

## **SOCIAL DEMOCRACY AFTER THE LONG BOOM: ECONOMIC RESTRUCTURING AND AUSTRALIAN LABOR, 1983 TO 1996**

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While there is long history of social democratic governments disappointing the hopes and aspirations of their committed supporters (Miliband, 1986), there has been a sharp rightward shift in their policies and practice since the mid-1970s. Far from being associated with significant improvements in living standards for their working-class base, social democratic governments have delivered material outcomes little different from mainstream conservative administrations. Austerity budgets, privatisation, labour market deregulation and public sector retrenchment have been the order of the day in Australasia, Canada and Europe (Ross, Hoffmann and Malzacher 1987; Anderson 1986; Petras 1987; Roper 1990; Pontusson 1992; Merkel 1993; Leys 1996; Navarro 1997). This chapter seeks to shed light on these trends by examining the case of the Hawke and Keating Labor governments in Australia between 1983 and 1996. The approach adopted is Marxist, focussing on how class relations and the logic of capital accumulation shaped the policies of these governments.

We start by considering the way in which general practice of social democracy in recent years in all countries has been influenced by economic stagnation, globalisation and a general atmosphere of industrial and political passivity in the working class. As the basis for a later evaluation of the Government's achievements, the second section provides a sketch of the Australian economy as it stood when the Australian Labor Party (ALP) took office in 1983 and a brief examination of the nature of the party itself. The distinctive features of Labor's policies, particularly its Accord with the peak union federation, are examined in the third section, while the fourth assesses what Labor delivered for employers and workers. The final substantive section outlines the factors which led to Labor's electoral defeat in March 1996 and hence the demise of the Accord.

### **SOCIAL DEMOCRACY IN THE 1990S**

#### **The Historic Role of Social Democracy**

Before analysing the ALP's record in office, it is important to differentiate between social democracy and the classical social democratic project. Social democracy is a form of working class mobilisation reflecting workers' recognition of differences between labour and capital and hence their consciousness of class differences, but also the belief that these differences can be managed, to mutual benefit. The essence of social democracy amongst workers is their aspiration to achieve improvements in their conditions of life, their lack of confidence that this can be achieved through their own direct action (the precondition for a revolutionary alternative) and thus their reliance on others to bring about reforms 'from above' (Lenin 1963; Cliff 1982; Cliff and Gluckstein 1988:1-2). Within modern capitalism parliamentarism has been the dominant form of social democratic mobilisation, in the Australian case through the Australian Labor Party. A further defining characteristic of social democracy is the close relationship between parliamentary parties and trade unions, sometimes portrayed as "the two wings" of the labour movement. The institutional relationships between trade unions and social democratic parties vary amongst countries and have been undergoing changes. In Australia, Britain and Sweden, for example, many unions affiliate directly with the Labor, Labour or Social Democratic Party (Kuhn 1989). In other countries, such as Germany, formal affiliation does not exist, but union officials play important roles in the party at all levels. France presents another pattern again, with competing union federations associated with two significant social democratic parties, the Socialists and Communists. Despite the institutional differences, in all these cases there are fundamental similarities in the political relationships

between the leaderships of the key trade unions and the parliamentary parties. The operational division of labour, with the unions handling “industrial” questions and the parties being devoted to the pursuit of political power has been particularly important.

Social democratic leaderships have characteristically justified their actions in terms of a fairly well-defined and popularly understood social democratic project. The aim of the social democratic project has been to improve the well-being of social democracy’s working class base, in terms of its political and economic rights, especially to employment and decent incomes, within the framework of capitalism and the institutions of the bourgeois democratic state. During the postwar decades, full employment and income redistribution, with relatively high levels of taxation, have been regarded as central policy means to this end. The viability of the project has been based on two important assumptions: first, that in order to achieve full employment, workers would be prepared to moderate wage demands; and, second, that in return for social peace and economic expansion employers would accept some level of limited economic intervention by the state in the affairs of the private sector (either through public ownership of enterprises or, more commonly, regulation), together with some decline in labour discipline usually associated with full employment and a social welfare net.

### **Explaining the Rightward Shift of Social Democracy since the 1970s**

The rightward shift in social democratic practice since the 1970s is often attributed by social democratic intellectuals and party activists to the idea that their governments have been “captured” by New Right ideologues who have perverted the social democratic tradition. Within Australia this has been the dominant interpretation of the record of the Hawke and Keating Labor Governments by Stilwell (1986), Pusey (1991), Green and Wilson (1996), Hampson (1996), Langmore (1996) and Fairbrother, Svensen and Teicher (1997). Hampson (1996), for example, argues that the Labor Government, under the influence of political opportunists within its own ranks and consistent lobbying by Treasury and employer groups, adopted a neo-liberal economic policy approach which shifted the burden of economic adjustment onto workers. Instead of following economic rationalist (the Australian term for neo-liberal) precepts, Hampson suggests, Labor should have adopted an interventionist and progressive industry policy agenda to correct the shortfall in manufacturing investment which plagues Australian capitalism and to redirect some of the benefits of restructuring to workers. This would in turn have maintained its electoral popularity and prevented its demise in the 1996 elections.

The notion that the ALP’s rightward shift in the 1980s was due to the ‘bad guys’ winning the factional battle does have some basis in fact. Right-wing factions did win out in the Australian, New Zealand and British labour parties in the 1980s. Figures such as Roger Douglas in New Zealand and Tony Blair in the UK did do much to promote policies which would previously have been regarded as anathema within their parties. However, a focus on the victory of particular individuals or factions is incapable of explaining why social democracy has tended to adopt right-wing policies everywhere that it has a sizeable base. It also fails to account, in the case of Australia at least, for Labor’s continued adherence to such policies when they were, as Hampson puts it, ‘self-defeating’, except, perhaps, in terms of some awful collective misjudgment on the part of its policy makers and advisers.

A more useful approach starts with an examination of the reformist project’s general limitations and, more specifically, its weaknesses in the conditions of the 1980s and 1990s. Social democracy ultimately betrays its supporters not because the left of the party loses policy debates, but because of factors internal to the processes of capital accumulation itself. The rightward shift in social democratic governments since the early 1970s can be understood, more specifically, as a consequence of capitalism’s tendency to economic crisis, the reaction of governments the world over to accelerated globalisation, and the relative lack of political and industrial self-confidence amongst workers since the upsurge of working class militancy of the 1960s and 1970s abated.

### ***Capitalist crisis***

Reformism in government consistently pursues the interests of capital, with least internal stress when it is under least pressure from its working class base (Miliband, 1986, 1969). In the period of the long postwar boom, this was not necessarily inconsistent with steady improvements in working-class living standards and an expansion of the welfare state. However, in the specific context of the 1980s and 1990s, relative economic stagnation in Europe and Australasia has meant that the interests of capital can only be protected at the expense of workers. The internal dynamic of the process of capital accumulation periodically creates obstacles to further accumulation and results in periods of slower growth and deeper recessions. Thus, in the two decades since the end of the postwar boom (1974-93), OECD GDP grew at half the rate experienced in the period 1960-74 (2.3% as against 4.9%), with unemployment more than doubling over the same period from 3.2 to 7.4 per cent (Bell, 1997: 89). This illustrates the way that, during periods of economic stagnation, capitalism is incapable of effectively reproducing its greatest asset, the working class (Grossmann 1970: 580-603; Grossmann 1971: 333; Kuhn: 1997).

Several years of steady growth in the US economy in the mid 1990s helped to generate a sense of renewed optimism amongst capitalism's intellectual supporters.<sup>1</sup> But sluggish growth or continued recession in Europe, Japan and Australasia (leaving aside the situation in Africa and Latin America), followed by anxiety over "contagion" from the Asian economic crisis of 1997-98, have generated fear amongst many OECD governments and international institutions about the underlying stability of their system. Underpinning this fear is an understanding that even after a decade of improvement in corporate profits,<sup>2</sup> profit rates are nowhere close to those that sustained the long postwar boom (Kuhn and O'Lincoln 1989; Harman, 1993; Shaikh and Tonak, 1994). This explains the escalating fear that the new millennium may be characterised by a return to a deep recession if not depression in many major economies.

The significance of this underlying tendency to stagnation and crisis is that the 'fat' in the system which could once have allowed social democratic governments to finance improvements to the welfare system and public infrastructure while also sustaining conditions for successful private sector capital accumulation, is no longer available. Massive public housing programmes, for example, are no longer on the agenda. On the one hand lower profit rates mean that business and governments cannot afford to spend as much on the reproduction of labour power. On the other hand the glut of labour associated with continuing high unemployment reduces pressure on them to do so. The outcome of these trends at the ideological level has been the triumph of the politics of supply-side economics and neo-liberalism.

### ***'Globalisation'***

The second factor which has affected the vitality of the traditional social democratic project has been the long-term tendency towards tighter integration of the world economy. Closer global economic integration has been a feature of the capitalist mode of production since its inception, but has been particularly consistent and intense since World War II. Most evidently since the early 1960s there has been a rapid expansion of international trade and finance, and with it greater international integration of production. This process has been well established in the literature and, although there is some debate about the actual extent of "globalisation", the general direction is not in doubt (Hirst and Thompson, 1996).

More controversial is the impact of economic internationalisation on the power of nation states and, by implication, the prospects for social democracy. One common argument is that capital is more detached from the nation state and more disconnected from a national identity than at any time in history (see Ohmae 1990 and 1996; Julius 1990; Dicken 1992; Horsman and Marshall 1994). The implication is that any notion that social democracy can capture the state and exercise significant leverage over key economic flows is bankrupt. Such conclusions are drawn not just by rightist business consultants (Ohmae 1990; 1996), but also by social democrats such as Jessop (1990), Reich (1992), Catley (1996), and Martin and Schumann (1996), and Marxists, such as Harris (1991: 80-81). Harris, for example, argues that:

The role of the state is being changed, from representing a national society and capital to the world (the old corporatist 'social democratic' alliance of state, business and labour in Britain), to enforcing on the domestic economy and society the imperatives of a global economy; from promoting the interests of domestic capital to seeking to capture and keep a share of global capital; from managing a relatively diversified and supposedly autonomous national economy to managing flows of goods and services which start and end far beyond the authority, or even the knowledge of the state ... It is this major material change which has destroyed the agenda of the left.

This interpretation suggests that beggarly governments are now required to develop inviting domestic environments of low taxes, effective infrastructure, and well-educated but docile labour in the name of 'competitive advantage', to enable maximum opportunities for profit making in order to attract footloose multinationals.<sup>3</sup> These trends are strongly encouraged by the key agencies of international capitalism, the IMF and World Bank, which urge the dismantling of all remnants of previous nationalist policies of import substitution and state planning to permit unfettered access by Western banks and international credit flows (Stopford and Strange 1991).

Also within a general Marxist framework, Harman (1991) has adopted a quite different and more convincing approach to the relationship between state and capital in an internationalised world. Harman identifies the state as a sometimes autonomous, but essential aspect of capital in general, with parallels to productive capital, money capital and commercial capital (Harman 1991: 16-20). The pressures of competition, including international competition, in the context of economic crisis have certainly undermined earlier patterns of state efforts to promote local capital accumulation. But they have given way to new patterns of active state intervention and organisation designed to encourage local investment and promote profitability within and across national boundaries (Marx 1977: 20-22). During the post World War II era, the effectiveness of direct state intervention, regulation and planning (which took its most extreme form in 'communist' countries) declined. Previously successful means to boost the competitiveness of local capital in market capitalist countries - protectionism in the form of tariffs and quotas, and direct regulation of capital movements and the financial sector - also became inefficient as policy tools. The failure of the Mitterand government's attempt to expand social spending in the early 1980s in the face of a devastating speculative attack on the French franc was testimony to this process.

Contrary to the globalisation argument, however, such changes have not meant that states are no longer crucial factors in profit making, investment and growth, only that there has been a shift in the forms of state involvement. So, for example, direct state regulation of the assets of the banking sector in Australia to control interest rates and exchange rate pegging have both given way to open market operations through trading in currencies and government bonds. Similarly, while governments may no longer construct or even own public infrastructure projects or directly provide public services themselves, they shape private sector involvement in such activities through the letting of tenders, tax breaks, the establishment of performance criteria or the regulation of land-use and charges.<sup>4</sup> Finally, it is states themselves that agree, or fail to agree, on conventions regarding flows of labour and capital at agencies of international capitalism such as the IMF.

Thus it is not the case that globalisation (a process rather than an end point, and as much a feature of capitalism during the 1950s and 1960s as today) in itself sabotages the prospects for the traditional social democratic project by undermining the power of the nation state. There is nothing intrinsic to international economic integration that forces governments to degrade working class living standards in the interests of capital. Rather, it is globalisation in the context of underlying economic stagnation which forces governments to shift policy in this direction, using their still considerable capacities to boost the fortunes of their domestic capitals. Distinctive Australian circumstances have, of course, influenced the way in which the Australian state has sought to cope with the general tendencies of global integration and crisis. Two are of particular importance. One is the relative weakness of the Australia manufacturing sector and strength of the rural and mining industries. The other issue is Australia's geographical and economic isolation. We will return to the significance of these factors below.

### *The balance of class forces*

The final factor that helps explain the practice of social democratic governments since the 1970s has been the generally low levels of working class industrial and political mobilisation in northern Europe, North America and Australasia, at least until the mid-1990s, as indicated by low strike rates and declining union coverage (Visser 1989; Aligisakis 1997; ILO 1997). This situation derives from the process of capital accumulation at a fundamental level, but cannot simply be read off short or even medium term fluctuations in economic activity. Other things being equal, a combative and militant working class is likely to force social democratic governments into concessions which they would not otherwise have made. In the absence of such pressure, social democratic governments have been able to implement austerity policies which a more self-confident working class would have resisted. While the mid-1990s witnessed an upsurge of large union demonstrations and mass strikes in several European countries this has not yet been sufficient to make much impact on social democratic parties: such actions have usually been limited to the public sector (placing somewhat less pressure on the capitalist class than if they included private sector workers), not usually sustained over more than one or two months, and have not yet generated strong grassroots networks or working-class militants.

In summary, the rightward shift in social democratic practice evident since the late 1970s has been a consequence of long-term economic stagnation, which recent American economic growth has not overcome; the intensification of pressure on national governments to implement policies allowing sectors of local capital to integrate more effectively into international circuits of capital accumulation in a context of economic austerity; and limited counter-pressure from their working class constituencies. We now turn to Australia to see how these factors played themselves out in the course of what was one of this century's longest and, in purely electoral terms, most successful social democratic governments.

## **PERESTROIKA DOWN UNDER**

### **Background**

Before considering the Labor Government's approach to economic management, it is important to understand some basic features of the Australian economy and the ALP as they stood in 1983. While the Australian continent is huge — 7.7 million square kilometres — the population is small but growing quickly (15.4 million in 1983: 18.0 million in 1996) and concentrated on the south east seaboard and in the State capital cities. Australia has an advanced industrialised economy. In 1983 Australia's Gross National Product per capita per annum was in the middle of the developed economies' range, roughly comparable with Germany, France, Sweden, Denmark and Austria. Over 80 per cent of the labour force were wage and salary earners in 1983, and 37 per cent of the labour force were women.

The largest sector of Australian industry in 1983 was (and is) services with 73 per cent of output in 1983, followed by the manufacturing (18%), mining (6%) and rural (3%) sectors.<sup>5</sup> In terms of trade, however, Australia was reliant on primary commodity exports whose share of world merchandise trade was shortly to decline sharply (Bell, 1997: 83). While elaborately transformed manufactures contributed only around 12 per cent of exports during the early 1980s, they dominated imports to Australia. The country has traditionally relied on foreign investment to cover a current account deficit, which stood at \$6.8 billion or four per cent of GDP (dollar amounts are Australian dollars unless otherwise indicated) in 1982-83, while Australia's foreign debt amounted to 14 per cent of GDP.

Although Australia's exposure to international trade is low for a small economy (the ratio of exports to GDP was only 15 per cent in 1982-83), its reliance on capital inflows, primary product exports and lack of close integration into a regional market such as the European Union or North American Free Trade Area has made it very susceptible to international fluctuations (Dyster and Meredith, 1990). In part as a consequence, the recessions of the period since the early 1970s have tended to be deeper in Australia, and

the recoveries of the 1980s and 1990s somewhat stronger than those experienced in most other OECD countries.

Politically, Australia is distinguished by its very long tradition of social democracy. Indeed, the Australian Labor Party traces its origins back to the early 1890s and Labor first took office at State level in Queensland as early as 1899, making it the world's first ever social democratic government. As is the case with all such parties, the policies of the ALP can be traced back to its relationships with the working class and the capitalist class. In terms of the former, trade unions are affiliated to the ALP and provide it with considerable resources, both financial and human. Trade union leaders also play prominent roles in the internal affairs of the Party. They are delegates to State Conferences, power-brokers and officers of the Party, at the local branch, Electorate Council, State Executive and National Executive levels. The proportion of ex-union officials in Labor Parliamentary Caucuses may have declined during the postwar period, but union office is still one of the most common routes to a parliamentary seat in the ALP. The interaction between party and union is two-way, as involvement in the Party can also assist in an individual's elevation to union office.

The dominance of union leaders within the ALP has had a particular effect on the character of the party. Such leaders may once have been part of the rank and file of the union movement (although this is less the case than formerly (Bramble, 1995a)), but as union officials they are professional negotiators. They therefore represent a social layer that is based on the industrial power of the working class but which is not in itself of that class: it is a unique intermediary layer between labour and capital. Engaged in the business of wholesaling labour power, accommodation and compromise are the union leader's natural predisposition. When capitalism enters a period of stagnation, such compromises will increasingly involve sacrifices by workers. Various material benefits in the form of salaries and better working conditions then merely cement in place a predilection for reform over revolution. The structural position of trade union officials within capitalism sets strict limits to the activities of even the most militant of them. This is not a feature unique to the past decade but has been commented upon from the earliest days by observers of Labor parliamentarians and trade union officials (Winspear 1915; Childe 1964 (orig. 1923)). Within these limits, however, their intermediary position means that when the rank and file is self-confident and active, they can transmit pressure from below onto the Labor Party.

Through the trade unions and the Party, Labor governments therefore have a distinctive and closer relationship with the working class than the conservative parties. Despite declines in the proportion of working class members of the Party's branches, workers constitute a much larger proportion of its membership than of its conservative opponents (Scott 1991). This is even more true of Labor's electoral base: even at the 1996 election which ended Labor's long period in government, the ALP's electoral lead amongst trade unionists was 23 per cent, and among blue collar voters at large, 8 per cent (Bean and McAllister 1997). In the working class heartlands of Sydney and Melbourne, Labor still won 70 per cent of the two-party preferred vote (Bean and McAllister 1997).

Alongside pressure from the union movement, the ALP, especially when in Government, is also subject to intense pressure from business. Given its determination to work through the machinery of state, the ALP must respond to the fact that this is essentially a capitalist institution that works in close co-ordination and according to the basic needs of Australian business (Lindblom, 1977; Bell, 1992). Throughout its history, therefore, willingly or unwillingly, Labor has been prepared to accept responsibility for managing Australian capitalism for fear of the alternative – subdued business expectations and therefore lower investment and a collapse in the currency, in other words a “capital strike”, or other forms of economic or political sabotage by the business sector.<sup>6</sup> Labor therefore responds to the needs of capital but at the same time retains its distinctiveness from mainstream conservative parties by virtue of its organic ties to the working class. It is this partial independence from the capitalist class, both financially and in terms of its voting base, that means that it can at times better serve the long-term interests of Australian capitalism. Unlike the conservative Coalition parties which are tied up both personally and financially with sectoral business interests, Labor enjoys a relative freedom to enact

legislation or introduce policies that hurt the interests of specific sections of capital but benefit the class as a whole (Sharkey 1943, Kuhn 1989).<sup>7</sup>

During the 1960s, for example, the rural sector and the increasingly important minerals sector of Australian business had been trying to move the Australian business class as a whole away from its hitherto dominant strategy of relying upon high tariffs and import replacement in the manufacturing sector. However, they had been stymied by the political lobbying power of large manufacturers geared to domestic markets. It was not until the election of a Labor Government in 1972 that radical action was taken to achieve this shift and tariffs were slashed across the board by 25 per cent. This process then stalled in several highly protected sectors for a further seven years after Labor lost power in 1975. Similarly, the conservative Coalition Government of 1975-83 shrank from implementing its own inquiry's recommendations for modernising the financial system involving mergers and takeovers in the banking sector for fear of antagonising key individual members of its political support base. It was left to the incoming Hawke Labor Government to rationalise and open up the banking sector soon after taking office.

### **Enter the Accord**

The Hawke and Keating Labor governments of 1983-96 differed from the Whitlam ALP government of 1972-75 in several key respects. While the Whitlam Government enjoyed only very ad hoc and fragile understandings with the Australian Council of Trade Unions (ACTU) concerning economic, industrial relations and wages policies, which created tense relationships between the two wings of the labour movement (Singleton, 1990), Hawke was elected in 1983 with a clear commitment from the country's union movement to industrial discipline and wage restraint. The Prices and Incomes Accord had been signed by the ACTU and the Labor Opposition in February 1982 even before Labor won power. In this Accord (which subsequently went through a further seven versions in the course of 13 years), the ACTU and incoming Government agreed to wage restraint in return for the promise of improvements in employment, the social wage and, 'over time', real wages.<sup>8</sup>

The Accord was a politically saleable package both to workers and to business. The Labor Party's commitments in the Accord, to create jobs, raise social expenditure and maintain wages in collaboration with the union movement, seemed plausible and attractive to Australian workers after the conservative Fraser Government's attacks on unions and working class living standards and in the context of unemployment above 10 per cent. A key role in winning acceptance of the Accord within the labour movement was played by leaders of the left-wing building and metalworkers unions, whose members had the industrial capacity to render the agreement ineffective. Current and former members of the Communist Party (by this time social-democratic in its orientation), some holding leadership positions in key left unions, played a particularly important role in this process.

The intellectual basis for their arguments leant heavily on the work of a series of social democratic academics and union researchers, such as Hughes (1981), Hartnett (1981), Higgins (1978, 1980, 1985), Stilwell (1982), Burford (1983), Ogden (1984), Mathews (1986), and Clegg *et al* (1986). Frequently drawing on the German and Scandinavian experiences, these writers commonly used neo-corporatist or 'power resource' approaches which were popular at this time to justify the politics of the Accord.<sup>9</sup> They suggested that the Accord would enable the union movement to break out of its traditional "economistic" straitjacket to encompass broader political concerns and to develop a social role well beyond the ranks of organised labour. Supporters pointed to a commitment in the Accord that 'consultative mechanisms of a widespread nature ... will play a coordinated and ongoing role in assisting the success of the transition of the economy onto a planned framework'. This was counterposed favourably to 'ultra-militancy' or short-term syndicalism, by which was meant attempts by workers to improve their living standards by means of industrial action.

Business was equally attracted to Hawke's message of social consensus. Influential business interests had hoped that his conservative predecessor would confront and destroy the power of trade unionism (O'Lincoln, 1993). Fraser had clearly failed. Nor, from their point of view, had he taken sufficient steps to promote the international outlook of Australian capital, especially in what was becoming a booming Asian economic zone on Australia's doorstep. Consequently, some sections of business had begun to view the Fraser's period in office as being 'wasted years'<sup>10</sup> and looked to Labor as being more capable of pursuing both the suppression of union activism and more aggressive engagement in international circuits of trade and finance. Thus by the time of the 1983 elections, the conservative *Melbourne Herald*, a long-time supporter of the Coalition parties, made a break with its past and called for a Labor vote. Business sentiment was also evident in the decision by Fraser's own Minister for Industrial Relations to endorse the Accord approach shortly before the March 1983 election (O'Lincoln 1993: 231).

## **The Practice of the Accord**

### ***Wages, Productivity and Union Strength***

While more than an incomes policy, one of the Accord's key achievements in the eyes of business was that it significantly reduced real wages. Although this occurred in other OECD nations in the 1980s and 1990s, the means involved in Australia were quite distinctive. Australia has had a highly legalistic industrial relations system since the first decade of the 20th Century. In their jurisdictions, the quasi-judicial Industrial Relations Commission and its State counterparts could make legally binding decisions to resolve industrial disputes in the form of 'awards', which cover wages and a wide range of conditions of employment. Initially, the Accord radically centralised this system. The various versions of the Accord between the ACTU and Government were (until Mark VI in 1991) essentially ratified by the Commission and precluded unions from pursuing any 'further claims'. Initially wages were fully indexed across the board to the rate of inflation. But, in 1985, full indexation gave way to partial indexation, and that in turn to a combination of meagre flat rate pay increases and percentage rises.

Contrary to the Accord's initial promise, therefore, real wages were not maintained 'over time'. While the actual reduction of real wages through the 1980s and the specific impact of the Accord are both subject to debate, all Australian commentators accept that real wages fell in the 1980s by anything between two and ten per cent, while estimates of the specific impact of the Accord vary between five and nine per cent (Chapman *et al* 1991). Measured purely in terms of full-time award wages, which cover only the non-managerial workforce, workers' wages fell by 12.8 per cent in real terms between 1983 and 1990 and by a further 3.2 per cent before Labor lost power in 1996. While managerial salaries increased by 125 per cent in nominal terms between 1985 and 1995, nominal average weekly earnings only rose by 70 per cent (Economic Planning Advisory Council (EPAC), 1996: 99).

The suppression of wages and expansion of rewards for the rich was one reason for continued employer support for the ALP Government throughout the 1980s. Another was Labor's enthusiasm for what became known variously as workplace reform, benchmarking or international best practice (Keating 1990a:8; Keating 1990b:14). Centralised wage fixing, based on partial cost of living adjustments, was replaced in 1988 by a requirement that wage increases could only be achieved in return for productivity trade-offs. Initially, this process of 'structural efficiency' involved streamlining and reducing the number of award classifications (job categories for the purposes of pay and conditions), facilitating the removal of 'restrictive work practices' (such as standard working hours, seniority, demarcations between duties of different categories of workers, and established staffing ratios), and achieving savings through the intensification of labour (Bramble 1989).

The tendency for wage increases to become less based on workers' needs and more on employer capacity to pay was taken a step further in 1991 with the advent of enterprise (company-level) bargaining. Such a step had been advocated by the peak employer body, the Business Council of Australia (BCA) since 1987, but had initially been resisted by both the Government and the ACTU. Four years later both the



Government and the peak union council not only consented to enterprise bargaining but actively fought for its introduction in the teeth of opposition from the Industrial Relations Commission, which favoured maintaining the primacy of the award system. The outcome of enterprise bargaining for workers in subsequent years was almost uniformly negative, involving as it did longer working hours, increased use of shift work, reduced penalty rates for work in unsocial hours and more casual and part time employment (Bramble, 1995b; Department of Industrial Relations 1995). The overall result of Labor's wages policies, both in their centralised phase during the 1980s and in their decentralised phase in the following decade, was an increase in the profit share of national income from 38 to 44 per cent.

The ACTU, far from resisting these attacks on the award system and working conditions, supported them - first because it too was committed to a more competitive Australian capitalism even if that required sacrifices by its own members, and second because it hoped to preempt an even more radical version of labour market deregulation of the type being introduced across the Tasman Sea in New Zealand (Kelsey, 1995). Continued ACTU co-operation in Labor's wage-cutting agenda was facilitated by the general lack of organised opposition at the grassroots of the labour movement. The collapse of strike activity in 1982, even before Labor took office, had made the Accord option of centralised control over wages acceptable amongst many union militants. However, once the world recovery took effect in the mid-1980s and unemployment started to fall, rank and file activity still did not recover, despite falling real wages. In part, this was due to the Accord mechanism itself, which in the period 1983-87 was premised on money wage increases (however small) arriving without any action by workers. But it was also a consequence of the ACTU acting quickly against any union or section of a union which threatened to break Accord commitments. The weakness of the radical left was a further factor. Radical political ideas (let alone a leadership) which could explain why the political basis on which the Accord was sold to workers was inherently flawed had little influence in the Australian labour movement.

Nonetheless, acquiescence in the framework of the Accord did not necessarily entail enthusiastic acceptance of ACTU and Labor Government policies on the part of rank and file workers. Indeed, the ACTU's endorsement of years of wage cutting through the mid-1980s, followed by its promotion of work intensification and labour shedding under enterprise bargaining, led to immense disillusionment within the union movement. However, this did not lead to an industrial backlash by unions since muscles not used began to atrophy. Workplace union organisation began to wither in some core industries. Membership coverage, which had been remarkably steady at between 45 and 55 per cent of the workforce over the entire postwar period, began a continuous decline, falling from 49.5 per cent in 1982 to 40.5 per cent in 1990, and thence to 35 per cent by the time that Labor lost office in 1996, the lowest level since the 1910s (Australian Bureau of Statistics (ABS) Trade Union Statistics; Trade Union Members).

### ***Industry Restructuring***

While business was happy to see labour costs and union strength wound back, Labor was also successful in promoting large scale industry rationalisation in both the private and public sectors through its industry and related policies.<sup>11</sup> Since the late 1960s an increasing proportion of the economics profession, public service economists and politicians from both the conservative and Labor parties were persuaded that the traditional strategy for developing Australian industry, by securing the domestic market for local producers mainly through tariff protection, was no longer satisfactory. The scale of industry had grown so large that the attempt to create a comprehensive manufacturing sector within the borders of a country with a population of 13-16 million was becoming prohibitively costly and an enormous drain on internationally competitive sectors of the economy. Consequently, influential sections of business were by the early 1980s stridently demanding a 'rationalisation' of protected industries, on the lines of the OECD's structural adjustment programme (OECD, 1989), involving reductions in tariffs, upgrading of average plant size so as to attain economies of scale, and technological renewal.

Labor responded to these calls even more decisively than it had under Whitlam in 1973. Where its conservative predecessor had been strong on free trade rhetoric but weak on action, the Labor Government of 1983-96 delivered dramatic cuts in tariffs and import quotas. Effective rates of assistance to manufacturing, which had fluctuated between 23 and 27 per cent under the Fraser Government, were brought down to only 10 per cent by 1993-94 (Fahrer and Pease 1994: 186).<sup>12</sup> By the time that Labor lost power in 1996, Australia had tariff levels below those of many of its main trading partners.

Labor's approach was not, however, simply to combine wage reductions with market liberalisation which might simply have jeopardised capital investment. The Government sought to improve profitability and competitiveness with a variety of additional tools. In the context of a series of tripartite consultative industry plans, the Government used tariff reductions together with subsidies for investment and the retraining of redundant workers, as well as industry-specific measures, to improve the international competitiveness of core Australian industries<sup>13</sup> such as the textile clothing and footwear, iron and steel, and car industries. There were similar less formal arrangements in other industries, such as stevedoring, ship and aircraft construction, pharmaceuticals, computers, telecommunications and heavy engineering. These packages led to substantial increases in exports, labour productivity and job losses. Other measures, such as the 150 per cent tax deduction for research and development expenditure, were designed to elicit new state-of-the-art investment. Rationalisation was applied even more rigorously to the public sector. In 1993, contracting-out and compulsory competitive tendering became Government policy, with the adoption of a National Competition Policy, effectively written by Australia's leading professor of management (and former partner of McKinseys consultancy), Professor Fred Hilmer.

Just as was the case with its wages policies, the Labor Government ensured that it had the support of its Accord partners in these industry programmes. While Australian unions had long been ardent defenders of import substitution in manufacturing industry, union policy during the 1980s underwent a transformation. As former Treasurer John Dawkins put it on his retirement in 1994, 'After the 1983 election, the ACTU was converted to the central elements of a pro-business agenda and through its enhanced central power, was able to engage the entire union movement in its support' (Australian Financial Review, 15 July 1994). In steel, motor vehicles, metal trades and shipbuilding, unions were key players in restructuring committees at industry and enterprise level, much as they had been promised by the Accord commitments. The ACTU's seminal report Australia Reconstructed (1987) codified acceptance of the changed conception of industry policy within the union movement, restating the ACTU's commitment to improving the efficiency and international competitiveness of Australian industry as a means to achieve economic growth and full employment.

The problem for the unions was that the only route by which many Australian industries could be competitive on world markets was by large scale labour-shedding. The result was that in many cases union activists from national leaders to job delegates effectively became the front line of employer efforts to convince workers that redundancies and major changes to work practices were inevitable (Bramble, 1993). The outcome of restructuring was a significant increase in productivity and reduction in employment in the affected industries: manufacturing employment fell by more than 23 per cent between 1981-82 and 1992-93, while productivity rose by over 44 per cent (Fahrer and Pease 1994: 200). In the public sector, employment in government enterprises in Australia fell by 24 per cent between 1987-88 and 1992-93 while labour productivity rose by over one hundred per cent. (Steering Committee on National Performance Monitoring of Government Trading Enterprises, 1994).

Reform of the capital market began early on in Labor's period in office with the floating of the Australian dollar, a reduction in government control over bank activities, and the admission of foreign banks to Australia. The Government also relaxed rules on the ownership of print and electronic media (facilitating the expansion of Rupert Murdoch's empire and his domination of the Australian daily press) and terminated the statutory duopoly in the domestic airline industry. The state monopoly on telecommunications was also ended. This was followed by a proposal to privatise Australian Telecom (now Telstra). After Paul Keating ousted Bob Hawke as Prime Minister, in December 1991, the

Government went further, privatising the Commonwealth Bank and the state owned airlines and, in cooperation with State governments, significantly cutting the national rail transport network. In all cases, there were large numbers of redundancies and, in many, asset stripping of the new entities by their private sector owners. The hopes harboured by Australian capitalists in 1983 that Labor would be able to succeed in restructuring the economy where Fraser had failed proved justified.

### *Other policies*

Given the increasing acceptance of its underlying economic programme within the leadership of the union movement, the Labor government felt free to shape other social and economic policies to the needs of competitive accumulation. In the area of education, for example, the Government recognised the need to increase the skill level of the Australian workforce and to this end increased the number of students in tertiary education by 44 per cent between 1987 and 1995. Given its pro-business agenda, it sought to pay for this expansion not through increased taxes on the ultimate 'end users' of this new 'resource', business, but by demanding payment from the students themselves in the form of a "graduate tax" to be paid on taking up full-time work.

The taxation system was similarly reshaped to more effectively meet business demands. Tax reforms and the wider application of user-pays principles for public services shifted the burden of government imposts. Personal income taxation was made less progressive, company taxation reduced, and the significance of indirect taxation increased. In each case capital benefited at the expense of the working class. Compulsory superannuation was introduced in order to reduce future public outlays on means-tested pensions and to increase the pool of savings available for investment. Other welfare provisions were rejigged to restrict eligibility and to pressure recipients to participate in or return to the paid workforce. Unemployment benefit was abolished for those under 18, and 'hit squads' of fraud inspectors were established by the Department of Social Security to harrass those on long-term benefits.

Although multiculturalism was bipartisan government policy from the 1970s until the mid-1990s, this did not prevent the Labor Government undermining its policy commitment to social equity for immigrants and the country's indigenous people where such a commitment threatened to cost the Government money or where it called into question the priorities of capital. Thus, the immigration intake was both cut back sharply in the early 1990s and switched away from family reunions towards immigrants with wealth, businesses or special skills. New migrants were also debarred from claiming social security for six months after their arrival. One example of Labor's penny-pinching approach to migration concerns was its scandalous record on refugees. When 500 Indochinese refugees fleeing political persecution, suppression of civil rights or dire economic hardship arrived on the northern shores of Australia in makeshift boats in early 1995, dozens were promptly incarcerated in "detention camps", in some cases for up to five years, while their applications for refugee status were processed. Legal aid was denied those whose cases were taken to court (Bramble, 1996b).

The Government's attitude towards the indigenous population was also at odds with its initial commitments to national land rights policy contained in its 1983 election manifesto. Australia's Aboriginal population, comprising less than two percent of the total, is the poorest and unhealthiest group in the country, with the lowest life expectancy. Aborigines are also strong Labor supporters (Bennett, 1996: 159). However, when faced by opposition from the mining industry and State governments, especially the Western Australian Labor administration, the Federal Government abandoned its planned extension of Aboriginal land rights. Similarly, the bulk of recommendations of a 1988 report on the large number of black deaths in police custody and prisons was ignored by the Commonwealth and State governments. And finally, when confronted in the early 1990s with a High Court judgement (the 'Mabo decision') on land rights which was favourable to the Aboriginal population, the Keating Government set out to undermine the full benefit of this decision through its 1993 Native Title Act. Not a single land claim had been successfully pursued by Aboriginal groups, under the new Act, by the time Labor had lost office three years later.

## **DID LABOR DELIVER?**

### **For Business?**

Labor's period in office achieved four major positive outcomes for capital. First, as we have seen, an increase in the profits share of national income, particularly during the 1980s (EPAC, 1996: 18). Second, a steady but gradual reduction in public spending as a percentage of GDP, from 30 per cent in 1984 to 27 per cent ten years later. Partly as a result, the Australian Government ran a budget surplus for four successive years in the latter half of the decade. This enabled the Government to cut the corporate tax rate from 48 per cent to 36 per cent.

The third benefit for business was a change in the pattern of trade and tighter integration with the world economy, with both inward and outward foreign investment growing strongly. Exports grew from 15 per cent of GDP in 1982-83 to 20 per cent by 1995-96, while the figure for imports grew from 17 to 20 per cent. Just as importantly, there were significant changes in the composition of exports. While agricultural exports increased by 170 per cent in current dollar terms between 1982-83 and 1995-96, the rise in mining exports was 230 per cent and manufacturing, from a very low base, grew 610 per cent over the same period. The value of elaborately transformed manufacturing exports tripled in real terms (ABS Monthly Summary of Statistics; Sheehan, Pappas and Ching 1994) and underpinned the rapid overall growth in manufacturing exports. Labor therefore presided over a shift in Australia's exports to a pattern closer to those of other developed countries. As for investment, Australian business became a significant player as a foreign investor (outside its traditional South West Pacific base) for the first time in its history, with the stock of overseas investment overseas rising from just over \$20 billion in 1982-83 to more than \$140 billion by 1995-96. International integration had its costs, however, and external net debt blew out substantially from only \$23 billion in 1982-83 (about 7 per cent of GDP) to \$188 billion in 1995-96 (about 40 per cent), and the servicing costs of overseas loans led to a severe deterioration in the current account deficit, which rose from \$6.8 billion in 1982-83 to \$20.3 billion in 1995-96 (as a proportion of GDP it fluctuated between three and six per cent, significantly higher than in the largest OECD economies). Ballooning deficits were an important factor behind the sharp decline of 29 per cent in the value of the Australian dollar, compared to the currencies of its major trading partners, between 1984 and 1986.

Finally, and unlike the experience under the the conservative Fraser Government, when, in 1980-81 a strike wave broke efforts to cut real wages through partial indexation, the Hawke and Keating Labor Governments were able to engineer a major shift of national income from wages to profits without an industrial rebellion in the ranks of the unions. Industrial action fell to unprecedentedly low levels and stayed low even during the period of strong employment growth in the middle to latter parts of the 1980s, thanks to strong discipline exerted by the ACTU. By the time that the Government left office, Australian business had enjoyed more than a decade of industrial peace (ABS Industrial Disputes).

### **For Workers?**

Labor and the ACTU attributed a series of benefits to the Accord for workers. These included rapid employment growth, lower unemployment, rises in average household income and the social wage, and income redistribution to women and the poor (see, for example, Keating and Willis 1985). It is worth examining some of these alleged benefits in a little more detail.

#### ***(i) Employment and Unemployment***

During the economic upturn of 1984 to 1990, employment in Australia grew by 3.4 per cent per annum, double the OECD average.<sup>14</sup> While real wage cuts under the Accord probably made some, relatively small, contribution to employment and growth after 1983 (Chapman, 1996), wages were not their only

determinant. The international experience of recovery between 1983 and 1989 suggests that the bulk of the improvements in employment and growth were attributable to cyclical factors largely beyond government control. This conclusion is confirmed by the dramatic rise in unemployment during the recession of the early 1990s which occurred in all Western economies regardless of prior changes in wages (and in Australia despite several years of wage cuts). In this period redundancies grew from an annual rate of 350,000 to 650,000, while unemployment increased by more than 80 per cent to a rate of 11 per cent of the workforce (ABS *The Labour Force*). During the subsequent 1993-96 recovery, unemployment stabilised at a level over eight percent, significantly above the rate of the mid to late 1980s and massively above the 1.3 per cent that Australian workers had enjoyed in the postwar boom years of 1953-74 (Bell, 1997: 88). Furthermore, there has been a secular increase in the importance of long term unemployment, which accounted for 32 per cent of the unemployed in 1995, up from only 4.5 per cent 20 years earlier (EPAC, 1996: x).

Within these broad and fluctuating aggregates, several other features of the labour market under Labor merit attention. First, there was a sharp growth of the female participation rate (from 45 to 53 per cent between 1983 and 1995) and a decline in the male rate (79 to 75 per cent) (EPAC, 1996: 42). By 1997, women accounted for 43 per cent of the workforce. Other labour market changes during the period were less favourable for workers. First there was strong growth in insecure part-time and casual employment, associated with the rise in the female participation rate, to the extent that Australia now has the second highest rate of part-time employment in the OECD (25 per cent), after Holland. There was, secondly, strong growth in low-paid employment (those earning less than 75 per cent of the median wage) and some growth at the top (defined as those with more than 175 per cent of the median wage), with a 'shrinking middle' at the core of the jobs market (those earning between 75 and 175 per cent of the median) (Hunter and Rimmer, 1995).

Thirdly, the number of jobs in the manufacturing and public sectors, with their stronger traditions of unionism, continued to fall, while there was growth in the personal services sector and small business sectors (EPAC, 1996: 32). Fourth, the labour market became increasingly polarised. On the one hand, those in full-time work were increasingly exhausted by unpaid overtime (their hours worked grew from 40 per week in 1978 to 44 per week in 1995, while the proportion working more than 49 hours per week increased from 28 to 37 per cent between 1987 and 1996) (EPAC, 1996: 48). On the other hand, there were the work-hungry, employed part-time but looking for more hours. The fifth significant feature of the labour market was a shift in employer strategy in some key areas towards contracting out ('outsourcing') and a relative decline in direct employment. This approach sought to undermine union bargaining power and working conditions by displacing costs of employment onto marginal subcontracting businesses.

The Labor Government did not necessarily directly cause these features of the labour market to develop. However, it certainly endorsed some and took action that had the effect of increasing others. For example, the broad economic programme of putting business needs first meant that Labor conducted its macroeconomic policy in 1989-90 in a way such as to bring about what the then Treasurer called 'the recession that we had to have', in the knowledge that unemployment would climb sharply. Labor's extensive privatisation programme and contracting-out within surviving public enterprises severely reduced job security for hundreds of thousands of workers. Labor also promoted enterprise bargaining, which involved trading-off important conditions for marginal wage increases. The abolition of penalty rates in a number of industries, for example, facilitated the extension of working hours. In summary, therefore, the claims made that sacrifices in real wages under the Accord led to significant improvements in the employment opportunities of Australian workers do not bear close scrutiny.

### ***(ii) Social Wage and Taxation***

Faced by the decline in real wages during the 1980s, proponents of the Accord argued that wage cuts were at least partially offset by improvements in the social wage - health, education and welfare spending

- which accrued to all members of the working class, whether in the labour force or not (Evatt Foundation, 1995: 34 & 170). However, while the real level of welfare benefits increased under Labor, the welfare system was made more selective, thereby actually reducing access to welfare for some working-class families. Furthermore, 'user pays' for formerly free Government services, the graduate tax on higher education, fiscal drag (despite income tax cuts), and a shift towards indirect taxation meant that large numbers of those in work and with moderate incomes had to pay for improvements to the social wage through higher taxes. Tax rates for people with an income of between 50 and 75 per cent of average weekly earnings declined between 1983 and 1988 but increased for those on average weekly earnings. Those on double and quadruple average weekly earnings enjoyed cuts to their tax payments.

The targeting of benefits, increased taxes for many working-class households and the sharp decline in real award wages meant that working-class household disposable incomes fell across the board between 1984 and 1994, by nine per cent for the bottom quintile, by seven per cent for the second, by nearly five per cent for the third and just under one per cent for the fourth. This occurred despite a growing number of families in which both adults were in jobs. Only the top quintile of households enjoyed an increase in real disposable income in this decade, of 2.5 per cent (ABS Australian Social Trends 1997). Given that the stock exchange rose steadily, by 150 per cent before 1990 and a further 48 per cent by 1996, generating healthy returns to those living off dividends, the overall effect of these trends was growing inequality, with the proportion of real disposable income accruing to the poorest quintile of households falling from 6.3 to 5.8 per cent, the share going to the top quintile rising from 38.8 to 40.4 per cent<sup>15</sup> (ABS Australian Social Trends 1997).

### *(iii) The situation for women and migrants*

A common argument made in the early years of the Accord was that by holding back on large wage claims, the powerful (usually male-dominated) unions could create the potential for those workers on low wages and with weak bargaining power (often women or migrants) to enjoy the benefits of the anticipated employment recovery. Quite what the mechanism was to be connecting these two phenomena was never really explained. What, then, was the actual situation for women and migrants under the Accord?

Dealing first with the issue of gender equity, wage differentials were compressed for a period but not significantly. In the heyday of centralised wage fixing between 1983 and 1988, female full-time average weekly ordinary-time earnings increased as a proportion of male earnings from 80.6 to 83.2 per cent. However, from this point on, no further progress was made by the time that Labor lost office eight years later (Fieldes 1997: 114 and 117). Furthermore, the differential only narrowed by this amount in a period when real wages for all workers, both male and female, declined. Most women were also hit by the polarisation of the jobs market already described. Between 1980-84 and 1993, the proportion of all women in low-paid jobs increased from 28.5 to 32.9 per cent and those in middle income jobs fell by 11 per cent from 66.5 to 55.5 per cent. However, one group of women prospered under Labor, those in professional and managerial positions. Women earning more than 175 per cent of the median wage increased their representation in the female labour force from 5.0 to 11.7 per cent (Hunter and Rimmer 1995). Such women benefited from the Labor Government's introduction of equal opportunity and anti-discrimination legislation.

Although anti-discrimination legislation was a gain for all women at work, its effect on women in working-class jobs was overwhelmed by the wage-cutting logic of the Accord. Indeed, the very commitment to centralised wage discipline undermined the ability of unions to press for wage equity for women. This became clear in the mid-1980s when the ACTU pursued a 'comparable worth' case for nurses through the Industrial Relations (then Arbitration) Commission. This was designed to overcome long-standing inconsistencies between nurses' low pay and the wages of skilled, mainly male, tradespeople. The Commission rejected the nurses' case, arguing that any significant wage settlement would jeopardise its overarching commitment to wage stability. When nurses took action to force the

issue in an unprecedented 50-day strike in late 1986, they were left to fight alone by the ACTU (Ross 1987). Women's situation did not improve with the end of centralised wage control, because their disproportionate representation in low paid, casual, part-time and poorly unionised segments of the labour force has undermined their ability to make gains in productivity bargaining and award restructuring (Bennett, 1994). Finally, the restructuring of the female-dominated textiles, clothing and footwear industries under the impact of industry rationalisation adversely affected the position of tens of thousands of women workers. The same was true for the tens of thousands of migrants from non-English speaking backgrounds who were hit hard by restructuring of the vehicle and iron and steel industries. Many such workers had little chance of finding other work in the depressed job market of the 1990s.

## **THE ACCORD UNRAVELS**

We have seen that the economic outcomes of the Labor Government of 1983-96 disproportionately favoured business. In this respect, Australian economic policy under Labor was little different to that of most other OECD governments. The distinctiveness of the Labor Government's approach lay in its extension of 'corporatist' arrangements both during the recession of the early 1980s and in subsequent restructuring strategy. Australia was not, of course, a pioneer in this regard. Other such experiments have included the British 'Social Contract' between 1974 and 1978, while corporatist arrangements in Sweden facilitated significant industry restructuring until the 1970s. However, in all cases, such corporatist models have fallen apart as one or several of the major 'social partners' withdraws from the arrangement. British public sector workers, provoked by successive austerity budgets and falling real wages, launched a wave of strikes during the 1978-79 'Winter of Discontent', culminating in the defeat of the Labour Government (Panitch 1980; Cliff and Gluckstein 1988). In Sweden, by contrast, it was the employers who pulled out. Economic crisis, coupled with Sweden's half-in, half-out relationship with the European Community, made the extent of the welfare state, low unemployment and high rates of taxation obstacles to competitive capital accumulation required by increasingly internationally focused blocks of Swedish capital (Löfgren 1988; Wilks 1996)). As these structures were challenged, 'orderly' wage setting tended to come apart during the 1980s and early 1990s, and in 1991 the Social Democrats lost office. The re-election of the Swedish social democrats in 1994 has seen them pursue an orthodox neo-liberal approach to economic management.

In the case of Australia, the Accord finally collapsed when Labor lost the March 1996 election following the desertion of the ALP by many previously supportive employers and subsequently by important sections of the Party's working-class base. Recognition of Labor's pro-business economic agenda had initially led to strong backing from business. Confrontationist tactics, both industrial and political, were generally rejected by mainstream business groups. This changed, however, with the recession of 1990-93. Faced with business failures, weak domestic demand, and a declining and industrially passive union movement, business began to endorse a more aggressive approach to restructuring, productivity and union power.

The Hawke and Keating governments had presided over significant government-driven industry restructuring, overcoming economic 'rigidities' for the sake of enhanced international competitiveness and more rapid capital accumulation. The Labor Government had gone as far as endorsing non-union enterprise bargaining and widespread privatisation. Business was thankful for these measures, but once Labor had shown that such changes could be made without serious union opposition, employers' demands escalated. What was once only the stuff of employer pipe-dreams now became considered policy. Despite the restructuring that occurred under Labor, the scale of real wage reductions needed to restore profit rates to the levels prevailing in the 1950s and 1960s implied the destruction of a weakened but still powerful labour movement. By virtue of its organic links with the Australian union movement, this could not be achieved by the Labor Party.

A frontal assault on labour was now required to boost the country's flagging productivity record. Productivity in Australia increased during the 1980s and 1990s, but did so at a lower rate than was

achieved in the 1970s, which was in turn lower than that achieved in the 1960s (OECD, 1995). Furthermore, the growth in Australian labour productivity slipped behind the OECD average after having been higher than the mean in the previous decades. Finally, Australia's relative failure to generate funds internally to sustain investment levels lay behind the chronic current account deficit and growing external debt. Reliance on overseas borrowing continually increased the deficit on income flows, which improved merchandise trade performance did nothing to correct. Now was the time to shift the tax burden further onto the shoulders of the working class in order to create a larger pool of national savings.

The conservative Coalition parties moved in step with business and began to promote a hard right economic platform. The Fightback policy documents of 1992 openly sought to emulate the 'New Zealand experiment' (Kelsey, 1995), involving aggressive union-busting, high indirect taxes, extensive privatisation, cutting youth wages, the abolition of unemployment benefits and the gutting of the public health system (Hewson and Fischer 1992a, 1992b). Business was enthusiastic about this programme and provided both financial and political support before the 1993 election.

The conservative offensive, however, galvanised the working class. The first site of struggle was the State of Victoria where these policies had undergone a trial run under the recently elected State Liberal Government of Jeff Kennett. Unions mobilised and called successive mass demonstrations and rolling strikes. Within one month of the Liberals' victory, 150,000 workers marched on the streets of Melbourne in protest. While the union campaign was subsequently wound back by the State labour council, the success of the demonstrations and the widespread revulsion at the Fightback package encouraged the federal Labor Government to deploy a populist class rhetoric in the election campaign, depicting their opponents as representatives of the privileged and wealthy. There was an aggregate swing to the ALP in the 1993 election which was most pronounced in working class constituencies.

Disillusionment with the Keating Government within the working class grew between 1993 and the following election, as Labor's commitment to profits and growth rendered it incapable of overcoming the dissatisfaction of its own support base. Even though the worst of the recession had passed and growth reached five per cent, the consolidation of enterprise bargaining led to further intensification of work, and unemployment remained high, while the 1993 Budget cut tax rates for business still further. Labor promised to 'bring home the bacon' for workers who had suffered during the recession, but redundancies continued apace, privatisation was pushed further and students were hit harder with increased charges. By 1995 surveys predicted that Labor would be hit by large-scale defections of working class voters. The situation was described as Labor's 'voteless recovery'. Keating's inner circle told itself that the economic situation was on track and better marketing of its policies would return Labor to office. In March 1996, the Government was confronted with the reality of its unpopularity when the ALP polled its lowest percentage primary vote since the 1930s (Bean and McAllister 1997) and was replaced by a conservative Government under John Howard which had learned from the mistakes of the 1993 election. The Coalition ran a campaign based entirely on attacking the record of the Labor Government rather than promoting its own policies, and was thereby able to tap into a broad vein of anger against the Government amongst even many of its working class supporters.

## CONCLUSION

Australia's economic performance under the Labor Government was far from exceptional internationally. The same can be said of Labor's economic policies (Kuhn 1993; Frankel 1997; Fairbrother, Svensen and Teicher 1997). This common approach emerges from the guises of 'globalisation', 'neoliberalism', 'restructuring' and 'micro-economic reform' (Australia), 'structural adjustment' (OECD), 'free market' reforms (Sweden), 'internationalisation' (Japan), 'Thatcherism' (Britain), 'Reaganomics' (the USA) and 'perestroika' (the USSR). The major difference was that Australia pursued this agenda within a corporatist political framework, embodied in the Accord, which epitomised a social democratic approach to economic restructuring. But, during 13 years in office, Labor made very little progress in achieving the central goal of the social democratic project, improving the conditions of life for its working class base



within an expanding economy. The Labor governments in Australia were incapable of using the framework of capitalism and the capitalist state to achieve policies of full employment or income redistribution from the rich to the poor. Unemployment remained high and income was primarily redistributed to the wealthy.

Labor's failure to secure even modest goals associated the social democratic project is the main reason why the Party lost office and the electoral support of many workers. What is more, the social democratic approach to restructuring had partly anaesthetised the working class over a 13-year period, allowing the incoming Coalition surgeon felt confident to continue the operation, which benefited capital rather than labour, with a larger, blunter scalpel.

The ALP is still a social democratic party. Its key support base is still amongst organised workers hoping that they can obtain a better living standard for themselves and their families within the framework of capitalism. The promise of the social democratic project in Australia dimmed for a period. But this was not the end for Australian social democracy, as subsequent experience has demonstrated.

The new conservative Government proved both inept and incapable of solving the problems facing Australian capitalism. It could not insulate Australia from the effects of the Asian economic crisis which began in late 1997. Its attempt to divide working class opposition to its economic programme by stirring up crude racist sentiments towards Aborigines and migrants only succeeded in fostering the emergence of the hard racist One Nation Party which mainly took votes from the Coalition. The Howard Government even failed to achieve its more limited objective of dramatically weakening the union movement in early 1998, when its attempt to smash the power of the national maritime union unleashed the largest display of working class industrial solidarity for nearly 30 years. As a consequence of these developments and stumbles, the conservatives suffered a reversal in public support. Labor became more credible as an alternative to the conservatives again and boasted of rapidly rising membership.

Social democratic aspirations are therefore resilient. Parties such as the ALP are likely to be the main beneficiaries when workers' self-confidence revives and the level of struggle picks up and when there is no challenge from the left to social democracy inside the working class. A future Labor government in Australia will not repeat the experiences of the Hawke and Keating Governments in exact form. But, whatever the specific policies adopted, the social democratic project has now become utopian, because the ALP remains committed to managing Australian capitalism and there are no signs that world capitalism, let alone its small Australian corner has overcome its tendency to experience deeper and deeper crises. It is likely, therefore, that the next Labor government will be no better for Australian workers than the last. Only the development of a coherent and sizeable revolutionary alternative within the Australian labour movement will prevent the continuation of the century-long social democratic cycle of high hopes being followed by bitter disillusionment and demoralisation within its working class base.

## Notes

- 1 Thus in April 1997, the managing director of the IMF, Michel Camdessus, argued on the basis of strong world economic growth in the mid-1990s that there was cause for ‘rational exuberance’ (Courier Mail (Brisbane), 26 April, 1997).
- 2 The average rate of profit in OECD countries increased from 12% to 16% between 1982 and 1993 (Bell, 1997: 99).
- 3 This case is argued forcefully in Australia by the Federal Government’s Bureau of Industry Economics (1995).
- 4 See also Bryan (1995) and Bramble (1996a).
- 5 These and all other data not otherwise referenced derive from Australian Bureau of Statistics publication Australian Economic Indicators (Cat. No. 1350.0), various editions.
- 6 Bell (1997: 29-30) cites Kelly’s graphic description of the impact of the hour by hour currency collapse in 1986 on the deliberations of a Labor Cabinet meeting: “The Cabinet was infiltrated by a distinct mood of panic ... It is doubtful if any budget meeting in the last twenty five years has been subjected to such pressure” (Kelly, 1992: 220).
- 7 The two main conservative parties, the Liberals and National Party, have been in a Coalition whenever in government at the federal level after World War II, including the period since their electoral victory in March 1996.
- 8 Singleton (1990) and Kuhn (1986), amongst others, have outlined the sequence of events in the labour movement, from the late 1970s, which led to the initial Accord of 1983.
- 9 Hampson refers to Higgins (1980 and 1985) as an Australian proponent of ‘power resource’ theories of this type, but also see (Clegg et al 1986: 251). For some British exponents see Jessop (1982), Cameron (1984), and McLennan (1984). Korpi (1983) and Esping-Andersen and Korpi (1984) provide sympathetic social democratic accounts of the Scandinavian model which were influential in Australia. The approach is reviewed sympathetically but not uncritically by Kelly (1988), Chapter 9.
- 10 Two major resource companies (Shell and CRA), for example, sponsored research by Kasper et al (1980) and Kahn and Pepper (1980) which expressed disappointment at the slow pace of “reform” five years into Fraser’s seven year term of office (Bell, 1997: 141).
- 11 See Castles (1988) and Kuhn (1988). On manufacturing industry policy, see Capling and Galligan (1992) and Bell (1993).
- 12 The effective rate of assistance is calculated as the percentage by which a country’s trade barriers (tariffs, quotas, subsidies and other protective devices) raise that industry’s value added per unit of final expenditure.
- 13 Keating and Dixon (1989) and Gruen and Grattan (1992) are useful overviews of the Hawke Government’s program of restructuring. Stilwell (1986 and 1993) is often more persuasive. Also see EPAC (1988b and 1990) and Bell (1997).
- 14 See EPAC (1992 & 1996) for more on the pattern of employment and unemployment under Labor.
- 15 The Gini Coefficient (a measure of inequality that ranges between 0 and 1) for ‘income units’ (essentially households’) gross income rose from 0.41 to 0.44 between 1986 and 1994 (ABS Australian Social Trends).

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