one person to be better-off. It is usually classified by economists as a real efficiency gain within the economy with no adverse effects (Quiggin 1996: p.36). It is demonstrated by the equation:

\[(c_1, \ldots, c_n) \text{ to } (c'_1, \ldots, c'_n)\]

where a change from the first situation to the second \((c_1 \text{ to } c'_1)\) demonstrates a Pareto improvement, provided no condition (no actual person) is worse off as a result. Pareto optimality relates to a “second-best” situation, in which real Pareto improvements cannot be made but overall gains can be realised, although some people will be worse-off in order to realise them. As long as the overall position of society (though not necessarily the majority) has improved, Pareto optimality has been executed, even if some people have been made worse-off. The above equation applies, except that one or more individuals may be worse off, as long as the situation is “optimal” (i.e., generally, society is better off in terms of wealth)\(^{21}\).

Labour-market economists such as Ronald Ehrenberg and Robert Smith (2003) have claimed that objectively, corporatist systems tend to create Pareto-inefficient solutions through redistribution and compensation programs providing deadweight losses in the economy, gearing such countries toward demonstratable inefficiencies in certain areas. There is also concern that in a corporatist system with central arbitration mechanisms, wages are elastic – that is, for every percentage increase in wages, there is a higher percentage increase

\(^{21}\) Assuming each individual’s welfare can be defined in a utility function, \(u\), the Pareto equation can be further defined as \(u_i (c'_i) \geq u_i (c_i)\) with inequality for at least one \(i\).
in unemployment proportionally, providing for real negative returns overall. This is not the same as saying that corporatism is largely inefficient, or that it even promotes inefficiencies systemically (as discussed in the previous section). What it does is claim that corporatism may have to pay a price for its compensation programs, such as persistent and high unemployment coupled with sluggish growth (Ehrenberg and Smith 2003).

The problem with these debatably positivist concerns is that if the various economic criticisms made by such economists are closely examined, it can be demonstrated that even by their own criteria, corporatist systems provide for stable and efficient outcomes. Quiggin (1996) has argued that based on economic theory alone there is a strong case to be made for the efficiency of corporatism. Firstly, one of the main contradictions of the Pareto model is that relating to free trade: theoretically, free trade should yield a potential Pareto improvement (if productive capacity exists to service outside markets), but it rarely does demonstrate such an improvement initially. This is usually because producers previously protected by tariff barriers and other government policies are adversely affected by free trade (Quiggin 1996: p.39). Real Pareto improvements can be demonstrated in the long-term through corporatist compensation mechanisms coupled with free trade agreements, allowing a form of redistributive effect to exist economically for previously protected producers. In fact, corporatism may be better able to more immediately realise Pareto gains through free trade (via readjustment mechanisms) in cases where more free-market economies cannot.
Pareto optimality is particularly useful as an economic function, as it can be seen to directly apply to most corporatist processes. Because social democratic corporatism is economically integrated, adverse effects of social policy are usually countered, through corporatist agreements between private industry and government. Corporatism is particularly amenable to Pareto-Optimal improvements, because if we examine the major economic functions used to analyse such Pareto improvements we can see considerable advantages in a corporatist system:

1. The *Social Welfare Function Approach* developed by Samuelson (1947) requires that function \( V(c_1,\ldots,c_n) \) is applied, encapsulating the social preference of relevant decision-makers and influential groups. Pareto optimality is implied where the overall preferences of a group or combination of groups in society are met with more winners than losers existing, particularly if there are only “weak” losers (Samuelson 1947). Corporatism is clearly well developed for this form of situation, particularly in the ability to sidestep pluralistic forms of negotiation and provide a common-interest approach through arbitration and deliberation. Because the preferences of the relevant interest-groups are stated, it is possible to develop a clear and coherent Pareto-optimal strategy through government-led agreements (Oberg 2002).
2. The *Kaldor Compensation Criterion* was proposed by Kaldor (1939) and implies that a change from \((c_1,\ldots,c_n)\) to \((c_1',\ldots,c_n')\) is a potential Pareto Improvement if the gains made by the winners could be redistributed to the losers and there is still a surplus existing. There are many examples where situations exist nationally or in the world-economy in which changes in market position or government policy would yield an overall Pareto improvement. The problem is that these situations usually increase the wealth of the richest individuals in society at the expense of the poorest, even though they do yield an *overall* societal increase in wealth\(^{22}\). The Kaldor mechanism allows for this potential gain to be realised, and then for the losers to be fully compensated (Kaldor 1939). Because this form of redistribution is directly applied in corporatist systems, it can be said that that Kaldor Compensation Mechanism can be used to attain real efficiency gains. Real Pareto improvements can be realised in corporatist countries whereas they can often *not* be realised in the non-corporatist countries using the same strategy.

3. The *Equity-Efficiency* argument states that if productive forces are solely dedicated to efficiency at any cost, while government-based programs provide for equity through redistributive mechanisms via the taxation system, there will be a *deadweight loss* associated with production.

\(^{22}\) This is because the Kaldor-Hicks proposition which informs the Kaldor Compensation Criterion does not require compensation to be effected (i.e. it does *not* require that nobody be made worse off) but suggests active redistribution to counter this.
Further, there will be a problem with providing a clear delineation between efficiency-based programs and equity-based programs, with a continual conflict between the two, and with efficiency-based programs usually winning out (Katzenstein 1985; Garrett 1998). Corporatism satisfies these conditions through integrating the welfare/equity function directly into the productive function – they become dependent on each other, and gains made in welfare policy cycles back into the productive economy. Efficiency is seen as a mechanism to enable the fulfillment of social goals and government policy tends to integrate these two concerns.

4. Because of the nature of the productive function being utilised in corporatist countries (high-end production, based on highly skilled labour and utilising cutting-edge technology with capital-intensive inputs) own-wage elasticity of demand is not a major concern when electing to increase real wages or taxation for redistribution, whereas it might be a problem for more liberal economies seeking to increase wages or redistributive functions. This will be discussed in detail below.
Unemployment and Corporatism

The criticism relating to the potential for unemployment to rise at a higher level than wages and therefore provide for high unemployment can be clearly dealt with by examining the central theory relating to corporatist systems\textsuperscript{23}. The own-wage elasticity of demand for a section of labour is defined as the percentage change in employment (E) induced by 1 percent increase in its wage rate (W):

\[ \delta \text{E}_i = \% \text{E}_i / \% \text{W}_i \]

Where \( i \) represents the category of labour, \( \delta \) represents elasticity and the notation \( \% \) represents “percentage change in”. (It is often written differently, depending on the style of character-set employed, but is substantively the same).

The absolute value of the elasticity for demand of labour is usually focused on in the above equation to determine what effect an increase in wages will have on unemployment rates. If the value is > 1, a percent increase in wages will lead to a greater than 1 percent increase in unemployment in that specific area.

Conversely, if the number is < 1, the demand curve will be deemed to be inelastic, in that set wages will rise faster than unemployment, \textit{ceteris paribus}.

This theory is used in determining whether increasing the wage in a given industry (either through union pressure, arbitration, negotiation or government

\textsuperscript{23} Corporatist small states have been accused of high unemployment as a result of artificially high wages and restrictive labour practices; this is counterfactual. With the exception of Finland, all European corporatist small-states recorded unemployment at 5.1% or lower (CIA 2002).
legislation) will have a negatively adverse effect on employment. It is also used to indirectly examine the effects of increases in taxation and benefits.

The most common way of predicting if a labour market will be elastic or inelastic is by utilising the principles outlined in the *Hicks-Marshall Laws of Derived Demand* (Ehrenberg and Smith 2003: p.100). This theory outlines a set of principles in which the own-wage elasticity of demand becomes elastic (i.e., unemployment increases faster than wages on a percentage basis):

1. When the price elasticity of demand for the product being produced is high;

2. When other factors of production can be easily substituted for the category of labour;

3. When the supply of other factors of production is highly elastic (that is, usage of other factors of production can be increased without substantially increasing their prices); and

4. When the cost of employing the category of labour is a large share of the total costs of production (Hicks 1966: pp.241-247).

Based on this model, it can be argued that Corporatism is not susceptible to wage/unemployment elasticity. The above points will now be systematically addressed:

1. The non-erratic nature of prices in corporatist countries is notable compared to non-corporatist countries, particularly in terms of export
production (Taylor 2002). As noted, there is a tendency for the B-Phase of the Kondratieff wave to be more subdued in corporatist systems with slumps being less pronounced and prices being more stable (Chase-Dunn 1998). Therefore, the price elasticity and elasticity of demand for products being produced are usually low in corporatism;

2. Labour cannot be easily substituted by other capital inputs, due to the highly skilled nature of work being performed in most corporatist countries (Katzenstein 1985). Labour is generally highly trained and complemented with high-technology capital inputs24;

3. Capital inputs are generally expensive in most corporatist industries focusing on high-end export product (Swenson 1991). Therefore, they are largely inelastic and cannot easily be replaced without major investment. This negates the possibility for cheap capital substitution of material or labour inputs; and

4. Although labour is generally paid at a higher level than the OECD average in most developed corporatist countries, because of the costly nature of capital inputs and heavy infrastructure investments made, labour is usually not the major expense in high-end production (Katzenstein 2003). Capital inputs usually provide the highest level of investment, meaning that wages are not necessarily the most significant level of concern for business (Garrett 1998).

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24 It also tends to refute unsupported assertions by some economists that previous high unemployment in Sweden and Denmark was a result of Government intervention, see Thurow (1995) as an example.
This examination shows that based on existing labour-demand theory in Economics, corporatist systems tend to exhibit *own-wage inelasticity*. This therefore allows for wage increases with no evidence of a corresponding proportional decline in employment as a result. Examining real-world examples of this theory such as Norway, Austria and the Netherlands provides empirical proof of this mechanism - such examination demonstrates that social-democratic corporatist systems are able to provide efficiency benefits with equity gains in a way that more free-market systems may not be able to (Jacobsson 1999). Examining Australia during periods of Corporatism (particularly in the 1870s-1890s and through to the early 1900s) provides further evidence of the ability of corporatist systems to react to crisis effectively (Quiggin 1996). This directly shows how a country is able to move within the World-System through policy change.

*World-Systems and Corporatist Small-States Theory: A Synthesis.*

The applicability of both World-Systems Theory and Corporatist Small-States Theory to the Australian condition has been discussed, both in a theoretical sense and more specifically in an applied analysis. This has included examining the various academic criticisms made against the universality of Small-States Theory as espoused by Katzenstein. It is now important to consider the two
frameworks together and demonstrate their potential for creating a combined theoretical system.

The potential for combining and utilising a combined World-Systems/Small States system for analysis of nation-states is considerable. Both theories present a macro examination of countries and their position within the world-economy. Both consider complex political, as well as economic, questions posed by the categorisation of countries within the developed and undeveloped world. There is no major theoretical point of contest between the two positions (although that does not mean there are some points of difference which must be addressed – see below). The process of applying a World-Systems framework to countries for the purposes of categorisation while utilising a small-states approach to determine movement of individual nation-states within the World-System – particularly as this relates to small industrial states deemed to be within the periphery or semi-periphery of the system – provides the possibility of a new and wide range of inquiry within the sphere of the social sciences.

Although there is a significant body of literature dedicated to World-Systems Theory and Small-States Theory, there is almost no work critiquing and attempting to synthesise both as a combined system of analysis. Specific work regarding a country’s movement within the World-System has usually been developed based on examining the position of increasing or declining hegemonic powers and their allies, the state of the world economy with respect to the Kondratieff A- and B-Phases, the location of commodity chains and the relationship between the core and periphery countries in terms of exploitation
(Wallerstein 2000). Such approaches tend to be deterministic and appear to preclude political action from a nation-state as having any major effect, unless that nation-state is a dominant hegemonic power. Most countries are viewed as being locked into a cycle of exploitation/dependence with other nations and therefore into a certain economic position within the world economy. Further, certain movements within the system are seen as achieved through successful exploitation of peripheral states (as in dependency theory) or support by the hegemonic power of the day. A purely World-Systems account of interstate movement does appear somewhat limited from this perspective, and is arguably unsatisfactory in explaining how small “core” nation-states not relying on major political blocs have managed to move up in the system despite the dominant hegemon’s indifference to their location within it.

Analysing the position of nation-states from the perspective of world hegemony is useful in determining the position of major core countries within the World-System and the power balance which exists, but is not so useful for determining positioning or movement of the smaller core states within this hegemonic framework. Using interpretations based on examinations of the dominant hegemonic powers does not fully explain the position of many small states in the core, particularly considering the lack of benefit derived by the core hegemonic state in many instances. The key to understanding movement within these small core states is by examining their political and economic responses to the power balances which exist, rather than simply examining their position in relation to the dominant hegemonic power. This usually assumes corporatist forms of
governance and response. Only then can we fully understand why such movement occurs, beyond the dominant hegemonic players and supporters. This is where Corporatist Small-States theory comes into play.

There has been controversy within World-Systems Theory as to where Australia lies within the World-Systems framework. Traditionally, Australia has been considered a core nation and has been linked to Great Britain, the US and New Zealand in that sense. Strong economic growth in the 19th century coupled with mineral deposits for extraction, infrastructure development by the dominant hegemon in the 1800s (Great Britain) and the development of early colonial autonomy have been cited as the main reasons for the placement of Australia in the core. Australia was a new agricultural area which, along with regions such as Argentina and Canada, became closely integrated into the World-System as trade in unfinished goods tripled between 1880 and World War One. This competitive advantage in agriculture and mineral export allowed Australia to extract sufficient profit from other core nations and position itself successfully as a core country. Such a relationship was maintained through the development of heavy industry after World War Two and, in the short term, the continued reliance on price-taking goods (such as mineral deposits) to supply a comparatively equal rate of exchange with other core nations and to allow for technology transfer. Coupled with an efficient finance sector and a highly competitive domestic market, Australia has managed to maintain its dominant export position and continued a process of unequal exchange with peripheral nations, according to this conventional view.
In the last ten years there has been considerable debate as to Australia’s true position within the World-System based on the position of commodity chains, the primary nature of Australia’s export product in world markets and the reliance on low-end service industries. There is also a questioning of the peripheralisation of the internal workings of the Australian economy with increasing levels of labour market flexibility and focus on non-core elements of production. These factors, coupled with an acute reliance on primary export product and dependence on price-taking markets, have led many theorists to claim that Australia is in the semi-periphery – combining a core standard of living with an emphasis on peripherally-based export product. This creates a process of dependence between Australia and other core countries, with high-end product being absorbed by Australia, and an unequal process of exchange taking place. (Wallerstein 2000)

In contrast, Katzenstein’s Corporatist Small States Theory appears to explain how smaller nation-states can be successful in responding to global markets, but with a lack of broader global political analysis. The lack of a complete theoretical framework for this interpretation provides problems in relation to utilising a measurement for judging how individual nation-states compare to each other in a political or economic sense. This particularly applies to countries implementing social-democratic corporatist strategies and understanding how this affects their position within the world economy. Using the World-System as a quantifiable framework for location of a country in terms of global political and macroeconomic indicators (rather than comparing nation-states in a bilateral
fashion as Katzenstein appears to do) expands and precisely defines where a country lays subject to the small-states critique.

The combination of World-Systems and Small States Theory is valuable. Through it, an account of movement of states within the world economy can be given new theoretical and comparative direction. Any state can be examined within the World-System using macroeconomic data and data on commodity chains to demonstrate a process of unequal exchange. With the inclusion of corporatist Small States Theory, movement of small states within the core, periphery and semi-periphery can be explained in terms of systemic processes and policy initiatives, rather than simply examining such movement. This particularly applies when the state is not seen to be directly connected or influenced by the dominant hegemonic power and the process of exchange is clearly benefiting the country in question. It gives the analysis an historical and material base for explanation of past movement within the World-System.

Process for Implementing the Synthesis Model

The World-Systems / Small States Synthesis Model is clear and defined, based on the implementation of both World-Systems Theory and Small-States Theory, thereby combining the results historically. Such an analysis will proceed as follows:
The World-Systems / Small States Synthesis Model:

1. A small state is selected and determined to be in a specific position in relation to the core, periphery or semi-periphery of the World-System. This is performed through a standard macro-level analysis (including one or more commodity chain) to demonstrate an unequal process of exchange between countries in the World-System; see Wallerstein (2000) and Chase-Dunn (1998) for more information on this;

2. Any historical movement within the World-System is plotted and demonstrated, based on the above mentioned factors. This can be done through segmenting a timeline of the country in question based on predetermined units, such as 30 year blocks, or based on K-Waves (the time span selected can be relatively arbitrary, as long as it is consistent and demonstrates small state movement); the movement of this state is then graphed according to its position in relation to other states at that time;

3. A Small-States analysis is conducted on the state in question to ascertain historical policy changes in terms of the implementation of corporatist or corporatist-style processes. The effective movement of a country between such policies (and usually ideologies) can be noted – this often consists of changes from corporatism/government regulation to liberalism and can be demonstrated using this technique;
4. The timeline results from both theories are linked to show a correlation in the movement of a small state within the World-System and the simultaneous adoption or rejection of corporatist processes during that time. In this way, movement can be quantifiably demonstrated and shown to relate to the adoption or negation of corporatist processes. Links between corporatist policy and state movement can be defined, testing the validity of the Small States Theory on nation-state movement. The political aspects of such movement can also be addressed, particularly in relation to the states’ position vis-à-vis the dominant hegemon and other significant players within the world economy - something not possible with a Small-States analysis alone.

*Examining Australia Based on the Synthesis Model:*

To provide a demonstration of the above mentioned technique for political and economic analysis of small nation-states within the world economy, as well as to provide a deep examination of the Australian antipodean condition, the following process will be undertaken. A principal component of the thesis relates to connecting Australia’s movement within the World-System to the historical adoption of Corporatism and Liberalism as the dominant economic mode of production. This can also be classified as the state-run economy vs. free market
approach (or, more crudely and inaccurately, the “protectionists” vs. the “free traders” – modern corporatist economies generally support free trade with appropriate government support programs for industry and labour, which is why the label of “protectionism” is deemed inaccurate when describing such economies). The difference between market interventionism and laissez-faire principles can then be defined; this will be connected with Australia’s movement within the World-System (and between the core and semi-periphery as a semi-core, “movable” state) over that same period.

It will also be necessary to construct a basic commodity chain of a principal export product of Australia, to demonstrate the relations of production and unequal exchange in current markets. This will relate to a sizeable export commodity in Australia and must be both historically accurate (that is, information can be accurately obtained on the production process and value realisation within it) and effective as a time-series, as well as a cross-sectional analysis. Such a chain would not have to be overly-complex, as the purpose of it is to see where surplus value is created within the chain at the present time, as compared to the same operations 50, 100 and 150 years ago. Such a chain would outlay the principal categories advanced by Wallerstein and Hopkins (Wallerstein and Hopkins 1986). This would include an examination of the geographical distribution of operations, forms of labour which encompass the production process at each stage of transformation, technology and relations of production and the movement of the product as well as capital/labour inputs as a proximate
ratio. The principal realisation of surplus value could then be compared to
demonstrate value production along the chain.

1. Small-State Selection and Commodity Chain analysis: Australia is the
state in question. The asserted position of Australia in the semi-core,
vacillating between the core and semi-periphery of the World-System, has
been described in the introduction. A commodity chain pertaining to a
major primary export product is necessary; in this case, wool will be
chosen. Although mineral extraction may be seen to make a better
argument (especially against neoliberal claims that Australian mining
proves primary export is not losing value overall) the value of mineral
extraction fluctuates wildly based on time-series analysis, e.g., mineral
values in the 1940s and 1950s were low until the 1960s when they
accelerated in growth, and then slumped again during the 1973/74 world
downturn, before recovering.

The following commodity chain demonstrates the production of Worsted
Wool – this has been selected, as it represents 80% of processing for
export of Wool in Australia:
Chart 1: Worsted Wool Production

As demonstrated in Chart One, worsted wool goes through a relatively simple process of manufacture. In the first instance, sheep are bred and cultivated on farms. This involves a high degree of waged and unskilled labour inputs, and little capital input, apart from farm infrastructure. The sheep are then provided to the shearer, who is usually located in a large warehouse adjacent to the farm itself; this is the shearing shed, combining medium-end capital inputs with low-end trade-based labour.

It is at this point that the largest ratio of unequal exchange within the commodity chain is realised: about 70% of “greasy” wool at this early stage is exported for processing, principally to China and Italy, through the market mechanism, without further treatment (AWIL 2004). Untreated wool is then processed (principally overseas) through scouring (a washing process to remove dust, sweat and dirt), carding (wool is separated with machinery into parallel fibres called a “sliver”), combing (combining “slivers” to form a “top”), drawing and further drawing (where several “tops” are combined in length to form a “roving” and improve length evenness) as well as spinning (insertion of twists into the wool to produce a full yarn). These five processes are similar in terms of the mode of production: they rely on low labour inputs, medium-end capital at high ratios to labour and take place in large workshops which are geographically close to each other, or even in the same production facility in many cases (AWIL 2004). In terms of Australia’s position with respect to the processing of wool on the commodity chain, only 30% of wool product in Australia gets as far as the combing (third) stage of basic processing before being exported.
Further, market transfer does not normally occur until the spinning stage. The finished dyed wool product is then distributed through market transfer to three major consumers: furnishings, manufacturing and fine apparel, of which over 75% of existing treated product in Australia (which is well under 30% of total wool produced) goes to export and therefore realises an unequal process of exchange (AWIL 2004; DPI 2002).

It is in the first process (shearing) and third (finished dyed product) that the largest degree of unequal exchange is realised between Australia and other core countries. Further, most wool which is treated domestically for the fine apparel market is exported to Europe (especially Italy) for fashion transformation and substantial value-adding.

This provides an empirical example of a primary commodity for export which suffers from a rate of unequal exchange; endogenously the value of worsted wool is reasonable but subject to fluctuation based on world markets. Exogenously the value is relatively low, due to the lack of value-adding of this commodity. The chain further demonstrates the specific processes of transformation for wool and the lack of value being realized for this raw commodity. What is particularly striking about this example is that the rate of value-adding required is not particularly onerous or technology intensive; it is a symptom of Australia’s position in the World-System and the adoption of liberal economic policy which discourages industrial change, rather than actively supporting it. As with many market-oriented approaches, the only economic
benefit is immediate; there is little anticipation of long-term demand or utility for this primary commodity.

2. **Australia’s Movement in the World-System**: The historical analysis of Australia’s position as a semi-core state moving between the core and the semi-periphery of the World-System needs to be demonstrated. It is not necessary to show movement graphically; however, the general movement of Australia will have to be described for identification. This core/semi-periphery movement is discussed in detail in Chapter Three and so is not required here;

3. **Australia’s Movement between the Adoption of Corporatism and Liberalism**: Most small states reflect movement in public policy between state-developmentalism and laissez-faire liberalism over historical periods. In the case of Australia, the adoption of state-based corporatism (due to colonial-based developmentalism) has been dominant, with liberalism acting as a competing ideology, especially espoused by the “free traders” and classical liberal bankers in the United Kingdom who came to Australia. The historical movement between these two ideologies is critical to the analysis of small-state movement within the World-System and must be accounted for; resultantly, an entire extended chapter (Chapter
Three) has been allocated for dealing with this movement, as well as providing full evidentiary legitimation for it.

Although it is difficult to say with certainty where Australia specifically adopted corporatist-leaning policies over liberal-leaning ones in all time-periods and vice versa, it is nevertheless possible to present a conceptual graph outlining Australia’s movement between corporatist and liberal economic policy based on approximate trendlines from 1788-2004. The dotted section represents a rough approximation of the policy adopted over this time series.

This conceptualisation is not definitive, and does not relate simply to the nature of goods being exported by Australia since 1788 (which would show Australia to be largely in the semi-periphery of the World-System for most of its history), but rather it is a reflection on the nature of corporatist and liberal policy which has been implemented over this period and the resultant direction of the economy - due to the colonial cycle of dependence exercised by the United Kingdom *vis a vis* Australia in the 1800s, an unequal process of exchange has occurred, leading to the development of price-taking commodities for the mother country. What must be taken into account is that that Australia has been largely semi-peripheral in its productive orientation because of this, but moves toward the core have been as a result of corporatist policy, despite some structural limitations as to the implementation of this. In contrast, moves
toward economic liberalism have further solidified the semi-peripherality of Australia’s position in the World-System.

Therefore, examining Australian government policy to see fluctuations between corporatism and liberalism in terms of economic policy and management (rather than simply the export product of Australia over time within the World-System) is performed here.

The following conceptual graph has been attempted, based on information provided in Chapter Three:
Australia 1788 - 2004

Australias Position in the World System
– Clinton de Bruyn, BA (Hons)

Liberal-Learning Governance as Dominant Mode of Adoption of Corporatist / Liberal System of Economic Governance

Colonial Corporation

1788 - 1850

C.1800-1850

1850-1893

Boom 1850-1893

Euphonic

Wahlin

 Coronation

1927-1933

Depression

1901 - 1903

Gordon

Lauder

China

1907

Depression

1929 - 1933

Capital Formation

1929 - 1933

Liberal Response

1933

George

Depression

1939 - 1945

WWII

1949 - 1966

Economic Poswar

Postwar

1956 - 1966

Labor

World War II

Hawke

Keating

Moderate

Conservative

1975 - 1983

1996 - 2004

Howard

Liberal

Program

Micro

Reform
Chart 2: Conceptualisation of Corporatist/Liberal Adoption in Australia

As can be seen from Chart Two, Corporatism has been the dominant form of economic governance in Australia, although the style and pace of corporatist development has generally been sluggish, particularly in relation to institutionalised tripartite negotiations between the state, labour and capital over long periods of time; such attempts have often ended in the assertion of state-directed economic growth and bourgeois resistance. Further, it must be remembered that the adoption of corporatism has not immediately led to Australia moving into the core of the World-System, especially during the period of colonial dependence exercised by the United Kingdom – Australia was forced to produce price-taking commodities and export these to the UK in the 1800s, placing it closer to the semi-periphery in terms of product export (although corporatist policies did lead to the production of more high-end, price-making commodities for export, particularly after 1850, and set the groundwork for corporatist industrialisation after 1901). This explains why corporatist government policy did not immediately cause a surge in value-added export, thereby moving Australia toward the core in terms of production more rapidly. However, state-based corporatist expansion is found to have been dominant in Australia’s history, particularly in the early developmentalist years, which I classify as “embryonic colonial corporatism” or “convict
corporatism”. This served as a countervailing tendency against pressures toward entrenching and deepening the semi-peripherality of Australia.

Although such a graph might give the impression that Australia should currently be more of a high-end corporatist economy than it is, it must be noted that the adoption of corporatist systems has not been linear and in many ways has been inadequate, as compared to the development of the small corporatist Western European states. Further, corporatist programs in Australia have been quickly dismantled - recently under both the Hawke-Keating Labour Government (although some corporatist institutionalism was attempted) and particularly the Howard Liberal Government. There is a history of liberalism sweeping away gradualist state-based corporatist reforms in a way not seen in the Nordic states, where there is long-term corporatist continuity. As a result, the decline of certain key macroeconomic aggregates (particularly the balance of payments and the balance of trade figures) can be seen to relate to the adoption of liberal economic policy.

4. **Comparing Australia’s Movement in the World-System with the Adoption of Corporatism/Liberalism**: The examination of movement between corporatist development of the economy and economic liberalism can be seen to relate to Australia’s movement between the core and semi-periphery. This will be specifically demonstrated in Chapter Three, but a
good example is provided by looking at Australia’s recent deteriorating balance of trade figures during the adoption of liberalism and subsequent decline in Purchasing Power Parity (PPP) compared to the rest of the world (CIA 2002). Increasing consumer debt per capita can also be linked to this trend, as real wages decline and the Australian economy is deflated through the restriction of the money supply as linked to orthodox liberal economic policy. The relative decline in the manufacturing sector – particularly in terms of high-end manufactures and transformed product for export markets – is also linked to the decline of corporatism and adoption of liberal economic policy, demonstrating Australia’s movement toward the semi-periphery, particularly in terms of saleable product within the World-System and unequal exchange values of export commodities sold (Barber 2001).

*The Historical Development of Corporatism in Australia*

The circumstances relating to Australia’s historical position in the world economy, both in terms of movement between the core and semi-periphery and movement between state-based corporatist and liberal economic policy requires detailed attention. The next chapter will provide a specific form of historical analysis demonstrating movement within the World-System and policy changes in the form of the adoption of corporatist or liberal policies and processes. Small-States
theory will be used to show historical changes in corporatist-leaning policy and the adaptive processes employed. This will then be linked to Australia’s movement in the World-System to further substantiate the thesis, that the adoption of liberalism provides movement toward the periphery, while historically the adoption of corporatism or corporatist-leaning regulationist policy has correlated with a movement toward the core (see Chapter Three).

Finally, it will be demonstrated that Australia has recently been moving toward the semi-periphery due to the current Government’s rejection of corporatist mechanisms and strong support for liberalism since 1996. This is promoting downward movement of Australia as a nation-state toward the periphery and away from the core.
Chapter Three:
Corporatism in Australia:
A Chronological Assessment

It is the contention of this dissertation that Corporatist Small States Theory has relevance to Australia’s historical and contemporary position in the world economy. Australia has had corporatist policies throughout its history or at least a number of corporatist “tendencies” in certain areas of policy formulation which have constituted a trend away from liberal economic policies, at least in some points of time. The thesis argues that Australia’s economic history has always moved along a continuum with corporatism and liberalism being on the opposite ends of the policy spectrum. How far Australia has approached to either of these poles is a matter for debate, but at different times there has been movement along this continuum. Further, Australia has moved closer to being a core country in terms of the World-System of production when corporatist processes have been in place.

From a World-Systems perspective, it is clear that a strong case can be made for the assertion that Australia began as a state on the semi-periphery and that the relationship between Australia and the United Kingdom provided for the dependency in world markets that has carried on to other countries such as the US, and is still evidenced today. However, it is arguable that Australia began as a colonial state with corporatist institutions, based on supplying the United
Kingdom through government-led initiatives and an initial labour force entirely under the supervision of the state, via convict labour. From the outset there were two apparently contradictory, yet ultimately complementary, forces of production: the dependence as a colonial outpost of the mother country (geared towards satisfying the latter's demands), combined with state-led production utilising specific mechanisms of government investment and labour input to produce goods with an export focus. For this reason, it is appropriate to utilise an examination of colonial Australia prior to Federation as a legitimate unit of analysis in order to explain the historical beginnings of corporatist and liberal institutions, and to demonstrate how this had an impact on corporatist development from Federation to the present day.

From the outset production was government-run, albeit run by a government somewhat removed from the specific problems of its populace and with British-focused interests. Despite all of this, serious attempts at developed manufacturing for export – a specific element of corporatism - did not take place until the early 1850s.

*Did Corporatism in Australia start in the 1850s?*

The 1850s to the 1880s led to a substantial economic boom which fostered cooperative relationships between the union bodies, government and business through shared interests and a focus on production and away from overt class
conflict. According to conservative historians, this created a circumstance in which a moderate labour movement was created and concerned with individual welfare and “bread and butter” issues, as opposed to class-based issues (McQueen 1986). Some radical historians have attacked this situation on the basis that class-consciousness was not developed during this time and that as a result, unions became complicit to the edicts of the bourgeoisie, but this analysis misses the point: class consciousness was developing in response to a given set of economic circumstances through specific agreements between the major actors of labour, capital and government. It adopted some of the same processes of historical development with respect to production, the economy and class relations as occurred in the non-Anglo-Saxon world during this time. Comparing the class relationship between the bourgeoisie and the proletariat in Great Britain and the US in this context is not always helpful in identifying patterns of class formation as they evolved in the Australian state and I think this is the main error made by Australian historians in analysing this period of time. Corporatist processes were adopted to deal with the circumstance of colonial development and sharp class distinctions, rather than being imported from the mother country.

As a result of embryonic corporatist processes being adopted at this early stage, it is no coincidence that many commentators described Australia as a “workingman’s paradise” during this time (Gollan 1996). There were various representations made by historians such as Fitzpatrick (1944) and Gollan (1996) about Australia and the relationship between high economic growth and the development of links between government and labour even before federation, but
it is arguable that the reverse is also true, in that cooperative processes forged even before the 1850s were one of the causes of strong economic development, not a by-product of it. The Australian Administration consisted in the early development of conciliation and a form of arbitration in industrial relations, which was quickly codified and became the envy of most other developed countries in the early 1900s. Although there can be argument over the real benefits labour accrued from economic prosperity, the growth factor of the economy cannot be doubted; from 1861 to 1900, Australia’s GDP grew four-fold (McQueen 1986: p.4). This combined with a pronounced shortage of labour up till the 1890s encouraged formation of union bodies and support of joint interests with business. It is true that a great deal of this was prompted through increasing British demand for wool exports and mining product but it is equally true to state that manufacturing and medium-level transformation of raw product began in earnest even prior to Federation under a loose but effective tripartite relationship as a response to the world economy, which in terms of trade was bound by the edicts of classical liberalism. Consequently, trade was very open during this period with few formal barriers of protectionism existing between nations; statistically, it can be shown that the world economy was effectively very liberal in terms of trade until at least World War I (Hirst and Thompson 1996). Australia’s response developed as the reaction of a small state to international competitive markets in which price fluctuation could have a major effect.

Not all of the policy jointly agreed to could be described as necessarily progressive. Combined support for strong tariff barriers to protect domestic
industry and stimulate export product was agreed to, as was a system of preventing outside “cheap” labour from coming into the country, on which the White Australia policy was built (Clark 1907). The composition of labour changed considerably: from 1788 to 1888 the labour market changed from a largely convict based workforce focusing on self-sufficiency to agrarian free labour and then focusing on the increase in migration to create large numbers of landless migrant workers. The following statistics relating to the composition of labour during this period demonstrate this:

**Table 5: Free and Coerced Migration Statistics in Australia: 1790s-1840s**

<table>
<thead>
<tr>
<th>Year</th>
<th>Convicts</th>
<th>Free Settlers</th>
<th>Percentage Free</th>
</tr>
</thead>
<tbody>
<tr>
<td>1790s</td>
<td>0.49</td>
<td>0.02</td>
<td>3.4</td>
</tr>
<tr>
<td>1800s</td>
<td>0.43</td>
<td>0.05</td>
<td>10.4</td>
</tr>
<tr>
<td>1810s</td>
<td>1.70</td>
<td>0.08</td>
<td>4.5</td>
</tr>
<tr>
<td>1820s</td>
<td>3.23</td>
<td>1.03</td>
<td>24.1</td>
</tr>
<tr>
<td>1830s</td>
<td>5.00</td>
<td>5.72</td>
<td>53.4</td>
</tr>
<tr>
<td>1840s</td>
<td>3.37</td>
<td>14.09</td>
<td>80.7</td>
</tr>
</tbody>
</table>

(Source: Chiswick and Hatton 2001: p.70)

As it can be seen from Table Five, free settlers as a proportion of labour migration was extremely low until after the 1820s – the rapid increase in migration flows of free labour led to these labourers outnumbering convicts as a proportion of labour within a decade. Although the increase in safety with respect to travel from Britain to Australia probably facilitated this (with fatality rates
decreasing by up to 80% from the late 1700s to 1850 on such voyages) the materially generous incentive packages offered by the colonial administration in Australia no doubt facilitated this move, combined with the lessening of forced convict emigration from Britain (Chiswick and Hatton 2001).

Gold as discovered in Victoria accelerated this free settler process further, almost doubling the labour pool between 1858 and 1877. These new workers were encouraged but many were also discriminated against, in that they were themselves exploited by landholders. This did not provide the best set of wages and conditions, but was partially responsible for increasing the formation and participation in labour unions at this point in time and this, in turn, provided impetus for the government to institute agreements between capital and labour (so as to guard against militancy).

The stable economic period that occurred between the mid-1850s up to the late 1880s was largely a result of the policies of “embryonic corporatism” which were used during this time to definitive effect: there was an increasing complexity in urban development and housing, the development of financial markets and a development of transformed raw product to provide some finishing of agricultural and mineral export by the early 1880s (Clark 1907). There was also the rapid development of manufacturing, causing it to move from a non-existent mode of production to a major industry base in the capital cities within a 50-year period. This economic transformation contributed a sense of autonomy: to genuine Australia-state relations, a distinct sense of national identity and the clear emergence of an independent nation as opposed to a distinctive colonial
settlement reliant on Britain. It is arguable that in the early 1850s, Australia heavily relied on Great Britain and that despite the symbiotic relationship between country and colony and the critical importance of such a relationship before the 1900s, this economic relationship of dependence was somewhat lessened by the 1880s.

This is why Australia had the opportunity to become somewhat independent, with a “first-world” standard of living at such an early stage of development: it had exhibited a tendency to move away from reliance on a core colonial country in the World-System (as outlined in classical dependency theory) toward some economic independence through early embryonic corporatist policies and processes.

Despite the undoubted contribution of a rich mineral base for export, it is doubtful as to whether this advantage would have been harnessed had a classical model of economic liberalism been followed in its entirety. Manufacturing as a viable industry up until the 1970s was stimulated by the development of corporatist processes at this time. Importantly, this economic move from dependence to some level of independence (though far from total) was achieved within 50 years and provides an important clue as to how countries, particularly Australia, has moved within the World-System at a very rapid rate of adjustment using state-driven corporatist approaches.
Conventional analysis of Australia in relation to the World-System has yielded some distinctly different definitions and interpretations with respect to where Australia actually fits. It is important to address each of these because the definition of where Australia is currently located will have a definite impact on the argument for small-state movement, particularly in terms of where Australia has moved in the last 150 years. Australia’s location will now be discussed.

Initially, conventional theorists claimed that Australia was in the core of the system in relation to other countries because it had a first-world standard of living, an export-oriented product base and value-producing (but not price-making) commodities formed by mining and to some extent, agriculture. It was argued that the “high-end” processing of mining product after extraction was value-adding to it and as such represented a form of advanced production, with strong profits being realised internationally from this (Wallerstein and Hopkins 1982). The standard of living Australians enjoyed was proof of this, and provided clear evidence for the categorisation of Australia firmly in the developed world (Wiseman 1998).

It did not take long for this summation to be challenged based on the questionable attribution of the definition “high-end” to entail mining export and the lack of focus on manufacturing in this core model. There was also a feeling that Australia’s first-world standard of living did not automatically place it in the core –
in fact, Australian industry was not similar or compatible with the production processes of other core countries. Despite whatever transformation took place in terms of treating mineral export, such “transforming” was in fact simply an advanced form of treating and processing, and did not alter the fact that this product was an example of primary production. Simply, Australia’s economic development did not seem like a viable model for a first-world country.

Many analysts such as Castles (1988) have classified Australia as being in the semi-periphery of the system: gifted with a first world standard of living underpinned by a profitable second or third-world style of economy. When commodity chains were examined, Australia and New Zealand appeared to share a colonial legacy from their past, being jointly reliant on the production and export of primary, low-end product which would be transformed or used for development by other countries. This made both countries susceptible to world economic shocks and particularly to the fluctuating nature of such commodities in international markets: because there was no specialisation other than in the primary products themselves, the main market competitors appeared to be peripheral and semi-peripheral countries which were exporting their own agriculture and mining reserves. This would place Australia’s base economy closer to the periphery of the World-System as a resource-dependent country reliant on such export for survival; although Australia’s GDP is slightly higher than that of the OECD average, the process of unequal exchange enjoyed by other countries in relation to Australia has led Australia to have the second-highest level of external national debt in the OECD, both in absolute terms and
per capita (see Appendix Three for detailed comparisons). However, due to the developed nature of the economy, particularly in terms of quality of life and Purchasing Power Parity Power advantages (Australia is higher than most OECD nations including the UK) as well as relatively high GDP figures, the nature of the economy would be located more closely in the core. Therefore, it is fair to say that Australia is in the semi-core of the World-System – this is discussed below.

The core/semi-periphery debate has been engaged between World-Systems theorists over the last twenty years with a general consensus that the semi-periphery placement is for Australia more academically valid than the core conception. However, since the mid 1990s there have been significant difficulties raised with this semi-periphery assumption with the main objection being that Australia is productively different and more socially significant than other semi-peripheral countries such as China and Brazil: it appears that “the definition placing Australia on the cusp of the core and periphery is valid, but fails to take into account…that theoretically almost all World-Systems academics admit that such a definition [placing Australia in the semi-periphery] just doesn’t feel quite right” (Bahnish 2004: p.3). This is why the definition of semi-core – that is, the combination of core living standards combined with the dominance of semi-peripheral production methods (and resultantly high levels of foreign debt through unequal exchange for commodities) – may be more appropriately applied to Australia (See Appendix Three).
Accordingly, this thesis asserts that Australia is, in terms of production, indeed located within the semi-periphery, but with a significant difference from other similarly placed countries. Australia will be classified as a semi-core state (that is, a semi-peripheral country with core standards of living) based on the economic and social indicators already discussed. Nevertheless, if such productive patterns of dependence through export of primary products are continued, it is argued that Australia may lapse into economic decline if inexpensive replacement resources are sourced or its primary production is made obsolete through continued increases in technology and transformation of materials by core countries. This could move Australia further from the core and closer to the periphery, both in production and lifestyle, and continue Australia’s dependence on the export of primary product.

_Corporatist Policies Employed in Australia_

As argued previously, Australia has a long history of corporatist policy which has changed production patterns and moved Australia closer to the core of the World-System in the past. The reasons for this will be discussed, but the specific historical origins and development of corporatist-style policies implemented in Australia – usually by government but also through the judicial system, particularly in the early stages – will now be reviewed. The reasons for support of such a policy vary and certainly have their origins in the reality of regulation
under colonial rule, although part of the break away from colonialism (eventually ending in Federation) can also be seen as one of the main reasons for corporatist industrial development.

**Corporatist Policy 1778-1850**

From the period from 1778 to 1850 the economy changed from one of a penal nature to an exporter of primary produce with some independence. Convicts and free immigrants provided the labour to assist this change. Although the initial focus was on provision for the mother country in the context of a convict settlement, the state played a leading role in ensuring some corporatist arrangements were made – particularly after the 1850s when the nature of such processes began to assert themselves. The state played a crucial role in this early economic development. While Australia was modeled on the British system, there were important differences that contributed to a greater form of independence. Initially, force was used to control convicts and to help guide production, but this gave way to a less restricted environment between officers and convicts (labour) by the early 19th century (Clark 1907). It is fair to state that British rule provided the early cornerstone for arbitration through an absolute rejection of classical liberal policy prescriptions for a tough new colony with significant labour regulation being adopted, regulation that was stronger than that provided for in the mother country.
Once important infrastructure projects were completed, a more flexible system of wage negotiation was implemented through various channels, most regulated by the British Government. Apart from Criminal and Civil courts, magistrates were appointed to arbitrate on minor matters. Although they were arguably biased to the dictates of capital in the early stages, there was some room for compromise with many part-time magistrates coming from the labour pool of successful ex-convicts (Buckley and Wheelwright 1988). Importantly, the role of such magistrates was to settle disputes between employers and workers. Colonial governments intervened in the labour market to fix wages and settle disagreements but such intervention was not always simply in the interests of capital. In December 1795 Governor John Hunter set prices for reaping an acre of wheat in terms of fixed wages, but this was soon eliminated in favour of dispute settlement from magistrates. Tasmania and Western Australia (from 1818 to 1830) experimented with the settlement of wages based on initial employer-employee negotiations and final government arbitration based on these negotiations, somewhat of a precursor to arbitration after Federation (Patmore 1991: p.24).

The growth of free labour prompted colonial legislatures to pass legislation regulating employment relations after 1828. The Masters and Servants Act, while sounding somewhat draconian in name, did provide a mechanism for appeal based on stated negotiated outcomes between capital and labour. Punishments for failing to complete a job and damaging property were installed but workers could also charge their employers with ill treatment and failure to pay
“reasonable” wages (even as full convicts), the latter to be determined by a 
magistrate. A usual criticism of these acts is that in the earliest forms they acted 
almost exclusively in the interests of capital but it is worth noting that the first 
three Masters and Servants Acts were quickly disallowed by the British Secretary 
of State on the basis that they were too biased towards capital and as such 
“offended the British sense of justice” (1991: p.24). It is also fair to say such acts 
were sometimes used against combinations of workers but it must be 
remembered that unions were legally recognised from an early stage, even if the 
state regarded them with initial suspicion. This was different from Britain, where 
unions were deemed illegal in the early 1800s through the interpretation of the 
Combination Act. In Australia, the British Combination Acts designed to restrict 
worker organization were effectively ignored, leading to the formation of groups 
of workers at a very early stage.

Convicts and Corporatism

Convicts were a significant proportion of the colonial population for many years. 
There is significant debate in the role played by convicts in terms of promoting 
and shaping Australian industrial policy. G.A. Wood argued early that hunger and 
political inequality were the forces which sent convicts to Australia and 
particularly to New South Wales. These convicts who were “the real 
innocents…founded the Australian democracy” based on the values of
togetherness and mateship (Wood 1922). Manning Clark claimed that the number of influential prisoners was insignificant with most being career criminals. As such, he and later scholars such as Lloyd Robson and Robert Hughes assert convicts only influenced industrial policy in so far as they were part of it because they were made to conform to it by the state. Such convicts had little opportunity for contribution, either voluntarily or intellectually, and were not inclined towards independence, being “mentally inferior and ignorant” according to this view (Clark 1961). Nicholas and Shergold challenged these arguments, instead stating that convicts were “ordinary members of the British and Irish working class” and that the “convicts’ skills and high levels of literacy” contributed to a labour pool which was both supportive and necessarily cooperative with state-administered labour-capital compromises (corporatist) approaches to production (Nicholas and Shergold 1988).

Convicts either worked directly for the government or were assigned to private employers. Government convicts performed a number of tasks, usually based around infrastructure development through the creation of roads, land clearing, the construction of roads, bridges and public buildings and even running state-owned farms (Patmore 1991: p.30). There were also government workshops, where convicts would learn new skills and as they developed their ability, would be allocated to “gangs” of workers based on skill levels. According to Karskens, historians have over-emphasised the role of the lash in forcing government convicts to work and failing to explain why these convicts achieved “some of the most ambitious and impressive engineering of the colonial period” (Karskens in
Patmore 1991). Incentives were important and a major inducement was extra
time allocated for leisure or part-time work. Perhaps the best-arbitrated gain was
the allocation of financial bonuses for work completed early and in a satisfactory
manner. Although the power relations between convict and officer of the state
were no doubt grossly unequal, this represented an early form of negotiation
which did not exist for British convicts in other colonies - indicating government-led
capital/labour compromises “being ingrained into the Australian way” very

There is also evidence of arbitration in relation to convicts assigned to the
agricultural and pastoral workforce. As early as 1798 Governor Hunter ordered
employers to provide food and clothing to their assigned convicts on top of the
continued expenses paid by the state to them. Subsidised medical assistance
was granted to workers and from 1831 employers were required to contribute a
compulsory payment of one shilling a day for each day a worker was in hospital
for up to 30 days a year. By 1804 all employers were required to sign an
agreement with the state guaranteeing to feed, house and clothe convicts for a
year. Governor King ordered that convicts would get paid ten pounds a year
overtime for work performed outside allotted hours; this was dropped by
Governor Macquarie in 1816 and replaced by restrictions on working hours and a
bonus of ten pounds to compensate convicts. As early as 1790 convict prisoners
joined with free workers to form a union in Sydney and there is evidence to
suggest that this was tolerated by the New South Wales administration at the
time, even allowing strike action for improved wages and conditions at the
Sydney Herald office in 1839 and subsequently approving full rates of pay for convicts without allocation to industry (Atkinson and Martin 1979: p.28).

Despite this, class mobilisation within the convict class did not form and this had a definite impact on the outcomes expected and administered by the state. While there are arguments concerning leadership (with almost all political prisoners returning to Britain once their sentences were complete and thus contributing relatively little to class-consciousness in Australia), arguments relating to religion (with Protestant and Catholic values teaching respect for authority and crime arising from personal sin rather than social oppression) and arguments about oppression by the state (through harsh sentences and public demonstrations of lashings, despite disagreement over the frequency of the lash and other forms of punishment), the most significant single reason for the lack of solidarity exercised as a class or grouping within the country would be the politically exaggerated, yet very real, prospects for individual self-advancement (McKinlay 1990). Most convicts had sentences ranging from seven to fourteen years and hoped to set up a business or farm in the quickly expanding colony. Full pardons and tickets-of-leave for good behaviour were not uncommon and were used by the administration to encourage the idea that all convicts would have an opportunity to “make it”, even for those given relatively long sentences.
Free Labour Until 1850

The other significant labour grouping to have an impact with respect to production in Australia before the 1830s were the free labourers – less significant in numbers than the convicts, but arguably more influential in terms of precedent for industrial relations policy. Ex-convicts, native-born Australians and free immigrants constituted the bulk of this grouping. Land grants were also given out to people willing to go to Australia and settle the colony. It is this group which had the greatest success with negotiated wages and conditions, the early formation of trade unions and combinations and the lobbying of government policy for relatively impartial arbitration – all of which were somewhat successful and arguably contributed to a system of arbitration prioritising agreed industrial outcomes between the state, business and workers. This can be seen to have an impact in successfully promoting the role of “embryonic corporatism” after the 1850s in Australia.

The most significant inducement to eventually encourage free labour to Australia was the indenture system. An employer paid the worker’s passage and the worker agreed to work for the employer for a specified amount of time. Importantly the wages allocated were not static and were subject to ongoing negotiation based on arbitration through local magistrates, meaning that the indenture system was not purely a contractual labour hiring system, but allowed for negotiated conditions within the timeframe allocated for employment (Aveling
and Atkinson 1987: p.127). This is important as it is commonly but erroneously asserted by some historians that such a system was a virtual form of “wage-slavery” where in fact it was comparatively reasonable compared to similar labour conditions of the time – see McQueen (1986) for an example of the former. The main criticism of this system is that employers could deal with breeches of the agreement through the courts adjudicating the Masters and Servants legislation and could dismiss workers at any time – something which did not sound very free, but which did comply with the liberal edicts of capital / labour relations.

Government sponsored immigration was important. British officials in government were concerned that a rapidly expanding population in the context of the Industrial Revolution was outstripping resources and employment prospects in England. A dispossessed and alienated working class became a drain on national resources and a perceived threat to law and order. Emigration to the colonies relieved this pressure and was actively encouraged (Coghlan 1969). Land schemes were presented as the main incentive, with some crown land given directly to applicants and reasonable loan terms provided to others, with deferred repayment options to the crown. Employers were given subsidies for skilled labour and such labour was paid for in terms of transportation by the government. Wages were also increased with government contributions being made toward the earnings of free labourers. Between 1832 and 1850 over 100,000 immigrants came to Australia for these reasons (Coghlan 1969: pp.200-218).
The colonial labour market revolved around shipping, pastoral and agricultural production, although by the 1840s manufacturing was preferred in the towns by many labourers. It is difficult to estimate accurate figures for wages during this period, although in comparison with Britain it is clear that wages were relatively high. While prices were also higher, it appears this did not cancel the effect of elevated wages. A typical wage for shepherds and town labourers was twenty pounds per annum but with rations provided as well. Tradespeople and labourers received about double the rate as compared to England; workers in shipping and sealing received up to four times more than their British counterparts. This is partly because free labourers had the opportunity to defend their conditions prior to the gold rushes and were largely aware of workplace solidarity, almost always being involved in industrial action in Britain before transferring to Australia.

It is incorrect to say that labour agitation before the 1850s was not organised or “serious”, in the words of historian Brian Fitzpatrick. Collective action was taken over working conditions and arbitrated outcomes were sought very early on, usually through the Magistrates or through direct negotiation between employer and employees, with the latter represented as a group rather than as individuals in the bargaining process - with specific industrial outcomes defined within this negotiation in terms of capital production (that is, the type and value of goods produced), not solely predicated on labour conditions (Fitzpatrick 1944). This is an example of an early conception of a corporatist institution, albeit highly informal in character. Even if this point is contested, there is a strong argument for the influence of such negotiations to have effect on later forms of arbitration.
and labour regulation. Between 1828 and 1850 approximately 100 trade organizations were formed but were usually regionalized, causing a high failure rate in the early stages. From these organizations came a number of cooperatives and “friendly societies” whereby membership entitled one to a range of sickness, unemployment and death benefits and through these, industrial action was organised, thereby recruiting members to the cause and circumventing the 1799 Combination Act. No less than 120 serious strikes occurred in the early part of the 19th century and many of them were successful, particularly in forcing employers to increase wages (if not conditions - especially workplace health and safety conditions - at this stage). Because of the scarcity of free labour and arguably high wages it was possible for labour to insist on, some form of collective negotiation was an almost accepted part of doing business in Australia during this time (Connell and Irving 1980: p.58).

The question of whether or not free labour constituted a class prior to 1850 is a hotly debated topic. Macintyre suggests that there was no class structure in Australia because separate economic links between the colonies were overshadowed by the economic dependence with Britain and that the various ethnic groups in Australia had not yet formed one national identity or nationality (Macintyre and Mitchell 1989: p.249). Humphrey McQueen dismissed the immigrants as “petit-bourgeois”, claiming they emigrated in order to imitate the middle class, small business or landowner in Britain and as such cannot be described as labour at this stage, at least in a classical sense (McQueen 1986: pp.120-125). Connell and Irving have stated “a distinct working class only
appears in the late nineteenth century following changes to the labour market made in the 1860s and 1870s" (Connell and Irving 1980: p.188). Quinlan contests this claim, arguing that despite expectations of the working class in Australia during this time, they remained "overwhelmingly wage earners because of the financial barriers to independence" and that "workers often spoke as one class" through negotiation and judicially arbitrated outcomes. This provides an indication of the development of an "embryonic working class" during this time, united through wage gains and other developments and is important to the understanding of Corporatism in Australia at a very early (embryonic) stage (Quinlan in Patmore 1991).

*Industrial Development and Corporatism 1850-1891*

During this timeframe, workers and the state experienced rapid change, particularly in the 1860s to the 1890s when the great boom ensued. From 1861 to 1900, national product grew four-fold (Armstrong 1998: p.11) Wages were considered to be the highest in the world, and working conditions were comparatively better than in Britain; further, high rates of growth were supported by large infrastructure investment from the state, which created full employment for white males (1998: p.11). The role of capital and the state were more clearly defined, with labour being sourced from previous convict labour and particularly from free settlers enticed by landholding incentives. From 1850 to 1891 an
industrial change ensued, transforming the division of labour and solidifying the nature of the state with respect to arbitration between competing interest groups. The 1892 slump and subsequent failures by organised labour to address these problems through direct action resulted in the rejection of arbitration principles by the ruling class. This meant that bourgeois owners were no longer prepared to accept informal arbitration mechanisms and attempted to instigate a more free-market labour approach. This in turn led to a large reaction from labour which led to support for the codification of more informal corporatist arrangements that had existed previously – the most significant move being in the formation of a worker’s party through the combined trade union movement, called the Australian Labor Party. The struggle between the free marketeers and the protectionists in the early 1900s can be seen as a conflict between liberalism (represented by business) and corporatism (represented by the state and trade unions), with the latter being successful. The influence of liberalism as a dominant ideology at this early stage in Australian development was small, but its history as the major oppositional force against corporatism at this time was definite (see Chart One)—with many of these economically liberal ideas being utilised soon after Federation.

It must be noted that Australia’s white population base increased substantially from the 1850s onwards. The gold rushes of this time contributed to this, trebling the white population and leading to the official count of white immigrants standing at over one million people (Scott 1988). By 1891, the population had tripled with a centralisation of the population toward the cities, particularly in Melbourne (with
473,000 people) and Sydney (400,000) at this time. This urban density greatly helped in terms of the formal structuring and enforcing of arbitration arrangements, as did the sharp population growth after the rise of free settlement after the mid-1800s (Fitzpatrick 1944). The following is a graph of the general population increase since 1788 (graph 5.3 of ABS Statistics 2002) to illustrate the high growth rate observed, particularly after 1850:

**Chart 3: Population of Australia**

![Chart 3](image)

(Source: ABS 2004)

The economy expanded with stable processes implemented through embryonic government-led industry policy in the 1800s onward being formalised and supported through a large influx of white migrants as free labourers combined with the economic success of the gold rush, providing sufficient funds to lay the foundations for successful industry and subsequent regulation, even if the
arrangements were not always formalised during this period. It will be demonstrated that the growth areas of mining, pastoralism, agriculture, building and constructing were significant during this time, with regulation being developed in parallel, both by government and through other less legalistic mechanisms as a historical product of embryonic corporatist arrangements discussed previously.

Although mining and the gold rush have been cited as important economic factors in Australia’s early success, it is accurate to say that more sophisticated forms of government-led industry became increasingly important and evidence demonstrates they assumed primary importance (in terms of growth) by the late 1800s. Manufacturing was estimated to reach up to 25% of total production by the early 1890s – over 30% was export-based, and this was considered the “way of the future” in terms of new industry development (Armstrong 1998). Compare this to 1861, in which only 4.9% of GNP came from export-based manufacturing, and it can be seen that there was a rapid rate of growth in the manufacturing sector in Australia during this period (ABS 2004).

As evidence for this, both N.G. Butlin and G.J.R. Linge have estimated mining’s share of GDP to have declined by at least 66% from 1860 to 1891 with a strong increase in town and city-based manufacturing (Butlin 1959). Gold was initially important to Australia’s growth but declined in importance after the 1870s with the exhaustion of the Victorian goldmines at this time. Some areas of mineral
extraction increased (such as coal) but not comparatively in a financial sense to compensate for the pecuniary loss of other precious metals. Pastoralism and agriculture continued to contribute significantly to the economy, with the sheep flocks increasing fivefold in this period. The demand from British and French textile mills led the Australia government, still acting under the administration of the crown and without a parliament, to develop exporting policies to cover production and processing of primary agricultural product. There was some reduction in employment in these industries as a reaction to government regulation, with the rural bourgeoisie seeking to hire the minimum number of employees necessary. Despite this, pastoral industry and agriculture employed 25% of the total Australian workforce in 1890 (Scott 1988). Primary product was still relied upon but was increasingly being challenged by government-fuelled secondary forms of production and service provision.

The construction industry, directed by the administrative government to provide infrastructure to the growing towns, was a contributing factor to expansion. As the population increased, there was a growing demand for housing, especially in the cities. Owner building declined and contract building, based on state arbitrated award rates, became the normative situation. During the 1880s a large inflow of overseas capital and the increased centralisation of housing finance through building societies encouraged speculative building ahead of demand. Building businesses were significant because government funded most of the major construction – including major public works programs, railways, sewers and government buildings. It is estimated that 25% of British direct foreign
investment was going into Australia in the last quarter of the century. (Patmore 1991). Employees were employed or contracted to the state for the duration of the construction period under a blanket award system guaranteeing a minimum wage and providing “leveling” amongst the entire labour force for equivalent wages. This infrastructure investment contributed to the emergence of manufacturing and secondary production.

The most notable effect of government support and corporatist-style production was the very early stage of economic development of a solid manufacturing base. From 1861 to 1890 this section of the economy doubled in terms of GDP, reflecting a trend toward export: faced with competition from the US and Germany, the focus of export rested on the British Empire and Europe, particularly France. It is incorrect to say Australia was import-reliant in these early years because the balance of trade figures showed exports outstripping imports in the order of 7%, inclusive of imports from Great Britain. Factory employment grew from 10,800 in 1861 to 149,200 in 1890/91 as a result of this, with the main areas of focus being derived from metalworking, engineering, clothing and footwear, production of building materials and the processing of consumables, most notably food and tobacco (Crowley 1985). By the late 1880s Australian manufacturing employed just over 16% of the workforce.

These developments to industry had the effect of focusing Australia’s export market away from an exclusive base in Great Britain. Although 67% of Australia’s exports were purchased by Britain in 1861, this number does indicate that almost one-third of all export products went to other countries, most notably other...
colonial powers in Europe and Australia was granted latitude in these dealings by the mother country. While it is fair to say the relationship between Britain and Australia predicated a trading position of dominance in terms of production, after 1850 Australia ceased being purely dependent in an economic sense and began to produce more refined exports with a focus to markets outside the British influence, as a result of industrial policies freeing up prescribed trading partners and focusing on development of product for export – making Australia one of the first countries to adopt industrial policies of this nature. This was principally enacted through focusing on manufacturing and using established export markets to sell goods. Despite all of this, it must be noted that the majority of export was based around price-taking commodities such as agricultural goods (which is consistent with most colonial relationships of dependence) but that there was a linear increase in the export of price-making manufactured goods during this period. It is estimated that between 1883 and 1887, 25% of British Foreign Direct Investment went to Australia, a great portion of this used to fund rapid development to export markets (Buckley and Wheelwright 1988: p.46, footnote 8).

The Wealthy Worker?

The benefit accrued by the Australian working class during this period is subject to considerable debate. Traditional economic historians, most notably N.G.
Butlin, have cited aggregate statistics to support arguments that there was a sellers’ market: labour was in short supply based on high levels of growth, increasing markets for export, a focus on the industries of agriculture and mineral extraction (most notably gold) while expanding the manufacturing base from 1850 and the concentration of wealth in the growing capitals, invested into infrastructure by government (Butlin 1959). There is also some examination with respect to wages – although they were generally considered to be high by world standards, arbitration did proceed and ensured that growth was reflected in wage gains, particularly in areas to which labour would be vulnerable, such as rural seasonal work.

Many observers considered this period to be “a virtual paradise for workers” with “marvelous Melbourne, the Paris of the south” being upheld as the epitome of colonial progression (Armstrong 1998: p.9). This statement did not simply reflect the increased level of growth as compared to other countries in Europe, but was also indicative of an increasing level of organization between workers to form labour unions, government protection from cheap labour from other countries, state arbitration when negotiation failed between employer and worker and significant public sector employment for infrastructure construction, almost a precursor to Keynesian-style infrastructure development programs (Armstrong 1998: p.9-10). All of this contributed to a “moderate labour movement”, criticised by the left for being “immune to revolutionary socialist ideas” and for having false class consciousness, yet equally attacked by the right for being too demanding. Both sides failed to understand the workings of tripartite corporatist strategies in
regulating the economy and preventing distortions through overlap in crucial areas of export, as well as in preserving worker congeniality: as such, many analysts on the left, in a traditional Marxist-Leninist framework, perceived this form of arbitration to be proof positive that the state only ever acts in favour of the ruling class through “placating” the workers (Harman 1984, McQueen 1997).

Recent academic work over the last 25 years has questioned the “wealthy worker” hypothesis advanced during this period of study. The typical figures used to demonstrate prosperity at this time are derived principally from aggregate hourly rates of pay and labour scarcity, based on comments of employers. They often ignore important factors such as the continuity of labour, full-time employment and actual wages and living conditions, compared with those enjoyed by labour in other British colonies (Fisher 1981: p. 25). Rural production in summer coincided with rural festivities, distorting employment in these industries. Unskilled work was largely seasonal, with a dependence on small firms winning government and private contracts to generate employment. Despite all of these criticisms, it is the case that minimum wages were relatively high and enforced through government regulation and heavy public employment, forcing wages up in the private sector to comparably high rates. Home ownership in Sydney and Melbourne was relatively high by British standards, with up to 41% of people in Melbourne purchasing or owning the home of residence (Armstrong 1998). Significant state contracts were awarded to select industries when work began to decrease and unemployment rose. The relative equilibrium between capital and labour up to the 1890s allowed workers to obtain significant and
unprecedented increases in wages over a 40-year period. The argument that Australia was a “workingman’s paradise” during this period was overstated, but did have foundation in reality to a large degree.

In this period, the Australian bourgeoisie consolidated its economic position but was challenged by labour and the state for political influence and did not obtain the same level of hegemony over labour (and presumably the state) as many of their overseas colleagues achieved.

The gold rushes early in the period attracted immigrant miners and British investors in finance and mining. Between 1851 and 1862 Direct Foreign Investment was approximately two million pounds a year, as compared with 300,000 pounds per annum prior to that (Armstrong 1988). New banks were formed to handle the capital inflow and financial regulations were instigated through the crown to ensure the direction of these funds. As gold production declined, the pastoral industry attracted overseas interest and finance, with a huge level of foreign interest being demonstrated after the boom on wool prices which occurred in the 1860s. Private banks and finance companies directed funds to British loans in the pastoral sector after the 1870s and also purchased significant lease agreements at this time – as an example of this, the proportion of leases held in New South Wales by banks and investment companies increased from 9% in 1871 to 38% in 1889/90 (Armstrong 1988). Importantly, banks were generous in their loans for wool but reluctant to dedicate funds to the manufacturing industry, leading to the state using existing profits from primary producing companies, such as the wool export companies, to fund expansion.
Colonial legislation encouraged the development of companies through the removal of special permission for incorporation through a special Act of Parliament as occurred in Britain. As a result, over 1100 companies were registered from 1865 to 1890 in New South Wales alone. By the 1880s companies and partnerships controlled many pastoral stations and nominated appointees to see to their running, leading to some industrial relations concerns (Connell and Irving 1980).

Capitalists organised quickly to defend the interests of their class. Their initial concern was with minimising the impact of competition amongst themselves, particularly during the early part of the century. In 1850 the British government established Legislative Councils to provide tighter controls on business and with the option of imposing a customs duty. These were developed to better address regulatory concerns not related to industrial relations with which the state had areas of concern. As a response, chambers of commerce were established to address the effects of these regulatory bodies and to lobby parliament (Wilson 1988). Manufacturers later established chambers of commerce backed by regulators in the state parliaments with the principal aim of lobbying for government assistance and tariff protection. These manufacturing chambers were arguably the most influential and provide explanation for Australia’s focus on the growth of manufacturing during this period. It is important to note that their dominance was primarily as a result of their organization and the support the state gave for this formation. This also contributed to the corporatist agreement between workers in the manufacturing sector and the manufacturers: both had a
close and purposely supportive relationship with the government. Despite protest from agricultural, pastoral and mining groups and associations, the interests of manufacturers were the best represented at this early stage and were most directly involved and “closest” to government in an organisational and planning sense (Hall 1971: p.25).

Class Mobility

Individual upward mobility with respect to class was significant, although arguably exaggerated by commentators of the time. Within specific areas such as the printing, small-scale shipping and building industries little capital outlay was required to obtain necessary material and to set up the infrastructure to support self-sufficient businesses. Many jobs were small and only required skilled labourers to complete them with little or no ancillary labour restrictions. It is fair to assume tradespeople were able to start small production companies although it was generally the wealthy who became pastoralists and merchants due to the high outlays required, particularly after the Gold Rush (Fitzgerald 1987).

What individual class mobility did occur usually came as a result of a mechanism of the state rather than the market, the best example of this being the land allocation schemes. Small blocks of land for farming were allocated to families and immigrants with small amounts of capital by the state, as opposed to being sold to the highest bidder and to wealthy landowners. Fitzgerald’s (1987) study
of marriages and mobility during this period indicated that while individual upward mobility was exaggerated, it occurred most prominently where state schemes existed for the transfer of capital and land to migrants, as opposed to the classical liberal view of unspoilt frontiers and hard work contributing to independent business during this time. Further, these transfers were provided to the skilled working class with no capital, creating a form of the middle class at this time and focusing on more sophisticated forms of production, such as providing incentive schemes to train apprentices for manufacturing, thus obtaining higher wage rates as skilled labour. From evidence provided through contemporary research, unskilled labour was provided with mechanisms of regulation for wages but was not supported in terms of starting a new business or beginning new projects; this group of workers “faced limited markets and suicidal competition” usually leaving “the ranks of the wage earners during periods of economic recession” (Fitzgerald 1987: p.5).

State Development

The state played the most dominant role in relation to the development of the Australian economy at this time. The corporatist mechanisms can be seen to have been derived through the colonial initiation of infrastructure support, market development for export to Great Britain and a balancing of convict and class interests with that of the state. Australia has been referred to as being an
example of colonial socialism, whereas this thesis asserts that a more accurate
description would be that of colonial corporatism, to ensure the combined
achievement of national goals and economic prosperity. This included the
building of mass infrastructure including harbours, railways, and bridges,
telegraph lines, water and sanitary systems as well as the provision of many
state-owned enterprises. Because the private sector favoured investment within
proven areas of immediate profit accumulation, as opposed to capital-intensive
areas with medium to long-term profit potential (an ongoing trend and concern in
Australian business) the Australian Government acted to regulate existing and
proven areas of private interest, such as pastoral and mining areas, while
investing directly into more speculative ventures, particularly in the area of
refining and transformation of primary product for export and the manufacturing
area.

Government utilised its ability to borrow large amounts of capital at interest rates
lesser than the private sector to invest into the areas of production and
transformation through skilled and traded labour; as these areas grew as a total
percentage of GDP, the state’s share of total investment went from under 15% in
the early part of the century to over 40% by 1880 (Aitken 1959: p.26). It must be
noted that while the state did regulate between public and private interests during
this time, it did not infringe on areas of private investment, principally because
investors were almost unilaterally focused on immediate gain whereas the
government was focused on the establishment of emerging export markets within
the economy. Between 1861 and 1891 the public debt incurred by the colonial
government to Great Britain increased from 11 million pounds to 155 million pounds, as a result of the construction of competitive and embryonic capital markets in Australia (Aitken 1959). Importantly, it has been argued that capitalists, being in a relatively weak position compared to the superior strength of their class counterparts in England, were accepting of the legitimacy of the state in this role, if not all the arbitration processes implemented. Aitken stated that the acceptance of the legitimacy of government regulation in the Australian economy “went further than Britain, since local entrepreneurs believed it was the proper role of the state to assist capital development” (Aitken 1959: p.39).

The state assisted local business owners through a range of government investment programs and supportive legislative efforts. There has been debate as to whether this form of assistance can be classified as “colonial socialism” or the provision of infrastructure for “a capitalist economy” – both analyses represent a misunderstanding of what processes were actually occurring in Australia during this time and misread the intentions of the colonial administration. The relatively high level of state intervention was in fact neither socialist or capitalist in orientation or aim: it was definitively corporatist in character and represented a further arbitration of class interests in the interests of national cooperation, manufactured and transformed produced goods and (to a lesser degree at this stage) a focus on export. Although there was definitely an area of protectionism involved in these national and domestic efforts, tariff walls were overshadowed by infrastructure and financial investment into emerging manufacturing markets, as opposed to investment into already profitable pastoral
and mining interests which were absorbed by private industry. Public sector led-
growth was larger than private participation in the 1880s with 155 million pounds
being invested by the Government from 1861 to 1891. It was grudgingly
accepted by local entrepreneurs that the “proper role of the state was to assist
development” (Butlin 1956: p.26). This was particularly the case as private
industry was small and in need of assistance before the 1900s. The relative
weakness of private interests demonstrates why the state was able to effectively
legislate in the interests of all classes through a triparte arbitration system which
favoured labour (Butlin 1956).

A number of specific programs other than infrastructure improvements were
installed to assist capitalists. Business interests dominated colonial legislatures,
but only so far as economic growth was concerned and always with the
acceptance of state-labour relations; there was an acceptance from capital that
economic development was bound by the agreements put in place by the
colonial administrators, representing Great Britain but having direct influence on
policy and living in Australia. In Victoria, the state took a direct role in aiding the
development of the manufacturing base through providing incentive funding,
protective tariff barriers and bonuses based on the quantity and quality of
production for export as assessed by the government. New South Wales
exhibited a greater trend toward a classical market model, but still adhered to the
tenets of state support – while bonuses were not provided for developing
industries, tariffs were constructed to encourage infant industries and most
significantly, a number of government contracts were awarded in these
developing areas of the economy to local firms, always in preference to foreign
contractors irrespective of cost (Crowley 1985). This was seen as a productive way
of subsidising such young areas of production while realising tangible benefits
and providing increased government infrastructure at no additional cost.

Apart from these measures, the most direct method the state used in order to aid
the economy and enable the development of certain industries was through
being directly involved with the production process: as such, the state was the
major employer in all emerging industries. Ministers were assigned the task of
directly running government services and industries through their relevant
departments. They were also responsible for the administration and arbitration of
wage rates, becoming wage leaders in most states during this period with the
possible exception of New South Wales (where it was decreed many public
wages could not exceed the private sector rate as this may distort the labour
market). Because of this, the government provided relatively high wages for
skilled labour and this increased the rate of pay in the private sector in
comparable industries (Scott 1988).

Direct labour relations were usually arbitrated through the judiciary when state-
led negotiation failed prior to 1891. Although the Masters and Servants Act has
been previously represented as legislation favouring employers, the act carried
sufficient provision to enforce increases in wages and conditions based on
increased work, relative conditions and standards within the industry, as defined
by the government. Bob Connell and Terry Irving (Connell and Irving 1980) have
argued that during this period, the significance of the act as a disciplinary

measure against employees declined. Similarly, Merritt has suggested that although the Masters and Servants Act was used extensively during this period, the focus became on enforceable arbitrated settlements, usually determined by a magistrate in a top-down manner (Merritt 1982). The principal point of concern was that because the conditions set down were constructed in a judicial and legislative manner, there was insufficient opportunity for both employer and employee to come to a negotiated settlement without direct court intervention. Irrespective of these concerns, the courts demonstrated the degree of regulation which the government undertook in settling labour disputes of this kind.

Evidence of the direct involvement of the state in legislating on behalf of the Australian proletariat is demonstrated in the conditions provided for in law during this period. Following criticism from the press and a number of legal issues surrounding the amount of time a person should work, Victoria implemented the world’s first Factory Act in 1873. It was initially designed to targeting the exploitative nature of women’s employment in the Ballarat clothing trade but related to all factory environments where the labour force exceeded ten employees (McKinlay 1990). Although the effects of the act were theoretically confined to factory workers, they had direct implications on other trades due to the precedent conditions implemented. The most significant ramification of this policy was to enforce an eight-hour working day, arguably the first bureaucratic effort to do so. Overtime was addressed and the Act allowed significant wage gains to be made based on the increase in inflation rather than actual increases in production or other arbitrary factors (McKinlay 1990). Although private industry
did attempt to circumvent this through the limitation of employees per factory, an important and powerful precedent was set which every subsequent legal examination was bound to take into account when determining the growth of wages and conditions in other competing areas of the economy.

Other forms of protective legislation also existed. From 1862, the New South Wales parliament passed bills regarding coalmines and the safety of employees, which included provision for danger pay. In the 1870s most states passed legislation to outlaw employment of women in many occupations and all children under thirteen as well as industrial relations guidelines for employment of adolescents up to the age of eighteen. In 1882 the Employers Liability Act was passed, allowing for significant financial payment to be made to employees in the case of injury to workers caused by negligent conditions at the workplace, a 19th century form of personal injury legislation which had the effect of rapidly increasing the quality of condition workers experienced so as to avoid liability claims (McKinlay 1990). By the 1880s all states had government inspectors who were empowered to randomly check workplaces and impose punitive fines for non-compliance. With the exception of Western Australia, all colonies passed legislation recognising and protecting trade unions while recognising that they were not in restraint of trade agreements. These were implemented and modelled directly from the British Trade Union Act but allowed government to intervene in labour disputes and for judges to provide binding resolution through enforceable rulings. This legislation reflected the growth of organised labour and the recognition that the concerns of this group would be taken into consideration
in the same way as the interests of capital were represented. This proceeded through a somewhat confusing combination of informal negotiation and legally binding rulings prior to the establishment of formal arbitration commissions after 1891. These two mechanisms reflected the initial construction of corporatist capital-labour relations systems, with later processes building on these arrangements providing for arbitration.

**Immigration, Technology and Women**

Immigration was an important source of labour and was supported by the state based on production needs and the requirement to maintain consistently high growth rates. Skilled labour was targeted and education was encouraged, although the gold rush, and an unplanned increase in non-skilled Asian labour during the 1850s as a result of this, distorted government immigration policy. In the period from 1852 to 1860, net migration contributed to 76 per cent of the overall population growth rate (Scott 1988). From 1860 to 1891 the comparative figure of population growth was 37 per cent. The mainland effectively ceased being a penal settlement after 1853 with convicts no longer being shipped from Britain after this time, with the exception of Western Australia, which continued receiving small numbers of convicts until 1868 (Wiseman 1998).

The state provided voluminous subsidies for immigrants in this period, with statistical evidence demonstrating a concentration of benefits and land rights
being allocated predominantly to skilled labour. Between 1860 and 1889, the government provided 54% of all immigrants from the UK with financial assistance and gave large land grants to people able to invest their skilled labour power in assisting with infrastructure support (Wilson 1988). The targeted people considered desirable as immigrants were described as “skilled craftsmen or emigrant mechanics”, the latter being a laconic expression describing highly skilled labour in the manufacturing industry. These labourers came primarily from Great Britain but there were also significant numbers of assisted German settlers, particularly in the growth areas of Queensland and South Australia. Although Chinese labour was usually unskilled this changed as the constitution of emigrants from South-East Asia matured after the exhaustion of the gold rush. There were also packages of transport offered to Melanesian indentured labourers, particularly in Queensland where their labour power formed the base of the Queensland sugar industry (Moore 1988).

Skilled labour was often politicised and arguably provided a strong base for the development of labour-state relations. Many immigrants from the UK had been involved with significant political and industrial movements within England and Ireland but had been persecuted or marginalised because of this. Australia was a colony with high levels of growth and comparatively high wages by the standards of the motherland; discrimination or exclusion in Australia due to political belief was usually not at issue because the British Government accepted, and usually encouraged, the migration of left-wing activists to the colonies, thereby removing them from militant political action in Britain (McKinlay 1990). The formation of
worker combinations was somewhat acceptable in Australia, unlike in the UK whereas persecution could result. This provided a strong base for British citizens with left-wing viewpoints and union experience to have free passage into Australia and to develop the power and organization of labour. In the 1850s there was the formation of a number of permanent trade union bodies, particularly in Victoria, where union officials in England demonstrated a coordinating role. Buckley claims that up to 40 per cent of members dedicated to the formation of workers combinations and permanent trade union activity received their training from the motherland and were well aware of the process of capital-labour relations from an industrial relations perspective, equipping their respective unions with highly skilled officials capable of successfully organising industrial action (Buckley 1971). However because the state, rather than private investors, constituted the dominant thrust behind growth in the colonial economy, officials accepted state arbitration as a tenable means to resolution and were not inherently opposed to negotiation with respect to wage increases and working conditions. It was only during the 1880s and most particularly in the 1890s that major strikes and demonstrations occurred, with the result that most unions determined to create a party capable of representing their interests in parliament, rather than take militant or revolutionary action. The result of all of this was that most workers were left wing in terms of orientation, but not inherently distrustful of the mechanisms of the state.

It must be noted that wages and conditions were commensurately higher at this time for “approved emigrants” – namely, males from the United Kingdom or other
areas of Western Europe with a skill base. Connell and Irving (1980: p.130) have claimed that a two to one wage differential existed between skilled and unskilled labour primarily as a result of government policy and only secondarily as a consequence of a lack of skilled labour, in specific areas. Buckley and Wheelwright argue that the differential was approximately three to two between skilled and unskilled labour respectively, and that the average female wage was approximately one third to one-half of the average male wage in unskilled occupations (Buckley and Wheelwright 1988: p.141, 146). It is fair to assume that the state underrepresented the interests of non-European migrant and women workers until the 1900s although this was consistent with the policy of supporting skilled and educated labour in the development of the country, with few “ethnic”, non-European and women workers having significant skill bases.

Technological change (and the reorganising of production to reflect this) was focused on by the state, although often in areas of proven growth as opposed to emerging markets. In the pastoral industry, the latest techniques of restricted fencing in large areas of land (as adapted from the Enclosure movement in Britain) were used to replace shepherds and provide for full containment of “product”. The latest in mechanical equipment was shipped to shearing houses and by the 1880s Australia had the most efficient and technologically advanced shearing houses in the world (Scott 1988). While it is arguable that technological increases in some areas of the economy further “alienated workers from the means of production” by making work monotonous, it did not decrease employment and certainly had an upward effect on wage rates. The first
automated book-making machines in the world were used in 1861 in Sydney. The work became repetitive but wages increased. Clothing, upholstery, joinery and printing were automated or partially mechanised early on, effectively limiting the apprenticeship system and making redundant the craft guilds in favour of skilled and educated labour and the formation of trade unions (Crowley 1985).

Women had limited opportunity during this period because of a lack of access to training. As social convention expected them to marry and raise children, this provided an important source of unpaid labour to the family and the state, something which was to be partially reflected in the Harvester Judgement half a century later. Married women often supplemented incomes through laundry and cleaning jobs. Domestic service was on the decline because wage rates were comparatively high for this position. One area of employment for women was through manufacturing, where the eight-hour day was becoming prevalent for women as well as men and women’s wages were not commensurately lower than a man’s. The high level of state regulation (and ownership) over this industry allowed women to escape “the long hours and potential sexual harassment of domestic service” (Fitzgerald 1987: p.217). The total number of women employed in manufacturing was surprisingly high in the latter part of the century, with 11,293 employees recorded in 1891 in Victoria alone, constituting approximately nineteen per cent of the labour force employed in this industry. Theoretically wages were not disparate in this area, but as women were primarily employed in the clothing industry the wage rates for this area declined. Women
constituted approximately 18-20% of the total paid workforce in the major states by 1890.

Worker Resistance

As demonstrated previously, the representation of labour was significant and effective at this time due to a combination of politically active worker emigrants and state, as opposed to capital, control over production processes and especially over wage rates. In the early 1850s labour representation was constituted through the development of workplace combinations as temporary establishments to increase levels of pay and working conditions for members and to provide mass representation to workers through the legal mechanism of the Masters and Servants Act to force the state to determine wage rates. This was combined with a process of combination-led negotiation of wage rates for particular projects prior to their construction and the consequence of striking during project completion if these wages were not being paid. There was also organization for political rallies, particularly when a certain sector was unemployed during a particular downturn in their industry.

By the 1860s there was a significant transformation of collectives and workers combinations into permanent trade unions. Initially, unionism remained confined to skilled labour in the cities and towns with smaller craft organizations collapsing with the gold rush and subsequent increases in technology. However, with the
increasing organization of labour permanent unions were established to cater for each particular industry. One of the first significant developments in this was the creation of the Amalgamated Society of Engineers, which covered fitters, turners, patternmakers and smiths in the metal industry. The headquarters were in London and British immigrants formed it in 1852 in Sydney. The union provided a precedent through signing as many members as possible, determining a fair rate of pay through discussions with the state governments and then unilaterally setting wages and conditions based on this government-determined rate. They then withdrew their members from private establishments where employers refused to comply, a clear example of early union-based corporatist negotiation strategies, in the absence of business compliance (Hughes in Clark 1961).

Further, a range of social rights were granted through membership, making the incentive to join significant; the union provided a wide range of sickness, unemployment, superannuation and funeral benefits. These benefits were attractive, but required high subscription rates to sustain. Unemployment benefits also discouraged members from obtaining work at less than union rates (Hughes in Clark 1961).

A number of early union formations initially failed but led the basis for most substantial bodies to be developed from them. Melbourne printers founded the Victorian Typographical Association in 1851 but were beset with problems due to the gold rush and subsequent decline in membership. It collapsed in 1855 but formed the basis for the larger Typographical Society based in Melbourne but operating nationally within a short period (Rimmer and Sheldon 1989: p.275-6).
Plasterers and painters attempted to form a permanent representative body four times from the 1850s to the 1870s until they were successful in its establishment before the 1880s. The formation of the Boilermakers Union was only successful after it began to offer a range of benefits similar to those provided by the ASE (Amalgamated Society of Engineers) and the Progressive Society of Carpenters and Amalgamated Society of Carpenters and Joiners was only successful once it had consulted with state employers over reasonable wages and conditions prior to setting the award rate recommended to the membership (Hughes in Clark 1961: p.396).

The key to survival of employee organizations and unions at this early stage was through amalgamation, which occurred with a number of successfully established organizations and union bodies providing for a long-term base of membership. These groups continued to survive throughout the late 1800s, albeit in a reconstituted form. While amalgamations were often criticised as providing for a bureaucratisation and centralisation of power amongst union officials (perhaps leading to unions becoming employer-friendly and focusing on membership to provide a large labour pool “for hire” as opposed to primarily focusing on increasing the real wages and conditions of workers) these centralisations allowed the unions to survive, develop a large support base and provide for coordinated action with respect to wages and political support. This centralisation also allowed for more formal processes of negotiation and representation between unions, employers and the state (Buckley 1971).
The eight-hour day was advanced as an early goal for labour; many occupations gained the eight-hour working day as early as the 1850s, well before any consideration of this was given to workers in any other parts of the world, partially defending the claim that Australia was the most progressive labour state internationally. Unions such as the Stonemasons Society advanced the position in the 1850s that eight hours was a suitable outcome for employers because it provided for “complicit and highly productive labour” (Kennedy 1981: p.6) while decreasing the amount of money employers were required to pay; shockingly enough for commentators in most areas of the Commonwealth, this was accepted in principle by the Australian colonial administration on the cited grounds that “if British practice of a ten-hour day were followed, their [workers’] health would deteriorate in the warmer Australian climate” (1981: p.6).

Subsequently, private employers lobbied aggressively at the state level for a rejection of this tenet combined with a more rapid influx of assisted labour to reduce wages in key areas.

Workers in the pastoral industry unionised late but organised stable and powerful representative associations by the 1880s. The primary leadership for this formation came from shearsers who worked as miners during certain times of the year and were affiliated to the Australian Miners Association. The first attempts at pastoral combinations occurred in 1871 through shearsers but this did not constitute significant representation until local groups amalgamated to form the national Amalgamated Shearers’ Union of Australasia as late as 1887 (Scott 1988). Unfortunately their lateness in combining and most particularly, their
rejection by the state led to their ineffectiveness as a representative body. As a result, employers who refused to consult with this union would receive support from one arm of the state, most notably from the executive wing of many state governments. Some historians (such as McQueen) have argued that this demonstrated the true focus of the state in supporting the ruling class and the capitalist system through providing infrastructure, curbing the radicalism of the working class and attacking those associations they could not control through arbitration processes; however, this Leninist view does not take into account the supremacy of the state, as opposed to the bourgeoisie, and the role the former played in maximising growing markets and production while balancing (and even coordinating) the roles of the different classes to achieve a combined outcome.

Examining white-collar employee associations as compared to their British counterparts demonstrates most sharply the corporatist nature of Australia. Most civil servants had associations, which acted in a similar manner to trade unions and were particularly focused on lobbying state governments for favourable changes to the Civil Servants Act during the 1880s. Marine officers were predominately members of their union which affiliated to the Melbourne Trades Hall Council, causing protests from employers who did not want to negotiate unless the body disaffiliated. Academics examining this phenomenon such as Peter Sheldon and John Rickard have asserted that radical labour historians have difficulties examining this class of people and positioning them into a class structure (Sheldon 1989). Such historians either briefly mention them with respect to class relations or, in most cases, simply ignore them. However, this
class is important as it represents a large workforce dedicated to maintaining the operations and implementation of policy of the state. Although they were in a relatively privileged position, they did not own the means of production but had significant control over it. The degree of representation offered represented, according to Sheldon, “how widespread the principles of organization had become in Australia by the 1880s” (Sheldon 1989: p.99-100).

Unions were significant and became politically and industrially organised relatively quickly, pressuring government for changes to various areas of policy and for tighter, formal processes of appeal for employees. By 1890, five Intercolonial Trade Union Congresses had been held in which peak representatives from the major trade union and employee association bodies would meet to discuss specific issues connected to industrial relations. The major two issues related to the eight-hour working day and organization of a coordinated approach to representation to the state and colonial administrators (McKinlay 1990). Also discussed was the integration between labour and the state moving beyond token representation, culminating in the determination in the 1890s to form the Australian Labor Party (Armstrong 1998). Most state governments had allowed universal male suffrage from the 1860s but concessions were granted to landowners, who had “plural” voting rights (in which landowners with property spanning two electorates could vote in both). Women did not have the vote, and electoral boundaries favoured relatively affluent suburbs. Salaries for legislators were not paid in most states until the 1880s, with Victoria being the exception, meaning that working-class representatives could
often not afford to stay in parliament (Gollan 1996). The unions countered through supporting their representatives financially during their terms, but this was hard to legitimate to members, particularly given a lack of state social welfare programs and the lack of influence asserted by only one or two members in the lower houses. This provided added impetus for a disciplined party structure to support union and employee interests. Despite this, there were dedicated labour representatives in various legislatures who pushed for various concessions, most particularly the extension of the eight-hour working day.

In the 1889 Congress at Hobart, the trade union movement unanimously called for the direct representation of the working class through parliamentary means. The next year the New South Wales Trades and Labour Council endorsed a plan for candidates to stand at the next general elections whereby a coordinated election platform was endorsed. A number of factors (most specifically, the payment of salaries for politicians and the failure of trade unions to achieve several legislative proposals through traditional mechanisms of representation and industrial action) accelerated this development. Application was made to the various state governments for party registration - and to the surprise of some industrialists, was unanimously accepted, with party status declared.

This coincided with the famous maritime strike, which was a reflection of the beginning of the end for the great boom. A wide variety of occupations supported the maritime workers and officers, culminating a general strike of approximately 40 000 to 50 000 workers in most states (Crowley 1985). Because of the informal nature of arbitration processes utilised by the state combined with a slowdown in
growth and a resultant economic slump, significant tensions such as reflected in this dispute could not be resolved through the courts or by the administration alone. It signaled the construction of more formal processes of appeal for labour and precipitated the creation of formal and indisputable arbitration commissions at both a state and federal level, to handle all future grievances. The slump and resultant strikes reflected the lack of structure inherent in the state approach to (embryonic) corporatist systems and led to the adoption of corporatism as the principal economic response to crisis.

The Emergence of Corporatism – 1890-1914

The last decade of the nineteenth century had demonstrated to legislators and stakeholders that for economic stability to ensue, it was not possible to rely on an ongoing boom and on the specific benefits which accrued from this. Clearly, a more structured and formalised approach to arbitration was required to provide for an emerging nation and this was quickly (and in world terms, uniquely) adopted by most interest groups as the most desirable outcome. Even though embryonic corporatist processes existed as early as the 1850s, with evidence of parallel processes substantively resembling these and contributing to this development from the early 19th century, many of these were either informal or resorted to common law mechanisms. The combination of a strong state led through the administrative power of Great Britain and the victory of the
“Protectionists” over the “Free Marketeers” in most state colonial legislatures led to the verification and formalisation of the arbitration processes, government focus on export-led technology (such as manufactured goods at this point) and the beginning of the formation of a welfare state (Wilson 1988). This was seen as advantageous to the state for social cohesion and overall benefit, the working class with a newly articulated agenda through Labor representation and to the majority of business owners through the production of increased stability in the economy, although this was not accepted by most business. The result was the implementation of many corporatist processes at least 25 years prior to the establishment of the first “true” social-democratic corporatist state in Sweden during the 1930s.

The lack of economic stability based on the reliance on primary product for export became apparent during the 1890s. There was a harsh nation-wide depression during this period, with a resulting loss or erasure of earnings through bank closures, wage cuts and mass unemployment in a country with almost no welfare state. Estimates vary, although it is thought that unemployment rose to 28.3% in 1893, the peak of the slump (Scott 1988). There was a brief return to prosperity from 1899 to 1901, but this was followed by drought from 1901 to 1906, having a negative effect on the rural economy. According to Macintyre and Mitchell (1989: p.97), these problems “highlighted the sensitivity of the domestic economy to fluctuations in the price of export staples” and at this time “there was a desire to stabilise the domestic economy and protect it from sudden shocks” – an almost verbatim description of the rationale of the Swedes in their
implementation of social-democratic corporatism in the 1930s and in most other small West-European countries after WWII as advanced by Peter Katzenstein (Katzenstein 1985, Macintyre and Mitchell 1989).

The major strike action during the 1890s highlighted the need for more corporatist-based arbitration, particularly in the form of substantial industrial relations regulation. Notable disputes such as the 1890 maritime strike, the significant level of pastoral disputes in 1891 and 1894 and the 1892 Broken Hill Proprietary (BHP) strikes increased the level of aggression between capital and labour (McKinlay 1990). The strikes themselves were in key export areas and it was feared by the state legislators that this would disrupt foreign interest and dissuade the development of emerging areas for export. One of the main issues underlying the strikes was the representation of labour through trade unions as extending to minimum conditions; employers fought against unilateral regulation and collective bargaining as a mechanism for pattern agreements across industries for wages and conditions. The employers easily found cheap labour to fulfil production requirements due to the competitive nature of the labour market in this period and so won the strikes. This resulted in the emergence of the Labor Party as a dominant force in parliamentary politics, theoretically representing the interests of the trade unions through official mechanisms rather than through direct industrial action and the states providing for “statutory provision for union recognition” (Bray 1989: p.55).
The response of the state was through a group of “liberals”\(^{25}\) who recognised that the role of the state in Australia was to provide a mechanism for the fair resolution of grievances between capital and labour. This group was particularly notable for the inclusion of Alfred Deakin, Charles C. Kingston, Bernhard R. Wise and Henry B. Higgins, all lawyers who strongly believed community rights should be legislated and discarded the notion of the “invisible hand” of the market providing benefit for all citizens. This group argued that an extension of regulation by the state was natural given the history of the Australian penal settlement and that this had to be expanded and formalised to offset industrial conflicts and community concerns, particularly during economic slumps, and to correct the economy in times of downturn in world markets (Patmore 1991, Wooden 2000). It was also to be used as a mechanism to “eliminate abuses of that [capital dominance over labour] relationship” and to provide guaranteed representation to the labour movement through non-confrontational means (see Wooden 2000).

There are varying interpretations as to how labour reacted to these reforms, although contemporary evidence suggests they were reluctantly agreed to by labour under existing economic pressures. However, as the benefit of government intervention was realised, union bodies soon moved to support arbitration. This allowed for the acceptance of corporatist policy and meant concessions were to be accepted by the majority of the trade union movement,

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\(^{25}\) This is a confusing term, as it differs from who would be classified as politically liberal today; the definition of “progressive” would be better suited to this situation (similar to the definition of “liberal” applied to left-of-centre activists in the US).
even after the long boom in which members were accustomed to general
prosperity and (arguably) the highest wages in the world in many sectors. The
recession after 1891 forced the union movement to accept a more centralised
process of wage bargaining and to focus on political support in order to support
their agenda, rather than on direct action principles. Combined with the power of
the state in Australia, as seen in the establishment of the colony and subsequent
guiding of the economy under state supervision, this constituted a general
acceptance of the principles of wage bargaining through a formalised industrial
framework administered by government. All available evidence shows that once
the majority of unions ratified this decision (made easier by a broad acceptance
of the need for political representation in the 1889 Trade Union Congress) the
system of formal and legally binding government arbitration was widely
supported (Wilson 1988). Although there was considerable class suspicion of the
professional middle class (such as many solicitors and doctors who supported
such a change) it was enthusiastically supported by the majority of groups and
even accepted by some militant unions, which saw it as a pragmatic alternative
to strike action in times of slump. In sum, evidence suggests that labour generally
supported the reforms in being a formal and legally binding form of wage
determination - which existed previously in a more informal manner. Despite
Leninist arguments to the contrary, particularly the argument of radical sociologist
Fitzpatrick and subsequent analyses of this (claiming that workers had arbitration
imposed upon them by the ruling class) it is clear that most unions were
tentatively supportive of such arrangements even prior to the slump (Fitzpatrick 1944).

Employers did not appear to support arbitration and were particularly resistant to it in the first process of formal implementation. Initially, legislation was frustrated through non-compliance, resorting to legal action over arbitration commissions and making representations to favourable businessmen in the various State parliaments. The unity of employers expressed in the 1890 strike was not present by the time arbitration was implemented in 1903 (and enforced in 1907), precisely because conditions were favourable for employers. The “weakening of the labour threat and competition in a depressed economy” led to the disbanding of many employers’ organizations dedicated to counter union demands (Buckley 1971: p.99). In addition to this, there is considerable evidence to suggest employers from the manufacturing sector and other non-primary export-led businesses were supportive of arbitration as a mechanism to avoid industrial disputes and accepted intervention from the state to ensure the quality and competitiveness of export product, similar to the preconditions accepted by many Swedish manufacturers in the late 1930s and 1940s in their acceptance of the corporatist state. In particular, Victorian manufacturers generally supported the establishment of such a system, contingent on tariff protection to counter imported and interstate products, most directly concerned with New South Wales (Plowman 1989).

There is some argument that the principles of arbitration in Australia after 1891 were also affected by a long, of somewhat uneven, tradition in the mother
country. This should be briefly considered. Commercial arbitration dates back to Saxon times and related to disputes regarding existing contracts, particularly evident during periods of economic downturn during the Middle Ages. Regulation of wages can be dated back to an extraordinary decree known as the *Ordinance of Labourers*, proclaimed in 1349 (Patmore 1991: p.104). This gave justices of the peace and magistrates the ability to determine a range of wage and work-related conditions for certain areas of labour within the economy. It also demonstrated the beginnings of successive citizenship rights. The rise of classical liberal principles and the growth of the Industrial Revolution in the early 1800s saw the decline in such a doctrine and it became defunct. Despite this, there were a range of “voluntary” conciliation and arbitration boards established to resolve disputes between industrialists and the increasing power of the trade unions (Wooden 2000). Further, the British Parliament acted to provide minimum standards of pay and working conditions in the mid-1800s, thereby reacting to the extreme poverty and inhumane working hours existing in this period. Despite considerable criticism demonstrated principally by classical liberals, such legislation was enacted by the UK parliament and reflected a level of government intervention which had effect in Australia.

A number of progressive political figures in the 1890s rejected the view that the role of the state should be restricted to increase individual rights and freedoms, asserting that Australian-based industry and labour required a government-led approach to conciliation and countering non-interference arguments with the necessity of responding to economic crises. This was explained on the basis of
the capital and labour conflicts occurring after 1893 and the need for some form of conciliation between these two groups. This was justified in the “national interest” and was designed to provide a unified approach to production during uncertain economic times (Fox 1991: p.102). The “community” was regarded as the overall focus, with shared objectives stressed as an overarching goal - legitimating government interventionism above market freedom. Despite argument that these “liberal” progressive reformers did not support labour directly and indeed were responsible for condemning strike action, it can be seen that such reformers did support arbitration (for the sake of effective conciliation) and thus weakened the position of the bourgeoisie relative to labour. There was also a practical element attached to this position – increased government intervention allowed the focus of national production and export to be placed away from the individual (industry-centred) realisation of profit toward the fulfilment of the national interest through stated government policy (Osborne 1985). Such approaches reflect real attempts to provide corporatist solutions to the excesses of capital and the responses of labour during the economic slump of the 1890s.

*Deakin, Harvester and Federalism*

The 1907 Harvester Judgement was one of the first examples of effective and binding wage arbitration. It was implemented *de facto* by Government through the judicial arm. It is arguably recognition of the interventionist nature of
government during this period and the necessity for corporatist-style regulation. To first understand this famous judgement and the historical prominence given to it by labour historians, it is necessary to examine the form of Federal Arbitration implemented at the start of the 20th century.

Although there had been a general move toward compulsory arbitration at a federal level and significant state implementation of various industry commissions during the 1890s, most of these early attempts appeared unsatisfactory. While Federal Protectionists and Labor Party members argued over the details of any new federal commission and award (particularly concerned with which groups are eligible for application) the states experimented with a mixture of non-binding and compulsory arbitration mechanisms which proved unsatisfactory to both capital and labour. The state commissions were often overly-bureaucratic and legalistic in their approach, thereby dissuading groups from attempting to resolve grievances through this process (Plowman 1991). Arguably, the main problem with the state commissions was the ability for employers to appeal to superior courts over the nature of the award (rather than on a point of law) and the attempts of non-protectionist conservative governments to undermine the legislation relating to commissions whenever such governments would win power at the state level.

The beginnings of the Commonwealth arbitration system come from conventions which shaped the Australian constitution. Two prominent members of these

26 For example, Kingston was a Cabinet member of the Barton protectionist government and drafted one of the first Federal Arbitration bills on which further bills were based, but he himself resigned from Parliament because of the non-inclusion of seamen (see Patmore 1991).
conventions, Kingston and Higgins, were responsible for the implementation of clauses into the Australian Constitution allowing for such arbitration (Portus 1971). Their opponents argued on the basis that it was up to the states to administer industrial relations and that a federal system may encourage disputes beyond one state. During the first constitutional convention in 1891, Kingston’s attempt to grant the federal government powers to establish arbitration courts was defeated by twenty-five votes to twelve. However, between 1891 and 1897 a combination of nationwide strikes during the economic slump and the success of the New Zealand arbitration system led to increased support for such a federal proposal. During the 1897 convention, Higgins argued for a modified form of the Kingston proposal allowing for a court which had jurisdiction over interstate disputes, but this was defeated by twenty-two votes to twelve (Portus 1971). By the time of the final constitutional convention before Federation, it was evident that the states had largely failed to address concerns associated with industrial disputes and that arbitration was largely inconsistent and fragmented; combined with the inclusion of a supportive Western Australian delegation, this led to Higgins recommendation being adopted by twenty-two votes to nineteen. Some did not oppose the proposal because they felt that such powers would not be acted upon for a considerable period of time, but that the Commonwealth should have access to them at some point in the future.

However, within two years of the formulation of the Federal parliament, nationwide arbitration was seen as a major issue. Alfred Deakin was supportive of such legislation being proposed and when he became Prime Minister in 1903
he began a dialogue with the Labor Party for its implementation, in exchange for protective tariffs for industry. Despite significant disagreement over the final form of the legislation, there was general support for federal arbitration. In December 1904 the final legislation was passed to implement a nationwide form of this (La Nauze 1965).

The *Commonwealth Conciliation and Arbitration Act 1904* created a Federal Court of Conciliation and Arbitration which was made up of a President from the High Court justices and other officials, including other judges, constituting a multi-member or full bench of the court. The Court could make compulsory awards to settle disputes extending beyond the limits of any one state commission (Fox 1991). Both employers and unions registered as organisations could unilaterally bring a matter before the Court. Awards and registered collective agreements were enforceable on employers, but also prohibited strikes and lock-outs with a maximum fine of 1000 pounds. There was a conciliation process before arbitration began and the President of the Federal Court could make an award as a “common rule” to apply to all related industries (Fox 1991: p.102-103). Although the power of the Commission was considerable, it did exclude agricultural labourers and domestic servants from representation. It is, however, an example of a corporatist process being implemented as a separate mechanism from the executive and legislative arm of government, thereby being systemic and uniform.

The court also participated in the active examination of policy such as “New Protectionism”, which linked tariff protection to fair wage rates. Deakin and his
government regained office in 1905 but required Labor Party support for import duties. In 1906 the *Excise Tariff Act* was passed which allowed agricultural manufacturers to receive the full benefit of protection from the Court of Conciliation and Arbitration provided it was deemed that “fair and reasonable wages” were being paid (Scott 1988). The legislation and subsequent Harvester Judgement guaranteed Labor Party support for protectionism. It must be recognised that protectionism has enjoyed only an ambiguous relationship to export competitiveness in the form of stimulating “infant industries”, but in the context of Australia in the early 1900s it was indicative of a government-led, as opposed to free-market, response to industry policy.

Employers attempted to challenge the Federal Arbitration system through the use of legal challenges, similar to the tactic employed in the state challenges against New South Wales and Victoria in the late 1800s. Prior to 1912, such employers were aided by a High Court dominated by judges who had adopted a restrictive interpretation of federal powers. As a result, between 1907 and 1912 employers successfully challenged established awards and the registration of certain unions (McQueen 1997). The Fisher Labor Government attempted to overcome these challenges through referenda in 1911 and 1913, allowing for the widening of Commonwealth arbitration powers. These referenda were not successful, but in 1913 the Fisher government was able to expand the High Court bench and appoint three pro-federal judges, thereby overcoming perceived High Court objections (Bray and Taylor 1989). Employers had substantially fewer victories and the new bench reversed earlier precedents in relation to federal arbitration.
Prior to 1914, there were two Presidents of the Commonwealth Conciliation and Arbitration Court, namely Richard O’Conner and Justice Higgins. O’Conner avoided the development of basic principles for wage arbitration. Rickard (1984) has claimed that under this system, wage levels prior to the 1890s were used as the standard and that “the market value of labour” was the most important determinant. Higgins adopted more straightforward rules, with his historical Harvester Judgement in 1907 being used as the benchmark by which other cases were tried, at least in terms of the principles applied. In this Judgement, it was determined that the “living wage” for unskilled labour should be based around the “human needs of a male worker, his wife and three children in a civilised society” (Patmore 1991). This was seminal to the judgement, because it determined that the wage rate should be based around a certain set of needs, as opposed to capital’s ability to pay. When asked about the capacity for business to pay such wages, Higgins stated that it would be better for industries which could not afford to pay to cease to trade, and that such a wage determination would separate the truly competitive from the uncompetitive businesses. The rate was set at seven shillings, a considerable sum for this period and the union standard before 1890 (McCarthy 1976). Without going into greater specific detail, it is clear that this early Government approach to arbitration and subsequent Harvester judgement were a very early corporatist process which had been officially implemented by 1904. The Federal nature of the commission also indicates the high level of support for the implementation of a national conciliation system going beyond the conflictual capital/labour approach seen in pluralist societies.
(McCarthy 1976). It can be observed that there was an attempt to mitigate class conflict at the point of production and that this was possible because of the strength not only of labour, but also of Government as compared to capital.

It is important to note that various states approached conflict resolution in different ways. In Victoria, a Wages Board System was implemented and preferred to the form of arbitration seen in New South Wales and at the Federal level. This is partially due to a long history of public concern over the excessive exploitation of labour (colloquially known as “sweating”) dating back to the 1850s. The first act designed to reduce such exploitation was implemented in Victoria as early as 1873 and was subsequently revised in 1885 and 1890 (Wooden 2000).

There was also a close relationship between the Melbourne Trades Hall Council, manufacturers and more progressive (in this context, non-conservative) politicians allowing for open dialogue and genuine conciliation based around the pursuit of combined objectives, reflecting the corporatist ethos. The 1890s depression highlighted the issue of sweating in Victoria and placed an acute focus on this issue – this culminated in a Victorian Parliamentary inquiry held over two years, from 1893 to 1895 (Wooden 2000). The final report highlighted the widespread exploitation of unskilled labour and many submissions included the provision for the statutory fixation of wages in order to address this concern.

There were also state-wide movements against unfair wage rates, including the formation of an influential middle-class lobby group called the National Anti-Sweating League. The Melbourne Trades Hall Council supported the movement, but by the mid-1890s it was too weak to act industrially on behalf of this cause.
As a result, the Government implemented six industry-specific wage boards in 1896, providing for representation from both business and labour. Despite some debate and early challenges to this system, including the parliamentary delay of legislation to grant the wages board permanence in 1903 and 1904, the wages board was accepted at a state level with arbitration being confined to the federal sphere.

A combination of the great slump and subsequent strikes of the 1890s and the unique existence of informal arbitration systems, as well as embryonic corporatist elements existing within colonial Australia during the 1800s led to the speedy development of more formal processes being adopted to facilitate conciliation, wage arbitration and reduction in militant industrial action. Such arbitration systems encouraged conciliation, mediation and to some extent forced the construction of mutual agreements based on agreed outcomes. Liberal members of parliament and the Labor Party defined and produced legislation relating to compulsory binding arbitration and wage boards, quickly obtaining the support of trade unions and labour more generally. The Trades and Labour Councils accepted that arbitration could be used as a supplementary strategy to increase wages and living conditions during times of economic downturn, further supporting the system as productive benefits were translated into increasing conditions for workers (McKinlay 1990). Arbitration further centralised the union movement due to the form of representation required, allowing for a more combined effort at the expense of grassroots union democracy and the exclusion of more militant action. Employers generally opposed state and federal arbitration
and wage determination, attempting to challenge the legitimacy of such boards through legal challenge. There was some support for a limited wages board, particularly in Victoria, to limit federal claims to representation through arbitration but, in general, business disliked the system and supported ‘free-trader’ politicians ostensibly supporting a libertarian ideology. However, this form of liberalism appeared both ineffective and ahistorical in relation to the Australia position. This first symbol of corporatism in a small state – compulsory arbitration and wage determination with capital and labour representation and the development of shared commitments and goals – gained support and was accepted legislatively in most parts of Australia by the 1920s, even if complete implementation of such processes was not facilitated at this time (Bray and Taylor 1989).

Experimentation and Liberalism 1914-1939

Australia’s relationship to government influence in the economy and arbitration was mixed during 1920s through to the beginning of the Second World War. Classical liberal ideas began to influence thinking as represented by the free traders attacks on the welfare state, the arbitration process and government intervention in general during this period. World War I did not readily facilitate economic growth as enlistment disrupted the labour-intensive industries and “hard” growth through reconstruction did not particularly affect Australia.
However, after 1918 heavy foreign investment and immigration sustained a recovery, with significant government intervention. Australia’s economic recovery remained influenced by primary product and this had an effect, as by 1927 foreign capital began to dry up and the pattern of slump evident in the US became acute by the early 1930s. A significant turn from liberalism in the 1920s to forms of government corporatism in the 1930s helped reinstate interventionist policy and stimulated growth through the slump (Reid 1979).

While the majority of businesses were small, the number of workers employed in large-scale industry grew, as did the influence of this body. In manufacturing the average number of employees per establishment was approximately 23 in 1920 and declined slightly, but manufacturing companies with over 100 employees grew from 651 in 1920 to almost 1000 by 1938 (Gregory and Butlin 1988). Continued market focus and the emergence of heavy manufacturing and new technologies helped the growth of large-scale companies and to some extent, ensured early monopolies. An example of this was Broken Hill Proprietary (BHP), opening in Newcastle in 1915 with a large workforce of about 1500 employees and by 1935 it absorbed its only rival in the mining industry, AIS, ensuring its monopoly position till well after WWII and guaranteeing its political influence in Australia as of 2004\textsuperscript{27}. Ford and General Motors appeared in 1925. However, it was government enterprises which quickly came to represent the largest

\textsuperscript{27} This influence has politically undermined corporatist moves toward the production of high-end export product because of the dominance of BHP in the primary export market and over the Australian economy. Conzinc Riotinto Australia (CRA), now called Rio Tinto, and the Western Mining Corporation (WMC) later became major miners and strong opponents of corporatism, unionism and arbitration.
segment of the workforce with state government railways and the Post Office being the largest employers during this stage.

The interest in new forms of “scientific management”, Taylorism and related modernist production techniques began in Australia by 1914. A small group of government officials were appointed to examine the success of German industry in terms of efficiency. The Victorian Commissioner of Public Works organised seminars based around efficient productive methods. Scientists and intellectuals, most notably R. Irvine and M. Atkinson, called for workers and unions to adopt scientific adaptation of production processes and to focus on high-quality manufactured product. The University of Sydney sponsored lectures on industrial psychology and reports on industrial fatigue and productivity were also produced (Patmore 1991: p.146). Importantly, these ideas had influence and the New South Wales Chamber of Manufacturers commenced the 1916 publication of the *Australian Manufacturer*, based on efficient modes of production. The National Cash Register Corporation, a leading supporter of welfare within corporate culture in the US, held films and was supported in calls for materially providing more to workers in exchange for increases in efficiency.

Industrial turmoil and the rise of communism contributed to early corporatist mechanisms being considered before 1920. There were a number of large strikes taken, particularly in New South Wales in 1917 and in 1919 through the Maritime and BHP workers (Bray and Taylor 1989). It was feared that the recent success of communism through the October Revolution of 1917 and the focus on creating one single union to arbitrate industrial concerns would lead to the
adoption of radically progressive ideas. As a result, many conservatives argued for the raising of workers' living standards, an allowance for welfare programs and the partial participation by workers' representatives in management decisions, the latter being inspired from corporatist modes of industrial governance notable in the Nordic region. There was also concern that increased international competition would force Australia out of world export markets without radical capital and labour changes, but the nature of these changes were hotly contested. While the communist threat declined in importance throughout the 1920s, labour productivity remained a major concern. As a result, government was empowered to investigate the tenability of welfare programs and labour representation in industry and this was pursued federally, mainly up to the early 1920s (Reid 1979).

The state clearly played an important role in the production of ideas which would lead to new and innovative processes. In 1919-1920 the Commonwealth Advisory Council of Science and Industry published various papers on industrial cooperation between labour, capital and government. There was also discussion over the use of welfare policy to ameliorate hardships and increase the overall productivity of the labour pool. The Industrial Arbitration Act was changed in 1918 to allow a Board of Trade to establish “mutual welfare committees” and “industrial councils” with the express purpose to establish management and employee committees where necessary (Scott 1988). In New South Wales, such policies were experimented with and implemented in a number of state enterprises (1988: p.147). Higgins encouraged employers to make scientific changes to the
productive mechanism in order to encourage efficiency increases and the employment of skilled labour. Fatigue studies were used by Higgins and other Arbitration Courts to determine the maximum allowable time for work and to provide a reduction in working hours where the commission felt it appropriate (McCarthy 1976). There was also support for skilled jobs and labour with a clear distinction between skilled and unskilled workers in terms of wages and conditions being effectively implemented through the federal arbitration mechanism.

Technological change and product reorganisation for international markets as well as the more demanding domestic consumer provided a justification for government interventionism and scientific production methods. Unions were initially concerned regarding exploitation and the time-management approach, in which employees were frequently timed for efficiency and given set hours for completion of a task (Forster 1964). Management also implemented “card systems”, in which work was recorded and established by the supervisor as opposed to the individual worker on the factory floor. Quality concerns were addressed through this mechanism and despite successive union actions; these were implemented along with bonus systems. General Motors Holden implemented time studies to eliminate gross inefficiencies in production circuits (Hartnett 1973). Taylorism was generally regarded with suspicion by most union groups, despite support from producers and Government, an exception being the Federated Clothes Trade Union who supported arbitrated wage/efficiency gains.
Industrial welfarism became heavily encouraged by the state, leading to the implementation of a number of programs and concessions being given as well as favourable arbitration decisions concerning such corporations being enforced. During the First World War, the New South Wales Government Railways expanded existing welfare organisations and created the Safety-First Movement to curb union militancy and ensure reciprocal employer-employee complicity. The industrial changes in the early 1920s encouraged other employees to formalise existing practices and provide new welfare facilities, demonstrating a level of “bourgeois” corporatism, particularly within large firms and organisations. Mauldon conducted research and cited 76 private establishments with welfare schemes in Australia with reciprocal targets and agreed industrial resolution mechanisms (Patmore 1991). There were further ancillary benefits offered by other organisations such as dining rooms and recreation facilities being provided. However, as the economic slump of 1929 affected Australia, many of these facilities were wound-back.

A phenomenon called “company unionism” began to emerge, whereby unions arbitrated on the basis of business rather than industry – a move away from national corporatism toward firm-based negotiation. This was seen as a conciliatory way of establishing common values and negotiated outcomes, although left-wing critics frequently cite the abuse of this system through the exclusion of industry-based trade unions. After the General Strike of 1917, a large number of union groups were deregistered, allowing for the formation of these company-specific organisations. It was felt by many workers that although
there was an overemphasis on the success of one individual firm, this was worthwhile because of more generous employer concessions (Crowley 1985). Although many traditional unions accused these new groups as being simply supportive of company interests, arbitration decisions demonstrated that company unions had greater independence than perhaps initially speculated. This was an interesting historical development because it can be argued that with appropriate and binding arbitration systems in place, such groups could represent a more “modernist” approach to capital/labour negotiations, albeit with a move away from pure forms of corporatist arbitration and labour representation. Irrespective of some positive aspects of this, such a change would have to be considered indicative of a decline in corporatism in favour of liberal industrial practices, witnessed from the 1929 slump until World War II.

It is reasonable to assert that Australia did increase its range of corporatist functions in the 1920s but that the ideology of liberalism in industrial relations strongly reasserted itself during the 1930s, primarily due to the economic depression at that time – with economic liberalism being the primary cause of irrational exuberance in the 1920s and the following slump of the 1930s (Harvey 1989). It is clear that such a development halted experimentation in relation to conciliatory and voluntary labour management schemes, placing pressure on the legislative arms of the corporatist structure, especially against the federal and state arbitration courts. In 1930 the Bank of England instructed the Australian Government to engage in deflationary policy and to reduce the overall costs associated with state expenditure, as well as advice to review the various
statutory bodies concerning excessive regulation (Wiseman 1998: p.41). There was also influence in the Parliament, with the majority of members opposing protectionism during this unstable period and focusing more directly on price theory and laissez-faire principles: this was through the deregulation of some areas of the economy and a determination to move government away from the business of private enterprise, with the exception of some services. This is counter to the US, which engaged in Keynesian demand-management programs through the establishment of public works at this time. It is clear that Australia’s position was a political, as well as economic, reaction against Government intervention. These classical liberal reforms, including limiting the power of the Arbitration Commissions, did not prove to be manifestly successful and manufacturing organisations rallied against marginalising the protectionist approach (Reid 1979). Despite this, free trade was stressed and classical liberal principles of the “invisible hand” of the market were emphasised. Protectionism was regarded as ineffective and it was not until after World War II and the adoption of Keynesian economics that corporatist processes were again seriously implemented, this time on a more national level.

*The Golden Years of Economic Development – 1945-1973/74*

From the end of the Second World War to the OPEC oil crisis in the early 1970s, world economic prosperity was matched by the Australian implementation of
many corporatist mechanisms. This was consistent with the new economic
orthodoxy of Keynesianism and a renewed focus on international trade through
the GATT agreements. The level of economic success enjoyed in most first-world
countries at this time was phenomenal and has been well documented
elsewhere\(^\text{28}\). The focus will be on examining specific instances of corporatist
policy as implemented primarily by the state and looking at the specific
mechanisms put in place during this period.

_Corporatist Reform under Chifley_

State economic policy intervention designed to increase economic growth,
ensure full employment, conciliatory labour agreements and government welfare
programs was adopted by the Chifley Labor Government in 1945, immediately
preceding World War II. It was fully consistent with both a “Labourist” agenda and
the goals of the Trade Union movement – it can be seen as an attempt to
introduce the party manifesto’s pledge of democratic socialism using what were,
in effect, macrocorporatist mechanisms. The reforms included:

- The Commonwealth and State Housing Agreement Act 1945 provided for
  the subsidisation of house constructions by grants from the
  Commonwealth matching State grants.

\(^{28}\) See Chapter One for a more comprehensive discussion of the postwar boom between 1945 and 1973/74,
especially as this relates to Australia.
- The Hospital Benefits Act 1945 - provided grants to States to subsidise public hospitals.

- The Banking Act 1945 - strongly opposed by the conservative parties because it placed the banking system under the Commonwealth Bank (which was at that time owned by the Government) in a “reserve bank” role.

- The Education Act 1945, which set up a Universities Commission for the expansion of university education, a measure strongly supported by the opposition.

- The Snowy Mountains Hydro-Electric Power Act 1949, representing a major construction project engaging in high-end manufacturing and production – in many ways, this was a true corporatism public-private partnership scheme, and was indicative on the high-end/economies of scale model of production favoured by the Labor Party.

- The National Health Service Acts 1948 and 1949 - this laid the foundations for a national health scheme which was never implemented for constitutional reasons, and which was opposed by the Menzies Liberal Party.

- The Nationality and Citizenship Act 1948 - enacted a new code of nationality and citizenship law to allow non-English migrants to emigrate to Australia (Day 2001).
Such reform was designed to accelerate post-war reconstruction, allow for a high population growth rate to increase economic production, the allocation of capital funds toward specific projects in the national interest and the control of credit toward agreed projects. It also led to a rapid growth in the tertiary education sector, with the construction of many universities and the allowance for state-funded educational institutions to provide funding to students who where economically disadvantaged (Day 2001). Active industry policy was also a feature of the government, with state support for technological improvement within heavy manufacturing as well as discussions with large national producers and combined efforts toward promoting and supporting value-added export – a clear indication of the corporatist nature of the state at this time. The focus on high-end production, support for education and allowance for healthcare and welfare functions, as well as reasserting the role of Arbitration Commissions and appropriate tariff barriers, provided a strong corporatist climate in this period (Crisp 1961).

The main difference between a mixed economy approach and the implementation of a species of corporatism lies in a) how the major interest groups are bound together for the purposes of economic decision-making (pluralism versus corporatism) and b) the state’s role in facilitating public-private partnership agreements between economic actors, firms and itself. The Chifley government focused on developing high-end product and moving away from comparative advantage models early, sponsoring the Snowy Mountains Hydroelectric scheme and supporting the development of heavy manufacturing,
particularly with respect to motor vehicles (it is likely that without the
government’s support, Holden would have never been developed). It further
strengthened the role of Federal Arbitration and attempted to increase areas of
the social wage, principally through extending welfare payments beyond the
pension and providing public healthcare, which was never enacted (Day 2001).
Although the much discussed banking legislation was government-initiated and
not consensus-driven, this can be seen as an aberration to the otherwise
successful corporatist processes implemented.

It was clear that the Chifley Labor Government attempted to implement a strong
form of postwar, Keynesian-based corporatism and that this rapid adoption of
policy was only halted by the victory of the conservative Menzies Government in
1949 and their dislike of the “socialist” flavour of many Labor reforms. If Labor
had successfully contested the election in 1949 (and the party had not been split
by the formation of the Catholic-based Democratic Labor Party, or DLP, which
directed their preferences to the Liberal Party) the implementation of corporatism
in Australia may have been entrenched.

Gradualism under Menzies

Despite significant changes from the 1930s through the acceptance of
corporatist-leanings national economic policy, specific postwar reforms were not
as dramatic compared to other countries (for example, most Western European nations after 1945) principally because of the dominance of the conservative Liberal Party at the federal level and its gradualist attitude toward economic policy. The Menzies Liberal Government assumed power in 1950 and despite the acceptance of a form of “conservative corporatism” – the support for existing arbitration and welfare initiatives combined with support for a protected market system and a distinctly uncomfortable acceptance of Keynesian economics. A constant criticism lodged at Menzies, Holt, Gorton and McMahon was the lack of interventionism and innovation in federal policy (Goward 1994).

The Menzies Liberal Coalition Government came to power in 1949 with a promise to moderate the “socialist” nature of policy implemented by the previous Labor Government and focus on the development of individuals and families, rather than the state. Despite a concern for Labor government programs and the nationalisation of industry agenda which, according to the Liberal hierarchy, “smacked of socialism”, the Menzies Government did not move away from a planned economy, but moderated it, with qualified support for a “controlled economy and full employment coupled with social security” supported by “increased production from…private enterprise” (Tiver 1978: p.60). A moderate form of market-based corporatism was therefore assumed, with basic elements of industry support coupled with residual welfare systems being adopted.

Labor’s post-war manufacturing policies were continued, particularly that of protectionism and government support for export producers such as General Motors Holden, but this was rhetorically referred to as being secondary to a free-
market approach designed to support the independence of private enterprise. In
actuality, there was little evidence for this political assertion, with the Liberal
Party simply scaling back existing corporatist programs and focusing on limited
forms of “infant industry” development (Henderson 1998).

Despite concerns with the Labor Government’s support for wide-scale
nationalisation of industry, there was little effective privatisation actually pursued
with public ownership of essential utilities (such as the Commonwealth Bank and
Qantas) being supported as contributing to the “national interest”. Although there
was a move in the executive wing of the Liberal Party to provide more freedom to
private industry, this was largely insubstantial as far as the parliamentary wing
was concerned. The fundamental focus of policy during this period related to
targeting perceived hard-left policies and groups directly, as opposed to
eradicating moderate Keynesian demand-management strategies and reducing
protectionist policies for industry. Part of the reason was because most
companies supported this form of interventionism at the time, particularly in terms
of tariff protection.

This pattern is evidenced by the push to outlaw the Communist Party of Australia
in the early 1950s as well as policy attempts to mitigate the influence of the
Federal Government on state-owned enterprises, particularly in relation to banks
with the Reserve Bank Bill and the Commonwealth Bank Bill of 1957 (Tiver
1978). This was designed to place some distance between the executive wing of
government and the Reserve and Commonwealth Bank thus ending the
possibility of large-scale nationalisation of the entire banking industry (Tiver
1978: p.68). Despite this, there was still a clear form of corporatist control exercised over the banking sector, with the Four Pillar Policy ensuring “guided control through regulation” for investment and national, rather than foreign, investment of funds (Tiver 1978). Further, the Menzies government adopted a two airline policy for the nation in 1952, with one being state-owned and one being private, to strike a balance between the government provision of essential services and private competition. This was considered to be a balance between market forces and the national interest, but in real terms represented a form of weak corporatist control over this sector of the economy, particularly considering that in effect, 50% of the domestic airline industry was state-owned as a result of these changes (Henderson 1998).

Although radical industrial relations disputes were abhorred by Menzies with blame being attributed to left-wing union activists and communist agitators (skillfully used against Labor as a example of the supposed uncontrollability of its own supporters and to attain preferences from the more moderate Democratic Labor Party), industrial arbitration was supported, provided such arbitration was considered binding on both parties without recourse to the courts (for employers) or strike action (for the union movement) once a decision had been reached (Henderson 1998). It is fair to say that moderate industrial relations policies were tolerated by the Liberal-Country Party Coalition at this time, although not supported by all sections of the coalition. Generally, though, such forms of arbitration were considered to be institutionalised within the federal system and therefore acceptable to the Australian situation.
Overall, the Menzies Government maintained the essence of corporatist policy in terms of industry development and social policy, although with a great deal of limitation. Despite concern from backbenchers and remits from various Liberal Party conferences throughout this period espousing a more free-market vision\(^{29}\), economic liberalism was not pursued as a principal guiding ideology; rather, protectionist, demand-management approaches were favoured as the course to sound economic development.

The Holt Liberal-led Coalition did not deviate substantively from the Menzies position, although direct forms of government development were more actively pursued than before. This included modernisation of the Australian financial system away from the British system of current accounts and toward a more comprehensive and independent system (including the introduction of decimal currency), a relaxation of the White Australia Policy through the introduction of the *Migration Act 1966* and the corporatist-leaning *Industrial Research and Development Grants Act 1967* to provide assistance to the manufacturing and mining industries (Willis 2001). This seemed to be different to Holt’s earlier economic management principles as Treasurer, when he tightened the money supply in 1960 to counter the threat of recession, referred to as the “credit squeeze” or “Holt’s Jolt” (Willis 2001: p.13) However, the untimely and unresolved death of Holt and subsequent election of John Gorton in 1968 as

\(^{29}\) See particularly the New South Wales Liberal Party executive resolution of 1953 condemning the government for national intervention in the economy and requesting a more free-market approach (Tiver 1978: p.68).
Liberal Party Leader did lead to a more interventionist industry policy from a more left-wing Liberal leader.

In terms of economic policy, Gorton moved to consolidate a national corporatist position with his support of federalism over the constitutional powers of the states. This included a number of policies, including legislation pertaining to further government control of the maritime industry and territorial waters, and was encapsulated with the development of the Australian Government Insurance Corporation (AGIC) in 1970 to provide some competitive stimulus to the merchant banking sector and beneficial export insurance to Australian companies (Tiver 1978: p.70). This was a policy construct of the National Party and supported by Gorton, although it was opposed by most other Liberals such as William McMahon, the then Treasurer, and the Liberal caucus in general. With respect to social policy, Gorton substantially increased funding for the arts and university education, explaining this as a reinterpretation of liberal doctrine: “a true liberal is not conservative and will support state policies which benefit the individual; in any case, I’m a [true] Liberal” (Goward 1994). Few of his colleagues agreed with him and he was deposed as leader in 1971 as a result of a poor election win in 1969, a number of personal scandals, the resignation of Malcolm Fraser as Defence Minister and the signalling by new National Party leader Doug Anthony that William McMahon would be an acceptable replacement. Despite all of this, Gorton was arguably the only Liberal Prime Minister between 1950 and 1972 who actively, rather than reluctantly, pursued corporatist policy agendas.
and implemented them into legislation, although he was stifled by the majority of his party.

William McMahon contributed little to the political arena, but he did attempt to move away from “conservative corporatist” governance. However, the leader of the Labor Party, Gough Whitlam, pushed McMahon into accepting more substantial corporatist reform, such as defence force autonomy and the in-principle acceptance of a federally funded and universal healthcare system for all Australians (Tiver 1978: p71). Moreover, McMahon seemed uncertain as to the economic policy direction of the country and tried to govern between corporatism and liberalism\(^{30}\) - which in practice meant no effective government response to prevailing economic conditions, such as high inflation. It also led to the beginning of a decline in manufacturing as a major industry in Australia (see Barber 2001, chart 1)

It is fair to assume the Liberal/National Coalition until 1972 reluctantly supported the basis of a modernist corporatist compromise, as most other post-war economies did, while never feeling completely comfortable with such a system. This was coupled with an implicit desire to move toward liberal elements of public policy, although this was difficult to achieve in a post-war, Keynesian-influenced setting. Further significant corporatist reform had to wait until the Whitlam

\(^{30}\) Treasury offered McMahon two solutions to combat inflation – government investment into economically productive sectors of the economy to raise real wages (Keynesian-corporatist) or restriction of the money supply (liberal). He appeared not to choose either policy.
Government came to power in the 1970s and was to prove as ambitious as the Chifley policy prescriptions advanced twenty years earlier.

The Whitlam Years

The election of the Whitlam Government in 1972 led to a number of historic changes and precedents within the Australian political and legal landscape. The attempt to implement effective social democratic systems and processes to a largely conservative-dominated parliament in the 1960s and early 1970s demonstrated a move toward government interventionism and a definite swing toward the appropriation of corporatist systems, based on policies from other Western European nations such as Sweden. The combination of strong social-wage policy (the implementation of Medibank and free tertiary education being the most notable) with export-led support strategies and a 25% across the board tariff cut all represented the implementation of corporatist systems in the vein of Scandinavian “progressive-competitive” adaptations of corporatist systems – albeit with liberal undertones, based on making manufacturing competitive with world standards, especially considering the severity of the 25% immediate, non-discriminatory tariff cuts (Oakes 1976). It was the last serious attempt made by an Australian government to implement a comprehensive Keynesian-corporatist system.
Despite significant obstruction from the Senate and bureaucratic resistance, a number of significant reforms were put into place at a very early stage. With respect to policy and specific to corporatism, the Whitlam Government:

- took responsibility for tertiary education over from the states and abolished tertiary fees, opening up the prospect of further education to all Australians
- established the Schools Commission to distribute Federal funds to assist non-government schools on a needs basis
- introduced a supporting benefit for single-parent families
- abolished the death penalty for Federal crimes
- reduced the voting age to 18 years
- abolished the last vestiges of the White Australia Policy
- acted to improve media services for immigrants and minority cultures generally by establishing what would later become the Special Broadcasting Service (or SBS)
- introduced language programs for non-English speaking Australians
- mandated equal opportunities for women in Federal Government employment
- appointed women to judicial and administrative positions
• set up the National Aboriginal Consultative Committee

• amalgamated the five separate defence departments

• instituted direct Federal grants to local governments

(Oakes 1976)

All of these can be seen as the rejection of liberalism and the enactment of corporatist-style policies, designed to encourage a strong safety net and promote social stability, a robust and accessible tertiary education sector to provide for a highly skilled and specialised labour force as well as the promotion of international competitiveness in export markets - which included direct government partnership-based agreements with exporters. Federal grants provided the states with specific support for research and development as well as skilling of the workforce, primarily through federalist policies designed to integrate and better support universities. The integration of departments such as the Department of Defence provided a centralised approach to policymaking and a more integrated system of allocating resources. Most conservative social policy was ousted in favour of socially progressive and inclusive legislation, including abolishing the death penalty and lowering the voting age from 21 to 18 (Whitlam 1985).

The specific inclusion of minority groups was a unique policy designed to promote multiculturalism and diversity and to address disenfranchised groups, as well as to reinforce social stability. This included social but also economic policy
with a determination to integrate skilled and unskilled labour into the process of production and contribute to export focused growth. The first pillar of this policy consisted of the full abolition and rejection of the White Australia Policy, allowing for full labour integration and stability of disenfranchised minority groups (Oakes 1976). This followed gradual processes of emigration based on factors other than race (most particularly labour skill requirements) and included legislation to allow all migrants to obtain permanent residence after three years, instructions to overseas posts prohibiting race as a selection criteria and the ratification of all international agreements relating to immigration and race. It also included the establishment of media services for migrants in an attempt to respond to ethnic minority groups and to ensure a higher level of social service, as well as selection criteria focused on the skill base of an individual regardless of his or her ethnicity, later enshrined in the federal Anti-Discrimination Act 1977 (Weller 1989). Great improvements were made in the establishment of relations with the traditional Aboriginal communities, including the acceptance of the Tent Embassy and the creation of an Aboriginal advisory body as a wing of government.

The strategic focus on export policy gives an example of a core corporatist small state response to international trade. The immediate 25% across-the-board tariff cuts implemented in 1973 represented a focus on international markets and moved away from simple forms of protectionism to international competitiveness with tariff support being replaced with industry support, similar to the Nordic solution to international competitiveness (Whitlam 1985). This included export councils and community-influenced industry committees such as the A.I.D.C. for
administration of export policy. “Total Welfare” programs were also created to provide stability and support, including reskilling of labour within the framework of welfare policy and a strong education system as well as accessibility to that system, including the provision for free education and a significant increase in funding through the 1974 budget for this purpose (Veitch 1996: p.27).

Economic policy centered around the enlargement of supportive committees to direct export, government incentives for production of transformed manufactured goods and the refining of minerals (secondary transformation of a primary product) as well as providing representation for business leaders on government boards, thereby giving business some influence over government policy and strengthening labour-business-government corporatist processes. This was a direct emulation of the Swedish approach, designed to allow control over critical business functions without direct nationalisation and without promoting capital flight (Veitch 1996: 41). This system of “control over the economy” consisted of the following major groups:

- Interstate Commission and the Price Justification Tribunal to control prices and promote pricing fairness and parity;

- Australian Industry Development Corporation to place controls over investment inside and outside the country, as well as aiding "progressive" companies producing high-end product;
• The National Investment Fund to help control government investments and provide incentive for business to invest in specific and targeted government programs;

• Purchasing Commission and the Overseas Trading Commission, to control the buying and selling of goods internally and externally in order to directly influence the balance of payments; and

• Lands Commission to control Federal Land Usage (Veitch 1996).

The “social laboratory” of the Whitlam Labor Government was innovative by Australian standards but can be seen to be an extension of progressive corporatism evidenced in Sweden and other Scandinavian countries since the 1950s, including the 25% across the board reduction in tariffs. Because of the speed of implementation of many of these policies and the progressive, European small-state feel of many of them as well as the move from state-based trends stemming from colonialism to full-blown and immediate Federal corporatism, it is arguable that many Australians felt at odds with some of these positions, although general support for Whitlam’s policies in principle appeared to be sound (1996: p.78). The Fraser challenge of 1975, after a severe global and national economic downturn, left Labor supporters fearing a conservative backlash, but despite a number of rhetorical arguments for deregulation and tight budgets, the Liberal government of 1975 to 1983 appeared surprisingly tame and in fact introduced a number of programs consistent with a corporatist system.
The Fraser Years – “Conservative” Corporatism

Despite the constitutionally-questionable nature of Malcolm Fraser’s coming to power and the subsequent promotion of key Liberals who were self-identifying free-market sympathisers (most notably, a young John Howard who was elevated to the Ministry from the backbenches in 1977) the Fraser Government ruled conservatively while leaning toward corporatist processes. Despite budget cuts made in the mid-to-late 1970s and early 1980s as well as reductions in many of Whitlam’s major programs, new export-focused industry policy and social programs were developed, relying on what can be described as a more modern version of “conservative corporatism” followed by Menzies. Despite the level of regression in some policy areas, the Fraser Government still demonstrated definite corporatist traits and was certainly not libertarian in approach, with Fraser commanding significant loyalty in caucus and rejecting a free-market approach to industrial relations.

The existing system between employers, union and government based on Arbitration Commissions and reinforced by Whitlam’s Industry Committees were largely upheld in practice. Despite party backlash, the Cabinet continued to consult with the ACTU and provide meetings between the key players of government, industry and the union movement, although with mixed results (Schneider 1980). It was argued that Fraser and Phil Lynch (then Treasurer and
later Deputy Leader) understood the value of the “Industrial Relations Club” and continued to actively support it, despite some mitigation of left-wing union power in certain cases (Weller 1989: p.69). Some of Labor’s old departments were abolished, but a number of boards continued to have influence and in some cases even dictated industrial relations policy, with an example being the Public Service Board’s intervention into employment policy in the late 1970s. The state and federal arbitration commissions were supported and Fraser appeared to present a view of neutrality relating to them, going so far as threatening to sack members who attempted to interfere with the workings of the Commission as an independent statutory body – the Fraser approach to arbitration largely strengthened the state’s power over labour, but not at the expense of business (Weller 1989). Arbitration was seen as consistent with the Constitution and fundamental to the Industrial landscape of Australia.

A number of new programs were also implemented. Along with the establishment of an Environment Department, which had the effect of heritage listing Kakadu National Park, there were important social policy initiatives. The introduction of the Family Benefits Scheme designed to supplement the incomes of working parents based on the number of children in the family was progressive in nature and based on a conservative analysis of the family unit, and “overly generous” according to John Howard (Goward 1994). There were cuts to university budgets, but research and development was increased, with free education remaining as a cornerstone of the education system (Weller 1989).
By the 1980s a number of liberals influenced by Milton Friedman’s newly revised doctrine of neo-liberalism and the implementation of such policies by Ronald Regan and Margaret Thatcher called on Fraser to move away from government interventionism and toward a more free-market model. These included political advisors Andrew Hay, Dr. John Hewson and Neil Brown as well as future Prime Minister, John Howard (Goward 1994). Despite these calls, and significant political moves against Fraser within the party as a result of these ideas, Fraser persisted with a regulationist agenda until his defeat in 1983. This included the effective stifling of free-market reforms recommended by the Campbell Committee into Banking and Finance by Fraser (beyond allowing some foreign banks market entry) and the rejection of a microeconomic budget in 1982 in favour of a Keynesian-style approach in designed to stimulate the economy and create growth through government spending - a strategy imposed on a very reluctant free-market Treasurer, John Howard (Weller 1989). Historical revisionists such as Hay (Goward 1994) have claimed that Fraser had an “unprecedented mandate” to implement free-market deregulation, although recent political historians have commented that there was no evidence that this microeconomic strategy was seriously accepted by the Liberal Party until at least 1980, and even then with reservation (Weller 1989: p.147).

Despite some conservative support for pre-existing corporatist policy, it is accurate to say that in general, the Fraser Government did not implement a large amount of social-democratic policy. However, it is also true that many of the initial institutions established by the Whitlam government were largely retained,
even if in a reductionist manner. A status quo form of “conservative corporatism” therefore developed from 1975, with policies not challenging existing mechanisms such as industrial arbitration, welfare policy or government interventionism. The Hawke Labor Government of 1983 would in many ways challenge this dynamic, through the dual implementation of microeconomic reforms and macroeconomic corporatist structures concurrently - with an overriding focus on the former.

The Hawke/Keating Government

The election of the Labor Government in 1983 led to the adoption of certain microeconomic reforms not considered by an Australian left-wing political party previously. These included the floating of the dollar, significant market deregulation (especially in the finance sector) and the substantial privatisation of government industry. However, it is also true that a number of ambitious corporatist policies were implemented including the Accord (at least as far as Mark III), the introduction of a fully comprehensive medical system called Medicare to build on Whitlam’s Medibank, a high level of financial and taxation support for research and development and the creation of a number of industry-oriented government boards and structural readjustment programs, particularly from the Minister of Industry until 1993. In addition, the focus on education and value-added production of goods was strong (at least rhetorically) and led to
strategic alliances being made with high-level producers in Asia. Arbitration was supported and strengthened in the early stages through more progressive taxes (such as Capital Gains tax, largely affecting more wealthy citizens), which were implemented in 1985. As such, the role of the government can be seen to be supportive of a corporatist-based system, especially in terms of manufacturing and targeted restructuring, notwithstanding a hybridisation and strong challenge from economic liberalism in the process. This had a decidedly negative effect on the success of many corporatist policies adopted.

The immediate stated aim of the Hawke Labor Government was to generate economic and employment growth through some government intervention (confusingly described as “fiscal expenditure”) while simultaneously guaranteeing fair and consistent wages and providing businesses with wage restraint, culminating in the ambitious macro-corporatist wage program called the Accord. The Accord Mark I was an agreement between the ACTU, business leaders and the government that real wages would rise incrementally but not higher than prices. A criticism of the Accord is that it went through a number of revisions and forced wages down, creating real wage declines, as contrasted with Scandinavia, although most revisions were based on actual GDP growth and correlated with GDP output (Jaensch 1989). Further, studies of income distribution demonstrate that income accrual for the bottom 60% of wage earners increased during the Hawke-Keating government and that while real wage gains were made, they

31 A criticism of this arrangement is that it was not institutionalized in the state bureaucracy and therefore was not fully corporatist.
were under 1% from 1983-1996, principally as a result of wage restraint after 1987 and during the recession of 1990-92 (Kryger 2004). However, the Accord also gave unions more direct control over policymaking structures and allowed for a greater focus on export-based economic growth through the provision of ACTU representation (Wiseman 1998: p.42). Overall, there were technical real gains in wages, but it is arguable as to the extent of this under the latter revisions of the Accord.

Australia’s over-reliance on primary commodity exports was a considerable area of concern for the government. The Minister for Industry from 1983 to 1993 John Button attempted to focus on high-end manufacturing and technological innovation strategies as part of an overall corporatist export strategy. This included meeting with groups associated with dominant export industries including mining (BHP representatives being one example) and providing incentives for processing of primary minerals, including the establishment of successful processing plants around Australia, liaising with domestically-stationed manufacturing companies such as Holden, Ford and Toyota, providing research grants and “combined loans” with government participation in production through cash advances and research and development funding in exchange for government control and partial ownership and financial support for what were then “infant industries” such as computer development and pharmaceuticals (Button 1998: p.294). This was an initial attempt to implement a “progressive competitive”, economically lean corporatist-style of industry policy with the government directing investment and production toward medium to high-
end transformed manufactured product for export. There was also an attempt to provide value-adding to primary sectors of the economy, such as mineral extraction and export (Button 1998; Lucarelli 2003). However, this early intervention into the manufacturing sector led to an over-reliance by government on reducing tariffs to increase international competitiveness and providing direct cash and taxation incentives, at the expense of instigating more comprehensive structural adjustment policies to facilitate long-term and sustainable changes in these sectors\(^{32}\).

While Senator Button’s reforms were generally praised at the time for attempting to provide a coherent approach to industry policy in Australia, such policies were considered bureaucratic and inefficient to the supporters of neoliberal reform inside the Labor party. As such, much of this reform was confined to the Industry portfolio and was constantly challenged by more free-market advocates of economic policy, such as Keating (Lucarelli 2003). As Lucarelli (2003) states,

> Senator Button’s most notable achievement in his period as Industry Minister was to shift the focus of Australia’s export policy from a domestically introverted strategy to one that was based on fostering the development of innovative, export-oriented industries…these industry-specific plans were quite sophisticated by Australian standards…yet those policies were to be anathema to the supporters of

\(^{32}\) These were largely implemented to satisfy liberal business interests in Australia while appeasing the Left of the ALP through implementing a “minimalist” model of corporatist development.
neoliberalism who had gained powerful positions within both the ALP and the bureaucracy (Lucarelli 2003: p.80-81).

As a result, Senator Button was put under pressure to place his principal focus on the reduction of tariffs, as opposed to providing a comprehensive restructuring program for Australian industry. He did manage to obtain a number of concessions, including time-dependent government programs for specific manufacturing industries in the context of tripartite (although somewhat coercive) negotiation between business, unions and the government until 1993. However, government-led sectoral adjustment and consultative change was largely undermined by microeconomic reform and unilateral tariff reductions, especially after the sharp devaluation of the Australian dollar in 1986 and subsequent focus on tariff reform in 1987 by the government as a driving policy (Lucarelli 2003).

The dominance of the neo-liberal agenda in the 1980s and Labor’s effective acceptance of much of this ethos led to a challenge over the extent of government intervention allowable in the manufacturing sector (apart from policy designed to facilitate deregulation) with particularly concern expressed by Keating prior to 1990 – this had the effect of softening more comprehensive interventionist industry programs during the 1980s, according to Button (Button 1998). The restructuring programs which did yield success were constantly under scrutiny from neoliberal critics and weakened by civil servants influenced by the agenda of microeconomic reform in Canberra (Pusey 1991). This is
comparatively different to the approach taken by the more integrated tripartite
corporate-government-labour systems in the smaller social democratic states of
Western Europe over this same period, where civil servants realised social
compromise was necessary (Katzenstein 1985)\textsuperscript{33}. However, it must be noted
that the “limited” Labourist approach to corporatist industry policy in the 1980s
under Button was still rather successful; a 37\% increase in real output in
manufacturing from 1985-86 to 2001 demonstrates the general success of many
of these policies (as does the percentage of manufactured goods as an
expression of total exports from the mid-1980s to the mid-1990s) particularly
considering these figures went into decline after 1996, indicating that this
corporatist-influenced approach and \textit{not} economic liberalism was responsible for
promoting such an expansion of the manufacturing sector (see Table 6 and
explanation below).

Despite this government-based focus and resulting increases in productivity,
there was structural and political resistance from many areas, particularly related
to reducing tariffs to promote technological innovation and increased production
efficiency in terms of quality control (Wiseman 1998). However, as a direct result
of this corporatist export-focused strategy, export of manufactured goods as a
percentage of GDP rose sharply during the Hawke/Keating term of office, as can
be seen by the following graph:

\textsuperscript{33} According to Lucarelli (2003) the adoption of this neoliberal approach forced Australia down the path of
“negative industrialization”, whereby manufacturing declines with no high end production to replace it.
Table 6: Exports of Manufactures – Percentage of Total Exports (of Goods and Services) as a Proportion of GDP

![Graph showing percentage of total exports as a proportion of GDP from 1963-64 to 2003-04.]

(Source: Barber 2001, OECD 2003)

Although manufacturing employed more people as a proportion of the labour force in the 1950s and 1960s, the majority of such production was domestically focused. The above demonstrates that from 1985, the export-focus of manufactured products increased sharply and continued to increase until 1996; however, for many observers it was seen as one area of corporatist reform contradicted by other areas of liberal reform, particularly in the finance sector. On the election of the Howard government this percentage began to recede, in a slow but consistent manner. This is largely attributable to the lack of focus placed on government strategies designed to support medium-end and high-end production for export after 1996 and the reliance on the market mechanism to
ensure microeconomic “efficiency gains” in this sector, as opposed to government-based strategies for growth.

Increases in welfare through the implementation of “social wage” packages were an important and largely overlooked area of social policy. These included the establishment of free and affordable healthcare through Medicare, significant increases in superannuation contributions (although a large proportion of these funds were invested internationally, arguably weakening corporatism) and taxation cuts targeted at middle and lower socio-economic groups, largely granted for supporting various revisions of the Accord (Jaensch 1989). Welfare was increased slightly but more tightly targeted, allowing for significant budgetary savings while still catering for the unemployed, sick and aging population. Labor market programs were encouraged through the implementation of the “Active Society” policy approach to growing unemployment, thereby requiring the unemployed to undertake suitable training packages and job-skilling courses (Hawke 1995). This was a rather incomplete form of active structural adjustment programs evidenced in Scandinavia, but there did exist a means of supporting and paying for the unemployed to obtain job-relevant skills. The principal concern was that the main corporatist program implemented by the Hawke-Keating Labor Government during this time was tempered to reduce free-market criticism, thus providing a weak form of corporatism compared to the Scandinavian states.

On Hawke’s displacement by Keating, a range of new macro programs were proposed in the form of the One Nation economic statement, developed in 1992. This included definite unemployment reductions through government programs,
the expansion of the public service and an increase in funding for infrastructure development programs, education and training. This was highlighted through the full federal establishment and accreditation of TAFE institutions and can be seen as a definite corporatist policy designed to fill the training gap between trades and university (Button 1998: p.45). It also saw an increase in corporate contributions through an appreciation of the superannuation contribution, which could have been used to build corporatism, but instead became antithetical to the process (because money was diverted overseas to seek the “best return” in supposedly “free” capital markets) and philosophically challenged some aspects of the welfare state, especially the pension system. Generally, however, there was an acceptance of deregulation principles from 1993 onward, with significant cuts in expenditure and privatisation of government assets (Hawke 1995). Despite this, corporatist industry policy was still pursued to some extent, especially in relation to high-end manufacturing for export. Elaborately Transformed Manufactured products (ETM's) were emphasised by Keating as being the way of the future. Sectors of “comparative advantage” to achieve growth in the production of ETM’s were focused on, as well as support for the tertiary education sector (ANZ Group 2001: p.3).

Within the 13 years of governance afforded to the Hawke/Keating Labor Party, a stated policy of “progressive competitiveness” was endorsed, promising the move toward a Swedish “productivist culture” and focusing on export-led innovation. There was also a focus on structural readjustment and targeted industry intervention, particularly in the areas of manufacturing and Elaborately
Transformed Manufactures (Button 1998: p.46). From this perspective, the Hawke/Keating Government can be seen to have pursued core corporatist goals including the establishment of a Federalist approach to industrial relations through the Accord, albeit with Keating’s later liberal-based introduction of free enterprise bargaining. However, the parallel implementation of deregulation, particularly in the finance sector, can be seen to be contradictory to a comprehensive corporatist policy and in fact reduced many areas of state-based corporatism in favour of economic liberalism, particularly in terms of industrial relations. Despite the very real free-market processes applied, it is inaccurate to say the Labor Government pursued only laissez-faire policy during this period. It can be argued that a combination of corporatist processes were implemented, despite some significant deregulatory liberal reforms, largely because of the existing circumstances of the world economy and despite the Anglo-Saxon bias to free-market change inherent in the 1980s and early 1990s. The main problem with this dual implementation is that such a combination of ideology led to mixed, as opposed to successful, results in the implementation of corporatist-leaning policy. It is arguable that the ideology and implementation of liberalism still dominated the Labor agenda, at least in terms of economic policy if not industry, compared to the more unfashionable theory of corporatist economic development. As such, Australia continued its slow move from the core toward the periphery of the World-System during this time, particularly after the mid-1980s, and despite some attempts to focus on other core areas of production consistent with corporatist principles.
The Howard Government

The election of the Howard Liberal/National Coalition Government allowed for the aggressive implementation of free-market policy considered, but not implemented, by the Labor Government. This included the abolition of key government-led growth strategies such as Industry Boards and industry grants, the reduction of government-aided schemes such as research and development subsidies, large taxation concessions to business and a renewed focus on deregulation, particularly concerning industrial relations as well as a sharp reduction in arbitration in Australia. This was the first clear rejection of almost all corporatist mechanisms and a clear shift from corporatism to liberalism in ideological terms. This has affected Australia’s position in terms of commodity chains and therefore has had the effect of weakening Australia’s position in the World-System, despite rhetorical assurances supporting the effectiveness of neoliberal policy and claims that such policy will lead to increases in the quality of export product.

It was argued that Labor government interventionist policies were “wasteful” and promoted systemic inefficiencies to business through excessive regulation. Therefore, more favourable market conditions would be developed allowing for a more competitive high-level manufacturing industry and “offsetting impediments for expansion” amongst existing producers (Wiseman 1998: p.50). These policies initially took the form of generic approaches designed to increase the growth of
business through reductions in regulation and corporate taxation, rather than a targeted approach focusing on progressive export-oriented business; as a result, manufacturing for export as a proportion of total exports declined after 1996 (for the first time since 1985; see Barber 2001) and as of 2004, approximately 60% of Australian exports consist of primary product (Caballero 2001: p.1).

Technology-based export particularly suffered, with the ICT (Information and Communications Technology) deficit increasing from $7.1 billion in 2000/01 to $15.2 billion as of late 2004, described as a “collapse” by economist John Houghton, head of Victoria Universities Strategic and Economic Studies (Riley 2004: p.33). Labor IT spokeswomen Senator Lundy responded by stating that such figures were a disaster in a global context, particularly in light of every other major economy in the world actively pursuing the development of an export-based ICT industry through government-based strategies; Senator Lundy then contrasted this with the complete lack of support shown for such policy by the Howard Government (Riley 2004). In addition, many Australian-owned biotechnology and ICT producers, particularly in the area of pharmaceuticals and software development, have complained of being economically swamped by larger Australian-based foreign-owned producers with economic advantages and economies of scale. The proposed Australian-US Free Trade Agreement (FTA) scheduled for implementation in 2005 may increase this trend, albeit with some protection for pharmaceutical and entertainment companies, based on Labor amendments in the Senate relating to patent law and cultural content (Anonymous 2004).
Apart from already stated reductions in welfare and the increase of deregulation and promotion of free trade (see Chapter One for a detailed summary) the Howard Government has most directly opted for liberal policy when advertising and supporting the “limited Government” option (Burda 1997). In essence, this means supporting a significant reduction in government expenditure and influence and supporting a neo-liberal approach: government should attempt not to interfere in the workings of the market with the exception of law and order, funding for the judicial arm of the system and provision of basic services to citizens as long as they are not “economically viable” and therefore not being provided by the market (Friedman and Friedman 1980). This represents a theoretical acceptance of government support for civil citizenship rights at the expense of more progressive political and social citizenship rights, based on T.H. Marshall’s model of citizenship (Marshall 1950). Reductions in funding for Medicare, state and tertiary education and welfare programs combined with a focus on free-market policies and reduction in government support for business has led to a negation of corporatism in favour of liberalism. Existing corporatist institutions such as arbitration and combined industrial negotiation have been placed under attack through the reduction of the powers of the Federal Arbitration Commission and an attempt to displace organised labour through the implementation of individual negotiation, most notably the Australian Workplace Agreements, known as AWAs (ASU 2004). This has not been entirely successful, largely because of the Labor Party dominance at the state level and the resulting switch from federal to state-based awards in many agreements, particularly with
Union support – which has led the Howard Government to support the centralisation of all state-based commissions and a further reduction in the number of allowable matters, articulated as a major objective after the 2004 federal election victory. Despite some maintenance of historically existing corporatist-leaning institutions which have been more difficult to displace (largely through Senate resistance from the minor parties and independents since 1996) it is clear that corporatism and government approaches to export and industry policy have been replaced by a liberal agenda.

*An Australian History of Corporatism*

The development of corporatist mechanisms stems from a combination of a regulated colonial background, a centralised form of governance administered through Great Britain in the early 1800s, the unusually autocratic power of Governors and their advisory councils, a lean toward a developmentalist approach to colonial nation-building and the early requirement that all business production conform to the (export) needs of the country and that of Great Britain. A combination of class politics stemming from the class position of most convicts in Great Britain prior to their incarceration, united with high levels of growth from the 1850s and the strength and organisation of government and labour, when compared to the fragmentary nature of the capitalist class during this period, led to corporatist policies being implemented and “embryonic corporatist” policies
being considered even before that. The state was not supportive of free-market ideology or classical liberalism, as was the case in the United States; it was regulationist in approach (Patmore 1991). This was reflected and enshrined in the Constitution during Federation in 1901 and pursued by early “liberal” progressives such as Deakin and Higgins, especially in the area of industrial relations legislation (McCarthy 1976). This continued up to the 1930s, with a reactionary move against interventionism and toward economic liberalism as a response to the depression, a move which did weaken corporatism in Australia until WWII.

The Labor government of 1945 implemented a number of social reforms consistent with Australia’s predisposition toward regulationist policies with corporatist influence and this was then reduced, though never displaced, by the dominance of the Liberal/Country Party Coalition which governed until 1972. Whitlam was responsible for a more radical form of expansionist corporatism based upon emulation and modification of the more progressive elements of Scandinavian corporatist countries and institutions, particularly the Swedish approach to corporatism in the 1970s (Whitlam 1985, Johnson 1989). Fraser reduced the scope of this ambitious project but did not specifically displace corporatist policies with economic liberalism; rather, he modified it with a conservative form of government management.

The Hawke-Keating Government combined a mix of financial deregulation with the development of a “productivist economy”, focusing more on the growth-based capacity of corporatist interventionism in industry and support for the export of
high-end product rather than the sweeping and universal social reforms of European states. Moreover, this was coupled with a number of deregulatory measures which can be seen to be counter to a corporatist developmental process. Despite this, there were some policies which did prove specifically corporatist, such as the Accord, and other social extensions such as the social wage, with Medicare being the best example (Wiseman 1998). However, the dominance of liberalism as an ideology over the Keynesian approach from 1980 onward specifically hindered the adoption of successful corporatist institutions and policies - in many cases, economic liberalism was adopted as part of the reform agenda. As such, liberalism became dominant as a form of economic management and Australia moved further from the core and closer to the periphery during the 1980s and 1990s, albeit slowly in comparison to the Howard government and despite some achievements in medium to high-end manufacturing export.

The Howard Liberal government is the first federal government to systematically eliminate or weaken most corporatist and regulationist policies as far as possible and move toward a largely free-market based approach. This government has effectively advocated a direct displacement of corporatism and corporatist-related policies in favour of a more radical and direct form of economic liberalism; as of 2004, the newly-elected Howard Government pledged further reform, including the full privatisation of Telstra, a centralization of state-based arbitration commissions (which disempowers employees due to a limit on the number of “allowable matters” which can be heard at the Federal level) and a revocation of
unfair dismissal legislation. As argued previously in this chapter, this type of liberal economic policy has accelerated the process of Australia moving closer to the periphery of the World-System and away from the core, with an increasing reliance on primary product for export at the expense of research and development, high-end manufactured goods, high-end service provision, a sophisticated and accessible education system and social stability programs, such as welfare and healthcare benefits. It is historically unique in the speed of movement away from corporatism in favour of liberalism and Australia's subsequent position in the World-System being in decline, particularly in terms of the nature of export being produced and negative commodity chains which result from it. The position of Australia within the World-System is currently that of the semi-core, and this is principally as a result of the position of Australia with respect to production in the world economy. The dominance of liberalism as an ideology since the 1980s and the aggressive negation of corporatist principles by the Howard government has furthered this downward trend considerably.
Conclusion:

Small state movement within the World-System

The question of Australia’s position within the world economy has been a matter of considerable discussion. Many theorists and commentators from the political right assert that with current liberal economic policy being pursued, Australia is in a competitive position and has staked its claim as a dominant first-world nation. According to them, political links to the US have enabled Australia to become a powerful player in geopolitics with a new level of respect emerging from this position of strength and subsequent responses to the September 11 terrorist attacks. In this view, the adoption of labour market reform, reduced government ownership through privatisation, sound fiscal policy based on continual government budget surpluses (since the Howard Government election of 1996) and the reduction in personal and corporate taxation has led to a competitive and dynamic Australian economy ready to take on the world (Quiggin 1996).

This thesis rejects these claims as empirically invalid. It demonstrates that the current reliance on primary production for export places Australia in a precarious position because it makes exporters into price-takers. Medium and high-end production is not supported, except through relatively limited R&D taxation concessions, and the per-unit value of export product is low. The adoption of liberal economic policy provides instability, a focus on short-term profit maximising ventures as opposed to long-term export-derived industry, an
increasing reliance on the finance sector, “flexible accumulation” practices and
dramatic personal insecurity through a reduction in welfare services (Harvey
1989). The non-existence of industry policy and lack of support for structural
adjustment have meant Australia has continued to move closer to a cycle of
export dependence on primary product.

This thesis has asserted that the movement of many small states within the core
and semi-periphery of the World-System is largely determined by their adopted
policies. Movement of these states appears to be related to the implementation
of corporatist processes and the rejection of liberalism as a guiding principle.
Australia, which has tended to swing between forms of corporatism and
liberalism, has displayed movement toward the core under corporatist policies
and movement toward the semi-periphery during sustained periods of economic
liberalism. This has been empirically demonstrated, through a contextualising
examination of corporatist small states close to the core (such as the
Scandinavian bloc) and small states currently employing liberal approaches,
such as Australia since 1996.

The level of small-state movement occurring within the world is considerable. As
World-Systems Theory demonstrates, there is a clear pattern of upward
movement of small-states which is somewhat accounted for by their relationship
to the dominant hegemonic power. Examples of such states include Japan,
South Korea, Austria, Sweden, and Norway – countries with links to the dominant
hegemon (in this case, the US, principally through the Marshall Plan) enabling them to consolidate their position in the core. While some of these were existing core countries, others moved from a position close to the semi-periphery to the core. All of these countries have similar corporatist strategies for responding to economic crisis and focusing on growth in high-end areas of production in order to export price making commodities (Katzenstein 2003). Australia is in a similar position, in having historical support from the dominant hegemonic power (current political links to the US and previous links to Great Britain) but has historically vacillated between the bottom of the core and the top of the semi-periphery. This has been evidenced through examining Australia’s history and considering this in the context of other small Western European and Scandinavian states.

The reason Australia displays only a tentative relationship to the core of the World-System despite having historical links to the hegemonic power of the day is based on the adoption of economic liberalism during certain periods. Because of the considerable resource base Australia has in terms of mineral deposits and their immediate realisable value on world markets, liberalism has focused business interests on short-term development of these industries for export, negating areas such as manufacturing and value-added production. It is as a result of the abundance of this natural wealth and subsequent reliance of the mining industry that Australians have adopted a “gambling mentality”, hoping to “strike it rich” through the discovery and extraction of precious metals and other
minerals, as opposed to the methodical development of a manufacturing industry which other core countries undertook; this personal attitude toward luck is a reflection of the economic environment Australians rely on. The 1850s discovery of gold and 1960s mineral boom are both examples of this, in which mining interests quickly overshadowed the manufacturing base which was being created in the 1840s and 1950s respectively. Further, the dominant hegemon of the period has usually focused on these attributes as they provide immediate benefit to both Australia and themselves, rather than supplying long-term investment for export manufacturing (as occurred between the US and Japan after 1945) which only provides medium-term benefit to the hegemon and can actually undermine its own interests in the long term, but which is necessary in the absence of a primary product market in other countries to ensure stability. As a result of such mineral “windfalls” in Australia, development in medium-and high-end production and service provision was compromised just as it was being developed.

Many corporatist countries have demonstrated a tendency to quickly and effectively respond to changes when faced with economic crisis, particularly at a global level. This includes sustained structural adjustment policies, a focus on high-technology export-based industry and social support for the development of a highly skilled labour force to produce price-making goods and services (Oberg 2002). Industry policy is determined through a tripartite structure in which business, labour and the government arbitrate in order to work toward negotiated outcomes and common goals. The corporatist consensus model replaces the
pluralist interest-group model as the dominant mode of decision-making and thus allows for complete focus on national objectives, particularly those related to job creation and high-end forms of export led production (although Meidner disputes this, claiming Corporatism allows for decision-making in a national economy with irreconcilable class differences but not for true capital-labour consensus – see p.80). Despite criticisms of the inefficiency of corporatism to react to globalisation in the mid-1990s, a new wave of research has indicated that corporatist responses to crisis are not just effective, but perhaps translatable to other small states (see Katzenstein 2003, Olsson 2003, Schmidt 2003).

The reasons for a country’s regression under the policy mandate of economic liberalism are straightforward. A state with limited industry policy, no formal government arbitration between capital and labour (other than a resort to common law to enforce contract rights), private (and therefore often inaccessible) education and residual social security systems is leaving its population vulnerable to the social vicissitudes of the market and encouraging a capitalist focus on low-end production with destabilising labour practices and the provision of low-wage employment (Garrett 1998). The lack of skill in the labour market encourages a “race to the bottom”, whereby multinationals focus on lowered costs, minimal taxation and a lack of government interference in operations. Capital accumulation is usually short-term and speculatory in nature, with a strong tendency to adopt “flexible accumulation” systems also described as “casino capitalism” to provide limited, but relatively quick, turnover of
unsustainable profit (Chase-Dunn 1998, Harvey 1989). This combined with a lack of social security for disenfranchised citizens causes considerable destabilisation which discouages long-term investment and encourages low-tech industry which is easily relocatable.

Export product generally become price-taking and therefore extracts a small per-unit profit, decreasing aggregate profit and suffering badly during economic downturns. Such profit is readily absorbed by the multinational in question and rarely are considerable funds redistributed back to the country of origin for investment. Infrastructure becomes a secondary and expensive consideration rather than an essential precondition for long-term industry development. All of these factors become intractable and move the country in question away from the core in terms of commodity production and closer to the semi-periphery, with an increasing cycle of dependence occurring. This is particularly the case during world economic slumps, where unsustainable growth based on flexible accumulation is sharply affected, the government is not capable of readjusting the economy to new market conditions as it does not have control over the direction of the economy (Booth 1995).

Australia provides an excellent example of a nation-state which has historically moved between the core and semi-periphery of the World-System based on the competition between corporatist and liberal policy. This movement has occurred since the early 1800s, with definite corporatist traits stemming from British
colonial administrative rule well before 1850, including attempts to provide state-labour relations and incentive packages to convicts as opposed to utilising a purely punitive approach. Specific regulationist policy was implemented during the 1850s through to the early 1890s, with processes of arbitration installed between capital and labour, an increase in value-added manufacturing supported by government and an export focus for goods and services (Patmore 1991). Subsequently, wages were notably higher than in Western Europe during this period and international demand for export goods increased.

After the depression of 1893 and failure of the Trade Union movement to successfully maintain wage growth, many of the corporatist policies were formally and legislatively instigated after a prolonged battle between the free-marketeers and protectionists, with the latter emerging triumphant. This included people such as Deakin, Kingston and Higgins and focused on industrialisation policies, formal arbitration mechanisms and state and federal industrial relations commissions (Fox 1991). Despite much movement within this framework, the essential preconditions which enabled corporatist policies to be enacted were not seriously challenged until 1996, with the election of the free-market Howard Government. For the first time, liberalism was seen as paramount to economic policy and a wave of deregulatory legislation was put in place, including attacks on constitutionally-enshrined industrial relations commissions (Barns 2003). As a result, Australia has moved closer to the semi-periphery in terms of commodity chains since 1996.
The possibility for utilising a Wallerstein-Katzenstein synthesis model for the analysis of other small states is considerable, but there are some methodological considerations to be aware of. Firstly, Katzenstein uses a comparative form of analysis whereby small states are compared to larger ones and to each other, particularly in Europe, while the Wallerstein approach is global and more macro-oriented, with countries being categorised according to their position in the core, semi-periphery and periphery of the system. Variant units of analysis are employed. Katzenstein’s theory uses the unit of the small state to classify countries, while World-Systems Theory examines countries as they relate to the World-System, dominant hegemonic power (if one exists) and position of exploitation on a three-tiered level. World-Systems Theory tends to assert that small core countries obtain their privileged position through economic domination and exploitation of semi-peripheral and peripheral states while small-states theory claims that the status of a small core country arises from government-supported structural adjustment to international markets, with a focus on high-value, export-led production – although it must be pointed out that this is not necessarily a contradiction.

What is contested is the degree of movement which can occur in the medium term: World-Systems Theory presupposes a relatively rigid system of interdependent nation-states fixed in their position of economic dominance/exploitation with any movement by single states often being
attributable to the influence of the dominant hegemonic power. Small-states theory implies that current movement of small states is possible due to the adoption of corporatist policies designed to provide for stability while moving the country comparatively higher in the world economy. Perhaps it can be stated that corporatist policies tend to move small states closer to a position of exploitation (adopting core production processes) and further away from economic dependence (of the semi-periphery) within the global commodity chain.

Despite these differences, utilising the World-System as a framework correctly locates the position of a small state in relation to the world economy. Combining this with a historical corporatist small state analysis of a given nation-state can inform public debate as to movement of various small states within the system. In terms of Australia, the movement between corporatist policy and liberalism is one which continually places Australia in differing historical positions in terms of the global commodity chain. The Wallerstein-Katzenstein synthesis demonstrates that public policy is influential in small-state movement and as such, Australia’s position within the world economy will be greatly influenced by parliamentary politics and the adoption or negation of corporatist policy. If liberal economic policy is continued, there will probably be a movement toward the semi-periphery, with the ultimate outcome of this being Australia locked in a cycle of semi-peripheral economic dependence.
Bibliography:


Appendix One:

Unemployment rates of Corporatist compared to Non-Corporatist core states

Core Corporatist States

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>4.8%</td>
</tr>
<tr>
<td>Denmark</td>
<td>5.1%</td>
</tr>
<tr>
<td>Finland</td>
<td>8.5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.0%</td>
</tr>
<tr>
<td>Norway</td>
<td>3.9%</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.9%</td>
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</table>

It can be seen from these figures that the median unemployment rates in small core corporatist states are currently lower than those in non-corporatist core countries, thereby challenging the counterfactual argument that high unemployment is a consequence of increased government interventionism and regulatory regimes.

Core Liberal States

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate</th>
</tr>
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<tbody>
<tr>
<td>Australia</td>
<td>6.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>7.6%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>5.2%</td>
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<tr>
<td>New Zealand</td>
<td>5.3%*</td>
</tr>
<tr>
<td>United States</td>
<td>5.8%*</td>
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</table>

Source: CIA (2002), data based on 2002 estimates

* N.B. New Zealand is moving toward the implementation of Corporatist processes such as the creation of a national trade board, a strengthened industrial relations systems, nationalisation of essential resources (e.g. NZ Railways, Kiwi Bank) and a free-trade export focus, but is still not considered strictly corporatist, and this is variable depending on the continued governance of the corporatist-leaning Labour Party as opposed to the clearly liberal approach taken by the opposition National Party.

^ The US figures are the subject of debate as they are usually not based on unemployment rates as monitored by state welfare agencies but through surveys. As such, there is arguable underestimation of unemployment and underemployment due to the reporting of unemployment as “self-employment” (Thurow 1995), thus placing the unemployed applicant in a better position within the labour market. An article in the Wall Street Journal places the real unemployment rate at 11.9% (Waldrop 2003).
Appendix Two:

Summary of Similarities between European and Antipodean Condition during State Development

- Establishment of a skilled labour force with relatively high mandated wage rates at an early stage of State development

- An early focus on export for profit generation – as parallel to the domestic economy, provided for through primary industries and a medium-to-low-end manufacturing sector and, most particularly, a medium-to-low-end service sector

- Adoption of arbitration commissions to administer industrial disputes as opposed to more free market approaches to capital/labour relations such as in the United States

- Significant government intervention into production, including capital/state cooperation, incentive packages and a focus on export manufacturing as well as appropriate licensing and environmental regulations

- Nationalisation of essential services and government legislation regulating non-essential services - effective control over valuable national resources

- Development of a welfare state after WWII (although residual, rather than comprehensive, in Australia’s case, similar to the New Zealand condition)

- Considerable focus on industry policy to guide investment and export (until 1996 in Australia, when Government-based industry policy was displaced with a market-based approach to industry at the federal level)

- Infrastructure support for business, including a comprehensive and interconnected interstate transportation system, such as a national railway system

- Economic policy based on responses to global markets during a crisis, with a reliance on large international economies to provide demand for export product
Appendix Three:

Key Macroeconomic Indicators in the OECD

Included in this Appendix are some of the key economic indicators pertaining to corporatist and liberal forms of economic management within the OECD. This includes GDP per Capita (using Purchasing Power Parity methodology, not currency conversion) Business Spending in Research and Development as a percentage of GDP within the OECD as of 2003 and Total External Debt Per Capita.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Per Capita 2003 (In $USD, using 2003 PPP figures per capita)</th>
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<tbody>
<tr>
<td>Luxembourg</td>
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<td>Finland</td>
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<td>Germany</td>
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<td>Italy</td>
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<td>OECD average</td>
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<td>Spain</td>
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<td>New Zealand</td>
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<td>Korea</td>
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<td>Greece</td>
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<td>Portugal</td>
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<td>Czech Republic</td>
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<td>Hungary</td>
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<td>Poland</td>
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<td>Mexico</td>
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<tr>
<td>Turkey</td>
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</tbody>
</table>

Source: OECD 2003
OECD Countries:

Business Spending in Research and Development, 2003
as percentage of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sweden</td>
<td>2.58% of GDP</td>
<td></td>
</tr>
<tr>
<td>2. Japan</td>
<td>2.19% of GDP</td>
<td></td>
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<tr>
<td>3. Finland</td>
<td>2.13% of GDP</td>
<td></td>
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<tr>
<td>4. Switzerland</td>
<td>1.84% of GDP</td>
<td></td>
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<tr>
<td>5. United States</td>
<td>1.76% of GDP</td>
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<tr>
<td>6. Germany</td>
<td>1.57% of GDP</td>
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<tr>
<td>7. Belgium</td>
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<tr>
<td>8. France</td>
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<tr>
<td>9. Denmark</td>
<td>1.04% of GDP</td>
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<tr>
<td>10. Ireland</td>
<td>0.96% of GDP</td>
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<tr>
<td>11. Netherlands</td>
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<td></td>
</tr>
<tr>
<td>12. United Kingdom</td>
<td>0.92% of GDP</td>
<td></td>
</tr>
<tr>
<td>13. Norway</td>
<td>0.87% of GDP</td>
<td></td>
</tr>
<tr>
<td>14. Canada</td>
<td>0.74% of GDP</td>
<td></td>
</tr>
<tr>
<td>15. Austria</td>
<td>0.71% of GDP</td>
<td></td>
</tr>
<tr>
<td>16. Australia</td>
<td>0.67% of GDP</td>
<td></td>
</tr>
<tr>
<td>17. Italy</td>
<td>0.46% of GDP</td>
<td></td>
</tr>
<tr>
<td>18. New Zealand</td>
<td>0.34% of GDP</td>
<td></td>
</tr>
<tr>
<td>Weighted Average</td>
<td>1.5% of GDP</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD 2003

Business spending in Research and Development, a large indicator for the successful implementation of corporatist industry policy in developed states, is relatively low in Australia, with only 0.67% of Australia’s GDP dedicated to private R&D considerations. This is a reflection of the low-end nature of goods and services being produced for export in Australia and the lack of corporate support for such a strategy, reflecting Australia's position in the semi-core of the World-System and the nature of the profit-making (and price-taking) primary products exported (OECD 2003; IMF 2004).
OECD Countries:

**External Debt Per Capita, 2003**
(In $USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Iceland</td>
<td>$9259.32 per person</td>
<td></td>
</tr>
<tr>
<td>2. Australia</td>
<td>$8960.07 per person</td>
<td></td>
</tr>
<tr>
<td>3. New Zealand</td>
<td>$8351.66 per person</td>
<td></td>
</tr>
<tr>
<td>4. Sweden</td>
<td>$7490.35 per person</td>
<td></td>
</tr>
<tr>
<td>5. Greece</td>
<td>$5944.12 per person</td>
<td></td>
</tr>
<tr>
<td>6. Finland</td>
<td>$5779.47 per person</td>
<td></td>
</tr>
<tr>
<td>7. Denmark</td>
<td>$4030.17 per person</td>
<td></td>
</tr>
<tr>
<td>8. Hungary</td>
<td>$3136.76 per person</td>
<td></td>
</tr>
<tr>
<td>9. United States</td>
<td>$2966.90 per person</td>
<td></td>
</tr>
<tr>
<td>10. Ireland</td>
<td>$2803.16 per person</td>
<td></td>
</tr>
<tr>
<td>11. Korea, South</td>
<td>$2799.80 per person</td>
<td></td>
</tr>
<tr>
<td>12. Belgium</td>
<td>$2753.48 per person</td>
<td></td>
</tr>
<tr>
<td>13. Czech Republic</td>
<td>$2322.12 per person</td>
<td></td>
</tr>
<tr>
<td>14. Spain</td>
<td>$2237.83 per person</td>
<td></td>
</tr>
<tr>
<td>15. Slovakia</td>
<td>$1767.94 per person</td>
<td></td>
</tr>
<tr>
<td>16. Turkey</td>
<td>$1736.90 per person</td>
<td></td>
</tr>
<tr>
<td>17. Poland</td>
<td>$1657.05 per person</td>
<td></td>
</tr>
<tr>
<td>18. Austria</td>
<td>$1477.73 per person</td>
<td></td>
</tr>
<tr>
<td>19. Mexico</td>
<td>$1429.82 per person</td>
<td></td>
</tr>
<tr>
<td>20. Portugal</td>
<td>$1296.77 per person</td>
<td></td>
</tr>
<tr>
<td>21. Canada</td>
<td>$58.99 per person</td>
<td></td>
</tr>
<tr>
<td>22. Norway</td>
<td>$0 per person</td>
<td></td>
</tr>
<tr>
<td>Weighted Average</td>
<td>$2,629.69 per person</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD 2003

The high external debt position of Australia in relation to the rest of the world is reflective both of private debt (with public debt being significantly lower) and of Australia’s position in the World-System. (OECD 2003).
~FIN~