

Employment 'Miracles'

A Critical Comparison of the Dutch, Scandinavian, Swiss, Australian and
Irish Cases versus Germany and the US

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7 The Australian Miracle: Luck, Pluck or Being Stuck Down Under?

Herman Schwartz

Introduction

During the 1990s “economic miracles” in Ireland, Denmark and the Netherlands attracted considerable attention. All three countries reduced measured unemployment and reversed deleterious fiscal and current account deficits dating from the 1970s to a greater extent than their larger European neighbours. Analysts looking for policy lessons that might be applicable to the employment and growth malaise in those larger European economies were particularly drawn to the two “nice”, that is, more social democratic, examples of change, or to the superficially high-tech dynamism of Ireland. All this attention obscured another equally interesting miracle story playing simultaneously in the southern hemisphere: Australia.

This lack of attention is curious for three reasons. First, the Australian economy in GDP terms is roughly equal to the combined economies of Sweden, Norway, and Finland. Second, the scale and direction of change in Australia seems to be much more the product of intentional strategic action – pluck – than of endogenously generated change consistent with prior logics of appropriateness or of simple good fortune – stuck or luck. Analytically, Australia should thus have been a more interesting place to learn lessons for those seeking policy solutions for larger countries, because it is hard to see how changes deriving from local logics of appropriateness can be transferred easily. Finally, Australia is one of the few OECD economies besides the USA and Ireland that experienced productivity growth substantially above both its own historical long-term trend in the 1990s and the OECD average. This occurred despite the potentially adverse consequences of the financial crisis in Asia, the location of Australia’s largest markets.

In Australia, unemployment fell even while participation rates rose substantially; fiscal deficits gave way to surpluses; and a substantial shift in export profile occurred even though the current account deficit remained stubbornly high. Australia’s employment performance in the 1980s was the best in the OECD. Australia created jobs at roughly twice the OECD average rate

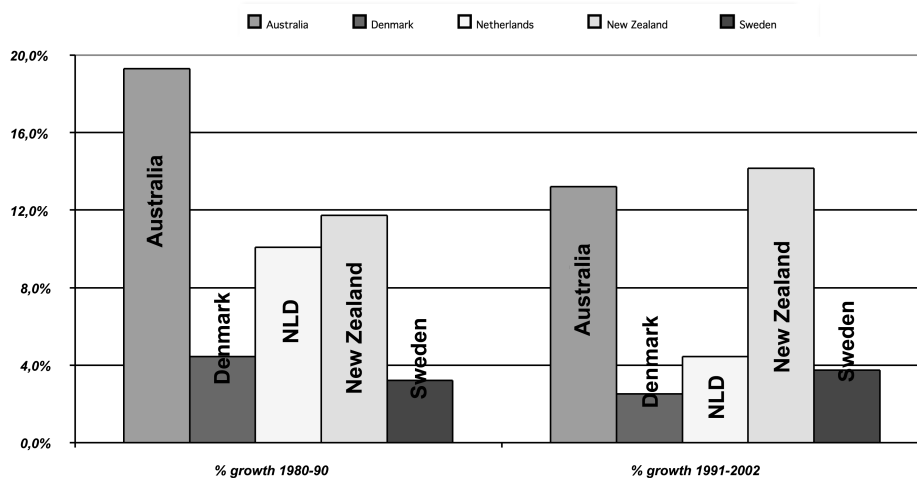


Figure 7.1 Growth in population aged 16-64

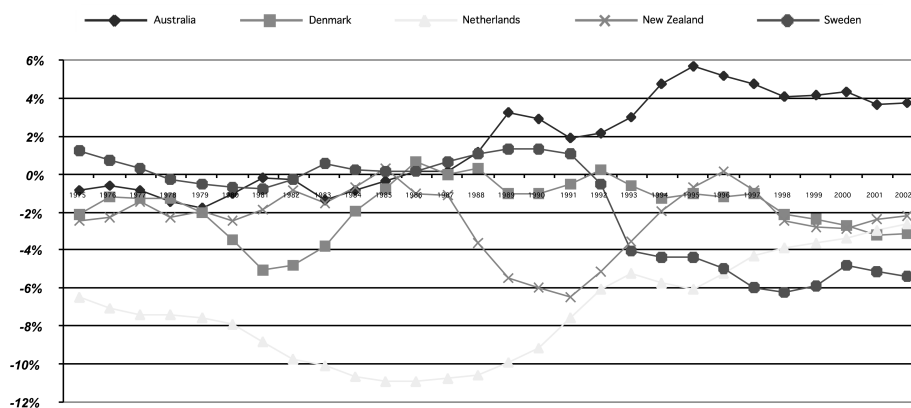


Figure 7.2 Deviation from average ratio of business sector employment to total working age population, 12 small OECD economies

– a 25 percent expansion – despite rising labour force participation (reflecting strong population growth; see Figure 7.1) that caused the labour force to grow 1.9 percent annually on average 1985 to 2000. Employment growth was also substantially above the OECD average in the 1990s, when a 13 percent expansion in employment nearly matched a 14.5 percent expansion in the labour force, and even more strongly in private business employment (see Figure 7.2).

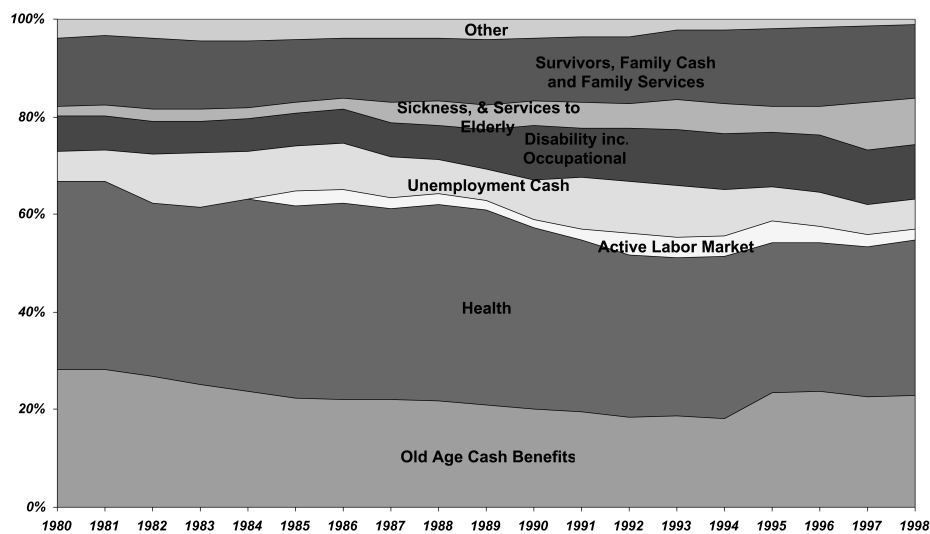


Figure 7.3 Distribution of Australian public spending

By contrast, falling unemployment in Denmark and Sweden in the 1990s occurred in the context of an essentially stable labour force; Denmark's labour force grew only 0.3 percent per year, while Sweden's actually fell by 0.2 percent per year (OECD 2001a, p.222). As rising productivity is the easiest – and perhaps the only – way for any society to make everyone better off, the link between policy changes that occurred in the 1980s and early 1990s and productivity and employment gains merits some examination. And because a high level of employment is generally preferable to having a large portion of the population on social assistance, and makes social assistance affordable for those who must be on it, explaining the sources of employment growth and maintenance is important.

In contrast to Denmark, Ireland and New Zealand, public and mandatory private social spending in Australia also grew in constant dollar terms during the 1980s and then more strongly during the 1990s. Social spending as a share of GDP was lower than in most countries but expanded more rapidly during these time periods. By the end of the 1990s, Australia was allocating more of GDP to social spending than either Ireland or Canada (and more than New Zealand as well – though the data are not strictly comparable). Rising unemployment benefits did not drive this increase. Rather, core welfare programs expanded: pensions, health, and especially disability and

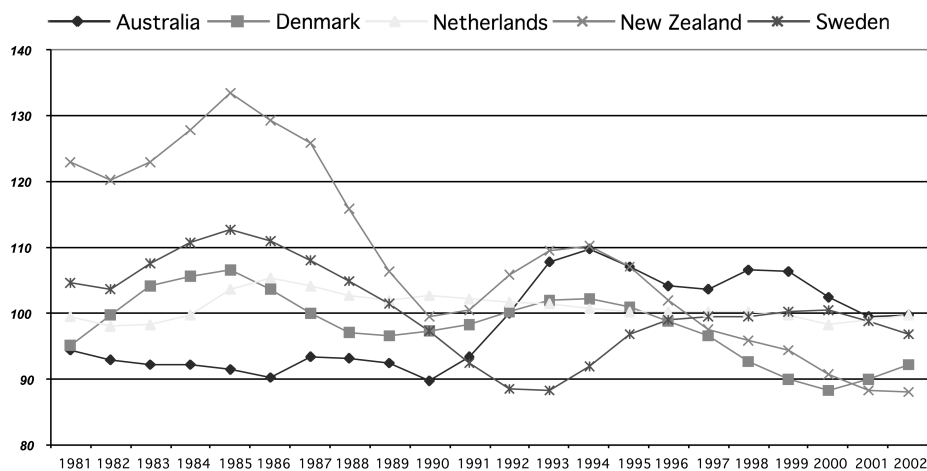


Figure 7.4 Export performance, 3 year rolling average, OECD average = 100

cash benefits to families (see Figure 7.3 for the shares of these programs; for total social expenditures see Table 5.6). However, it should be noted that Australia experienced all of the problems besetting OECD economies: falling rates of male employment, widening wage inequalities among full-time earners, and a parallel bifurcation of employment opportunities between job-rich, dual-income families and job-poor, single or no income families.

On the trade side, Australia's traditionally uncompetitive manufacturing and service sectors increased their exports after changes in the mechanisms for collective bargaining kept wage increases below productivity gains, especially in the sheltered sectors. Decentralisation of the collective bargaining system lowered the wage share of GDP slightly from 62.3 percent in 1983 to 59.5 percent in 1995; this contrasts quite favourably with the more dramatic reduction in Ireland, where the wage share of GDP fell from 60.7 percent in 1985 to 52.6 percent in 1994, and then even further, to 41.8 percent in 1997 (O'Grada and O'Rourke 2000, p.200). Meanwhile, productivity grew twice as fast as wages between 1983 and 1995. Productivity grew faster in Australia in 1990-97 than in New Zealand, Denmark, Sweden and the Netherlands, though not as fast as in Ireland. This permitted relative unit labour costs to fall from 117.8 in 1983 to 83.8 in 1987, before rising to 103 in 1989. Figure 7.4 shows the comparatively sharp and sustained increase in export performance for manufactured goods Australia experienced in the 1990s.¹ This reflected a sharp jump in the trend rate of produc-

tivity growth in Australia from roughly 1 percent annually between 1975 and 1991 to 2.7 percent each year after 1991 (OECD 1999d, p.65; Productivity Commission 1999). In short, export growth was not so much an outcome of falling wages as it was of rising productivity that permitted export firms to enjoy higher profits and, in the 1990s, permitted workers to capture part of the increase in productivity arising from changes in collective bargaining as higher real wages. Meanwhile, the state also captured some of these gains as extra revenue for redistribution.

What policies – if any – caused this favourable outcome? As in an earlier analysis of the Danish miracle, this analysis corrects for the implicit privileging of intentional action in causal explanations by explicitly considering the possibility that while actors considered their actions intentional, their policy choices might have been essentially endogenous outcomes of specific institutional structures rather than strategic responses to changing environmental conditions (Schwartz 2001b). If markets, like any environment, select for and reward specific institutional structures and behaviours, then some actors will always appear to have made the ‘correct’ strategic response to their environment, even if they chose their strategy somewhat randomly. But this may not necessarily be the “optimal” response or strategy. Furthermore, because actors do respond to their environment, that environment is always changing, eroding the degree to which any prior “best” response to a given environment fits the current environment. At any given time, stochastic changes rather than intentional action may create what looks like an “optimal” or “best” response to a given environment. But in this situation causality will be located in the system (in the environment created by other actors’ behaviours), not in the choices of specific actor(s) who are usually studied in isolation.

This paper will test luck, pluck and being stuck as competing explanations for Australian “success” in the 1980s and 1990s. To foreshadow the findings, Australia’s capacity to preserve the welfare state and expand employment in the face of severe macro-economic constraints, and without generating popular dissatisfaction, is only partly a function of luck or endogenous change that is consistent with local logics of appropriateness. Intentional, strategic reform of Australian political and social institutions did much to ameliorate the Australian macro-economic problems, despite an unfavourable export structure. In other words, pluck or stuck probably accounts for more than luck here, because the Australian case presents a series of changes in which political actors deliberately recast old institutions. These actors naturally enough pursued their own interests in this reconstitution of institutions – this after all is what politics is about. But they did so

in ways that comported with the external environment. As a result, the Australian economy stabilized. As with the Danish and Dutch cases, the Australian case suggests that neither environmental change – read ‘globalisation’ – nor a given welfare state’s endogenous dynamics are sufficient conditions for a crisis of a welfare state. Sufficient conditions for economic and welfare state crises rest in the way domestic actors make policy choices about the institutions governing the economy and welfare state. Meanwhile, the Australian case presents some of the few examples where true pluck made a difference in stabilizing a deteriorating welfare state.

The structure of the analysis

Roughly speaking this paper presents nine different explanations for Australian success in the 1980s and 1990s, assessing changes in the Australian current account balance, employment outcomes, and fiscal balance in terms of luck, pluck and being stuck. These three issue areas encompass the core economic foundations for a tax, service and transfer welfare state. Unemployment raises state expenditures, decreases revenues and erodes social solidarity. Fiscal deficits also clearly erode the long-term sustainability of this kind of welfare state as deficits cumulate into debt and as interest payments begin to crowd out services and transfers. Finally, current account deficits and public foreign debt are simply an external and more pernicious version of fiscal deficits. Foreign debt usually carries higher real interest rates than domestic debt and cannot be monetised. Current account deficits are also a proxy for competitiveness, and so are often also associated with higher unemployment as imports crowd out local production or as competitors displace exports from third-party markets.

To put it simply, these three policy areas relate to the following questions: do you make anything anyone wants to buy at a price they are willing to pay? Do you make enough money off of this to employ a politically acceptable number of people? And, are public sector inputs produced at a cost level that is consistent with continued export competitiveness and at a quality level that is consistent with continued public support for the welfare state? This last question means that I must also touch upon narrowly *political* issues of sustainability while discussing fiscal balance. In order to keep the paper broadly comparable with the others in this volume, however, the analysis will concentrate on employment growth.

Luck explanations start from the usual assumptions about institutional stickiness and inertia, and argue that while Australian institutions have been relatively constant throughout the post-war period, the external envi-

ronment has changed in ways that favour either or both Australian production and public sector institutions. Pluck arguments, in contrast, assume that while institutions are relatively sticky, actors (again in either production or the public sectors) consciously remodelled their own or others' institutions to make them comport better with the external environment. Finally, stuck arguments suggest that endogenous dynamics made Australian institutions change in ways that comported well with a new environment. All nine sorts of explanations thus address both Australian problems before the 1980s and success afterward.

The structure of the luck arguments is transparent: a dysfunctional combination of import substitution policies and a reliance on raw materials exports led to excessive wage gains, a weakening capacity to export and high (imported) consumption in the 1960s and 1970s. But the acceleration of heavy industrialisation in Asia – particularly Korea and China – in the 1980s and 1990s bailed Australia out of its problems. Increased Asian tourism offset interest payments on Australia's rising foreign debt. And global investors blindly rewarded Australians for pursuing what looked like neo-liberal policies of institutional redesign in the 1980s and 1990s.

Stuck arguments would suggest that Australian institutions evolved incrementally according to logics of appropriateness held by actors in those institutions, and that the institutional outcomes were either better than prior configurations or at least less dysfunctional than those into which the competition stumbled (March and Olson 1989). Actors' conscious policy choices were conditioned by embedded notions about the social purpose of their activity and what could be attained given the institutional landscape in Australia. In that sense, they were not perfectly free choices, but rather conditioned by the actors' self-images and their ability to pursue old institutional routines. Because the external environment surrounding Australian production and public sector institutions was also not characterized by optimal organisations, Australian organisations merely had to be less dysfunctional than their global competitors in order to look 'good'.

Note that "stuck" arguments are thus not arguments for convergence towards any optimal organisational form, nor do they offer much guidance about policy transferability. As Alchian and others have argued, markets are like ecologies (Alchian 1950). Firms display a multitude of strategies – expressed as organisational structures – that can be well or ill suited to their environments. Competitive pressures force firms to adapt their strategies (organisational structures), but they do not enforce conformity. Ecologies with multiple niches permit multiple successful strategies, and both successful and unsuccessful strategies change the environment by exhausting re-

sources and generating new resources in the form of wastes, by-products and physical changes to the environment. Moreover, competitive pressure on any given organisation can be diffuse, if it is in an ecological niche (market) with few competitors. Pressures on public sector organisations are even more diffuse, since they have quasi-parasitic sources of revenue (or put differently, something approximating a monopoly in the provision of regulated and common pool services).

Stuck arguments stress three core continuities in Australian economic institutions and practices: the continued reliance on raw materials exports and thus growth impulses external to Australia; continuities in the way the state controls and guides collective bargaining using the arbitration process; and continuity in the targeted provision of relatively low levels of welfare by the state. As in the Netherlands, the stuck argument has a housing component and a collective bargaining component. A relatively flexible housing market, widespread home ownership, and the tax deductibility of mortgage interest combined with disinflation to release purchasing power into the economy in the 1990s, helping to reduce unemployment. In an era of disinflation, Australia's housing market automatically generated an expansionary impulse for the economy. Australia's collective bargaining system also evolved in some ways that could be interpreted as "stuck": the minimum wage continued to set a high floor under incomes, and the arbitration system was used to restrain wage growth, much as the Wassenaar Agreement allegedly did in the Netherlands, and much as arbitration did in the period before 1969.

Pluck arguments are inherently more complex and difficult to sustain. A convincing pluck argument has to show that the Australian political and economic elites assessed the dysfunctionality of Australian institutions and changed them in ways that deviated substantially from prior practices. Pluck arguments would stress that the state comprehensively shifted industrial policy away from the import substitution policies that had characterized policy since the 1920s and towards export promotion for more complex manufactured goods and non-traditional services. Pluck arguments would stress that the social partners and political parties substantially changed collective bargaining practices by abandoning the 70-year-old core principle of comparative wage justice – what Europeans call horizontal wage equity – and by reducing the role of the highly centralized arbitration system in favour of a more decentralized and market-oriented determination of wages. Finally, pluck arguments would stress a departure from traditions of public ownership of enterprises providing infrastructure services reaching back into the nineteenth century, and of control over finance dat-

ing from the Second World War, in favour of far-reaching privatisation and market-based regulation of public bureaucracies and finance. Pluck arguments would then causally connect these changes to the rapid gains in productivity that occurred in the 1990s. In short, pluck arguments would stress deviation from almost all the institutional structures and economic trends of the Bretton Woods period, and connect this change causally to the change in Australia's economic fortunes.

Exports and the current account balance

The Problem

Australia's current account deficits arose from the misfit between its export structure and the evolving structure of world import demand, and from the interaction of its collective bargaining system with its system of trade protection. Exports were mostly raw materials, but these faced both volatile and declining prices and, in agriculture, rising protectionism. The collective bargaining system tended to transmit wage increases from the sheltered sector (which included not only the usual services but also manufacturing) to the exposed sector (largely agriculture and minerals). This situation created expanding current account deficits.

Was the stabilisation of Australia's current account just luck? Australia's reliance on raw materials exports created substantial economic problems in the post-war period. In 1961 raw materials accounted for 80 percent of Australian exports, and wool alone accounted for 40 percent (see Table 7.1 for details). Although raw materials exports remained buoyant through the 1960s and 1970s, volatile prices, agricultural protection and Australia's large sheltered sector combined to produce chronic current account deficits.

Australia reversed common European patterns of social and employment policy. *Employment* policy in Australia operated primarily through *trade* policy: high border tariffs and import quotas permitted import substitution industrialisation (ISI). The effective rate of protection for manufactured goods – that is, the share of value added by tariffs – averaged 46 percent in Australia, and reflected deliberate efforts to generate more employment (OECD 1972, pp.29-31; OECD 1989, p.39). The Australian Tariff Board literally told industrial firms, “You make it and [we'll] protect it” (Capling and Galligan 1993, p.105). Protection funded itself by inducing inflows of foreign direct investment into a large, sheltered market. By the end of the 1970s, foreign firms controlled about one-fourth of Australian manufactur-

Table 7.1 Export structure and destination

Goods exports (percent of total)	1961	1970	1997
Raw materials			
Wool	41.4	13.8	7.2
Meat	9.2	10.3	3.2
Dairy, fruit, fish, sugar	13.3	11.7	2.9
Metals, ores, aluminium	7.3	10.0	17.1
Coal, oil, fuels	n.a.	5.8	19.3
Cereals	9.4	12.1	7.5
Raw materials subtotal:	80.6	63.7	58.9
Manufactures			
Commodity-based	18.3	11.0	10.0
Non-commodity manufactures	n.a.	15.0	23.6
Export destinations			
	1961	1971	2001
UK	23.9	11.2	3.9
Europe (exc. UK)	15.9	9.4	7.8
USA	7.5	11.9	9.7
Japan	16.7	27.1	19.9
Rest of Asia	-	-	38.5
Rest of world	36.0	40.7	20.1

Source: OECD, Economic Survey: Australia, various dates

ing and half of mining as measured by value added (OECD 1972, p.42; UNCTC 1988, p.529).

Social policy similarly inverted the normal European pattern. Social policy operated primarily through judicial regulation of wages and the labour market. For roughly a century, federal and state courts set wages through judicial proceedings. Only labour and employers' organisations could initiate proceedings before the court; individuals had no standing. The courts handed down judicial decisions – "awards" – that set the "basic" or minimum wage, added on skill-based wage premiums for specific occupations, maintained relative wages, determined conditions of work, and mandated occupational benefits. In short, courts rather than state bureaucracies or formal corporatist institutions were the instrument of social policy. After 1907, the federal court set a high basic wage, defined socially by reference to a decent standard of living for a family of four (originally presumed to be male-headed). By the 1930s these wage awards covered roughly 85-90 percent of workers. Relative wage shares were set by awarding additional wages – margins – for skills and enforced via a doctrine of comparative wage justice.

The arbitration court defined comparative wage justice to mean that “employees doing the same work for different employers or in different industries should by and large receive the same amount of pay irrespective of the capacity of their employer or industry.” Comparative wage justice created an almost automatic transmission of wage gains from one sector to another (CAR 1970; Plowman 1980, p.85).

In short, the **informal** welfare state – the whole range of state policies supporting delivery of a *socially defined wage* in a full employment environment – was thus much more important than the **formal** welfare state – tax-financed, state-provided transfers and services. Social protection and employment strategies based on ISI and informal welfare emerged from Australia’s history as a highly indebted primary product exporter (Castles 1985; Mabbett 1995; Schwartz 1998). This combination became unsustainable by the 1970s. The operation of social policy through judicially regulated wages reversed the usual Scandinavian dynamic and pushed up costs in the sheltered sector of the economy, in turn raising costs in the export sector. Meanwhile, the operation of employment policy through ISI constantly expanded the sheltered part of the economy. For a while, foreign direct investment financed ISI, while direct borrowing overseas financed recurrent current account deficits. But eventually, the sheltered sector got too big for the exposed sector to support.

These dilemmas had already emerged in the late 1960s but became acute in the 1970s. Among the most important problems confronting Australian exports was the decline in the raw materials intensity of the economies of its major European customers, and Europe’s increasing protection of their domestic agriculture. British accession to the European Community and its Common Agricultural Policy simply underlined the shift of European consumption away from raw materials.

Exports:Luck

The Australian government responded to these trends by trying to shift exports away from raw materials and towards manufactured goods. To a certain extent this succeeded, and by 1997 raw materials comprised only 57 percent of exports. Nonetheless, the more significant shift was in the direction of trade, away from Europe towards Asia. Europe’s share of Australian exports fell from 40 percent in 1963 to only 12 percent in 1996. Meanwhile, industrializing Asia’s share grew rapidly, rising from 32 percent (mostly to Japan) to 60 percent in 1996. Indeed, by 1996 Korea alone almost equalled OECD Europe as a destination for Australian exports. This

shift in the direction of trade qualifies as luck, because Australian policy had nothing to do with the nature of Asian industrialisation. Precisely because the Asian late industrialisation was raw materials-intensive (think Korean steel or Chinese woollens), Australia easily found new markets for old raw materials exports. Even diversification away from traditional raw materials exports had exogenous origins. Where wool, grain, dairy and meat had accounted for about 68 percent of Australian exports in the late 1950s and minerals only 7 percent, by 1970 the former accounted for only about 32 percent of exports while minerals and fuels jumped to 40 percent, driven by the emergence of Japan as a formidable steel producer. In turn, Korea and China replaced Japan as the destination for iron ores and coal.

Australia clearly benefited from Asian industrialisation. Nonetheless, if the policy had had no effects, one would have expected a fairly constant share for raw materials exports and little change in the level of complexity in manufactured goods exports. But the 21 percentage point decline in the share of raw materials exports occurred precisely at a time when the opportunity to simply keep exporting coal, iron ore, wool and foodstuffs to Asia existed. Manufactured exports grew at an annual rate of 8.7 percent compared with all exports at 6.9 percent, 1984 to 1995, and then slowed slightly to 8.2 percent (versus 8.0 percent overall) after the Asian financial crisis hit in 1996/97 (Productivity Commission 1996, p.41; Department of Foreign Affairs and Trade 2002, p.20). This suggests that policy might have had some influence on the changing composition of Australian exports. Then the question is: was change deliberate and strategic or simply an outgrowth of older policies? Stuck first.

Exports: Stuck

Australian governments in both the 1970s and 1980s tried to boost exports of manufactured goods and to dismantle Australia's ISI policy. Australian manufactured exports faced two hurdles. First, protection created large numbers of inefficient industries, but any single industry pursuing export-led expansion had to purchase expensive inputs from these firms. Second, any given firm's own labour costs were affected via comparative wage justice, so inefficient firms not only passed along their wage costs in the form of inputs, but also in the form of wages that were out of proportion with productivity gains.

The Whitlam Labour government 1973-1975 tried to undo these dilemmas. Institutionally, Whitlam transformed the old Tariff Board into the new Industries Assistance Commission. The IAC was ordered to pursue an effi-

cient allocation of resources in the Australian economy, rather than to erect made-to-measure tariffs based on an industry's costs plus a profit margin. The IAC was staffed from the Ministry for Secondary Industry, which had controlled the Tariff Board but was institutionally separate. Whitlam had the IAC impose a 25 percent reduction in tariffs across the board.

Whitlam's reforms of industrial policy intended a strategic remediation of part of the problems impeding Australian manufactured exports. But strong continuities with prior policy suggest that the policy was stuck. First, the labour-intensive textile clothing and footwear (TCF) industry received A\$25 million to compensate it for tariff reductions. Second, although overt tariffs fell, the onset of the world economic crisis in 1973 led the IAC under both Whitlam and the follow-on Fraser Liberal government to boost non-tariff barriers (NTBs) as a way of offsetting the tariff cuts. Effective protection actually increased after 1975. In effect, the IAC replaced tariffs with NTBs, cutting protection for the most efficient industries while retaining protection for the least. The continuity with 'made-to-measure' tariffs is obvious. Finally, while Whitlam tried to reform collective bargaining to obtain wage restraint, he did not do so in a way that would prevent wage flows from protected industry to exposed sectors. After 1975, the new Fraser government actually revived some aspects of business as usual. The effective rate of protection in the automobile industry, for example, doubled from 1975 to 1984. Most of the policy responses in the 1970s thus continued the original impulse to shelter domestic manufacturing as a way to maintain full employment.

Exports: Pluck

The best evidence for a pluck argument comes from the efforts of the Hawke and Keating Labour governments (1983 through 1996). These governments embarked on a two-pronged industrial policy designed to phase out uncompetitive but sheltered labour-intensive industries in favour of high-tech and human capital-intensive industries as well as some scale-sensitive exports (Capling and Galligan 1993; Bell 1993). The intellectual basis for this policy shift came out of the 1979 Crawford Report, which called for a host of new policies promoting export competitiveness in manufacturing: government support for high-tech 'sunrise' industries; tariff reduction as unemployment eased; better skills formation; and easier access to equity and debt markets for smaller firms, which in the context of high MNC penetration of the Australian economy meant locally owned firms.

The political implementation of this policy waited until 1984, when the

Minister for Industry, John Button, launched European-style tripartite bargaining over the reduction of protection. Button set up sector level tripartite forums in three politically sensitive industries (steel, cars and TCF), plus an overarching “Australian Manufacturing Council” encompassing eleven industrial sectors. Button offered carrots (R&D tax incentives, export grants and training schemes) and sticks (pre-planned and extensive tariff cuts) to induce an export orientation in local firms. The automobile and TCF industries were exempted from these tariff cuts, but Button forced an amalgamation of automobile firms’ factories to attain economies of scale and so reduce the price of Australian-built cars.

Simultaneously, the Hawke government completely inverted the entire institutional apparatus for protection. In a telling switch, the IAC was renamed the *Productivity Commission*. It turned its analytic skills at making made-to-measure tariffs upside down, measuring instead the productivity and price gap between Australian firms and world market benchmarks, and then suggesting ways for firms to close the gap. Contemporaneous reforms to the system of collective bargaining created incentives for firms and unions to take the Productivity Commission’s suggestions to heart. The follow-on Howard Liberal-National Coalition governments (1996 to date) continued the policy of gradual tariff reduction and the work of the Productivity Commission. By 1996 average Australian tariff rates were half those of the European Union (Bean 2000, p.95). They also generated a new anti-monopoly *Competitiveness Commission*, to prevent newly privatised infrastructure firms from abusing their market position.

Finally, the Hawke government also induced an expansion of Australian services exports, primarily in tourism (about half of overt services exports) and education. In education, for example, university budget expansion was keyed to their ability to attract paying foreign students. As a result, in the mid-1990s three of Australia’s top “exporters” – i.e. foreign currency earners – were universities. Overall, services exports grew faster than total exports after 1980, and by 2000 Australia had a larger share of world service exports (at 1.2 percent) than of world exports in general (at 1.0 percent), reflecting aggressive forays into the educational and leisure tourism markets (Productivity Commission 2002, p.69).

The last evidence for a pluck argument comes from the floating of the Australian dollar in 1985, which also ran contrary to years of policy. The dollar fell over the 1980s, making some Australian exports relatively more attractive. But most Australian exports – including and especially minerals exports – are priced in US dollars, so the devaluation merely made exporting more profitable, rather than making exports cheaper in world markets. It

thus could not have induced buyers to pick Australian goods simply on price terms, although it gave exporters room to manoeuvre. A similar but stronger dynamic operated after the Asian financial crisis, when a deliberate easing of domestic interest rates after the Thai financial crisis led to a 2.5 per cent fall in the Australian dollar.

These new policies generated an 8 percentage point increase in the share of technology or human capital-intensive exports in Australia's export mix, while also shifting raw materials exports towards higher levels of processing (as with wine, which went from nil to nearly 1.5 per cent of exports in 2000, or exports of processed aluminium rather than bauxite). These policy initiatives were based on imported models for industrial policy, and thus represented a telling departure from Australia's more usual policies of made-to-measure trade protection for the manufacturing industry (and especially for labour-intensive manufacturing).

Evaluation

Luck certainly played an enormous part in Australia's ability to continue to export large volumes of minerals into world markets. Moreover, the whole minerals sector remained untouched by policy changes in this period, suggesting "stuck" played a role as well. Efforts to change Australia's export orientation away from raw materials and towards manufactures in the 1970s remained cramped by older policy routines and political preferences favouring continued protection. But the 1980s and 1990s brought a remarkable, wholesale shift in policy. Overall, if we can trust the accounts in Bell and in Capling and Galligan, there was more pluck than stuck behind Australia's export success in boosting manufacturing exports. Furthermore, while Australia was lucky with respect to the possibility of attracting large numbers of Asian tourists and students, the willingness of Australian universities to accept large numbers of students was the outcome of policy changes that forced those universities to be more market-oriented. The *change* in Australia's export structure thus was more pluck than stuck or luck, involving a policy-led shift from metal ores to automobiles and machinery, and from commoditised cheeses to high quality wines.

Employment and collective bargaining

Making things people want to buy is helpful, but it is equally important to be able to price those goods at a level people are willing to pay. In the 1960s,

both Scandinavian and Australian economists argued that this means that wage gains have to be in line with both domestic productivity trends and world price trends, not only in the exportables sector but also in the sheltered sector – the so-called EFO-Aukrust model. Otherwise, wage increases in the sheltered sector will price exportables out of world markets, as sheltered sector wage gains and relatively high costs for sheltered sector-sourced inputs flow through to the exportables sector. In Australia, of course, the whole system of social protection worked by deliberately imposing high sheltered sector costs on the exportables sector. This transferred rents from the exportables sector back into the sheltered sector in order to support employment at socially acceptable wage levels. By the 1970s this model was unsustainable. How did Australian elites fix their collective bargaining problem in order to price exportables at the right level and make more goods potentially exportable? How did they get employment back to socially acceptable levels?

Employment: Luck

While luck arguments in labour markets are quite straightforward, they have limited applicability to the Australian case. One lucky source of rising employment was probably the creation of new consumer demand as disinflation allowed homeowners to take advantage of declining interest rates. Australian home prices rose strongly on the basis of falling interest rates and rising immigration. Real prices rose 50 percent in the last half of the 1980s and 41 percent in the five years to 2002 (Reserve Bank of Australia 2002, p.3). Some people undoubtedly were able to cash out part of this gain, given that about 70 percent of Australians own homes, and that 6 percent of Australians own housing real estate for investment purposes (Castles 1998a, p.8). But mortgage interest is not deductible for non-investment housing, and the BIS estimates that the contribution of equity withdrawal to Australian economic growth after 1996 was not significantly larger than for the average OECD country, and substantially lower than in Ireland, Norway, the USA and the Netherlands (BIS 2002, p.21). Thus, while housing was a positive factor, it alone cannot explain Australia's strong employment growth compared with other countries.

A second, and stronger, luck argument would suggest that as unemployment rose, labour markets worked in the normal fashion: real wages, measured as full-time ordinary earnings, fell by about 7 percent from 1984 to 1990, producing an employment rebound that was magnified by increased Asian demand for Australian-sourced raw materials. A near doubling of un-

employment in Australia from 1980 to 1984 should have led quite normally to wage moderation and a rising share of income going to capital. In Australia the wage share of GDP fell by about 3 percentage points in favour of capital, largely in the 1980s. Falling employment and wages then permitted the modest export expansions noted above and decreases in unemployment when world markets recovered during the back-to-back US economic booms of the 1980s and 1990s. In Australia this stabilized the employment-to-population ratio in the mid- to late 1990s after a period of growth in the 1980s. Policy changes per se need have had nothing to do with this outcome.

But this luck argument has trouble accounting for both the structure of employment growth and the timing of recovery in Australia. First, Australia's relatively centralized system of collective bargaining could plausibly have led insiders to push for higher wages despite rising unemployment, and the collective bargaining system experienced rising centralisation during the 1970s while unemployment rose, and then was decentralized during a period of robust employment. In the extremely capital-intensive minerals sector, unions could have privileged insider wages over outsider joblessness, and firms could have afforded higher wages. In turn, wage relativities would then have priced low-skilled workers out of jobs in the service sector (Iversen and Wren 1998). Why didn't this happen, given that something similar appears to have happened in continental Europe in the 1980s? In addition, while minerals exports boomed, the minerals sector itself is fairly capital-intensive and cannot account for much of the job growth in the 1980s and 1990s, which was concentrated in the service sector. Much of this sector is characterized by low wage employment, but the Accord stabilized the minimum wage, which had been falling in the early 1980s. Given Australia's high minimum wage, it is unclear why it should have such strong take-up of labour at the low end of the market. In contrast, it is possible to argue that political management of wage levels and, equally important, of the connection between productivity increases and wage growth enabled rapid employment gains.

Second, the 1980s employment rebound occurred despite the double headwind of a growing labour force and rising participation rates in that labour force. Arguably, this should have driven wages down further, while raising unemployment. Participation rose from its average 1974-84 level of 70 percent to 75 percent by the end of the 1990s. The wage share of GDP was fairly constant in the 1970s, during the first sharp rise in unemployment from 1.8 percent in 1973 to 6.7 percent in 1982. While the wage share fell sharply in the 1980s, this occurred at a time when unemployment was moderating, falling from 9.8 percent down to 5.9 percent in 1989. It is not clear why falling wages called more people into the labour market.

So the timing and content of the rebound can be explained as luck only if there is a long lag between the onset of rising unemployment (peaking in 1983) and its effects via falling wages to employment recovery. A “lag” explanation necessarily relies on “institutional stickiness” to have force. But luck arguments don’t comport well with the pattern of institutional change, because institutions began to change precisely at the point in time when unemployment moderated, and changed the most while unemployment was low. Moreover, it is not clear why institutions had to change at all. What explains decentralisation of bargaining and wage moderation in the face of rising employment?

Employment: Stuck vs. Pluck

Here it is best to consider pluck and stuck together. As with industrial policy and exports, evidence that actors consciously chose to change collective bargaining structures in the direction described above provides enticing evidence for a stuck or pluck argument. Like Danish and Dutch unions and employers’ organisations, Australian unions and employers’ organisations all experienced internal struggles during the 1970s that eventually produced a decision in favour of some form of negotiated wage restraint. In Australia this took the form of the 1982 “Accord” (Due et al. 1994; Visser and Hemerijck 1997; Hartog 1999; Schwartz 2000). This first Accord was an explicit pre-election deal between the Australian Labor Party and the Australian Council of Trade Unions, in which the ALP offered up an expanded social wage and efforts at employment creation, while the ACTU promised wage restraint across all sectors.

The Accord was Labor’s tool for breaking down old institutional patterns that transmitted wage gains across sectors and was pricing exports out of world markets. The ALP and ACTU wanted the Accord precisely in order to change the automatic, comparative-wage-justice driven link between wages in the exposed and sheltered sectors. They believed that this link generated current account deficits and inflation, while hindering investment. The Accord was a way to try to break this link while still retaining some social definition of wages and thus social equality. The ALP believed it could maintain a decent society by expanding the formal welfare state as a substitute for the informal one comparative wage justice used to maintain (Castles 1988). Successive Accords delineated the precise speed at which collective bargaining was decentralized, and the precise trade-offs between today’s wages, today’s social spending, and tomorrow’s deferred wages.

Under the Accord, and unlike the 1960s and 1970s when the Arbitration

Court largely set wages in one central decision, wages would now be bargained at the sector and firm level, and the Arbitration Court would validate those contracts. After 1987, unions and firms could opt out of the centralized wage system if they presented the Arbitration Court with a joint deal exchanging wage gains for specified productivity gains. The Accord thus facilitated and rewarded productivity growth. The Accord's macroeconomic effects dovetailed with the ALP's liberalisation and desubsidisation of product markets. These "microeconomic" reforms – changes in trade and competition policy – forced firms to upgrade. Decentralized collective bargaining and productivity-based wage increases rewarded competitive firms and cooperative unions that complied with this forced upgrading. This presents a clear break with the past. The Arbitration Court had explicitly based its 1960s economy-wide wage decisions on economy-wide productivity trends; before World War II there had been an implicit link. In the 1980s and 1990s, the wage-productivity equation was relocated to the enterprise level. All this looks very pluck-ish. Moreover, combined with product market liberalisation in the 1980s and 1990s, it arguably produced the sharp increase in labour productivity that occurred in the 1990s. The fastest accelerations in productivity growth in the 1990s all occurred in labour-intensive sectors like retail trade, agriculture, and transport, all labour-intensive sectors in which old work practices impeded the introduction of new technologies, or in sectors like telecommunications and utilities, sectors that had been the subject of tight product market regulation (OECD 2000b, pp.84-85). Indeed, retail and wholesale trade and construction together account for nearly all of the increase in the rate of productivity growth in the 1990s, despite accounting for only 40 percent of hours worked (Gruen and Stevens 2000, p.39).

Second, the evolution of Australian collective bargaining under the late 1990s Liberal-National government also departed completely – in intention anyway – from older patterns of Australian collective bargaining. The Liberals introduced the possibility for individual wage contracts (i.e. "Australian Workplace Agreements") in the 1996 Workplace Relations Act. Simultaneously, the Arbitration Court (now called the Australian Industrial Relations Commission) rejected the notion of a "living wage" in favour of a "Safety Net" minimum wage (Buchanan et al. 1998, p.93). Despite this, by 2000 roughly one-fourth of the workforce remained governed by traditional wage awards of the sort that the ALP itself had tried to phase out, while about two-fifths remained under Accord-style enterprise bargains (Dawkins 2000:328).

Finally, in the 1990s, both the ALP and the Liberal-National coalition governments of the 1990s elaborated new active labour market policies, respec-

tively called *Working Nation* and *Job Network*. This boosted ALMP spending from 0.25 percent of GDP in 1989 to 0.8 percent in 1995, settling at 0.5 percent in 1998 as employment recovered. Active spending rose from 18 percent of total spending on the unemployed to 30 percent (OECD 2002h). The major difference between the two programs was that the coalition government privatised the operation of employment agencies. *Working Nation* offered long-term unemployed (over 18 months) firm job commitments. *Job Network* introduced contractual obligations on job seekers and employment agencies and, later, a form of ‘workfare’. *Working Nation* coincided with the creation of over 700,000 jobs 1993 to 1996; *Job Network* with a somewhat smaller 500,000 increase through 2000. Both plausibly helped produce these outcomes.

But the possibility that policy was stuck is evidenced by the ways in which the Accord replicated some older Australian institutions and political strategies. Institutionally, the Accord explicitly and implicitly continued to provide basic social protection through a centrally set minimum wage administered through the Arbitration Court. In 1997, Australia still had the highest national minimum wage, in purchasing power parity terms, of the OECD countries that imposed such a minimum, and the second highest when measured as a percentage of full-time median earnings (Dawkins 2000, p.330). The Accord thus left a floor under wages. Politically, the arbitration system helped the ACTU to externalise conflicts over greater wage differentiation, just as it had in the 1970s. Similarly, the ALP’s use of the Accord to expand the social wage was consistent with the ALP’s long-standing orientation towards providing the electoral majority at the bottom of society with the cheapest and most robust form of social protection possible. The ALP restored public financing for the health system Whitlam had created in the 1970s, added a new second-tier pension and more social assistance, and created a negative income tax. All of this expanded spending was targeted at the bottom 60 percent of wage earners though, rather than being an expansion of a Scandinavian-style universal welfare state.

Furthermore, as an exchange of wage restraint for tax and social welfare gains, the Accord was perfectly consistent with the model of wage restraint first proposed by the Whitlam government. The 1982 Accord also had support from exactly the same social actors who supported Whitlam’s failed 1973 effort: the core metal workers union and the core metal manufacturers employers’ association federation. All this suggests that the Accord comported with long-standing notions of what not only what was needed to make things work right but also what was the right way to go about setting things right. This was true even under the Liberal governments of the late

1990s. The government continued to support increases in the minimum wage. The Reserve (i.e. central) Bank head and some large unions met to discuss the details of wage policy and the nature of Reserve Bank submissions on wages to the Australian Industrial Relations Commission (i.e. the Arbitration Court) (Buchanan et al. 1998, p.99). And the take-up of individual contracts was limited – roughly one in seven workers – although they created a potent bargaining chip for management.

Evaluation

In an earlier analysis of Denmark, I suggested that the fact that all three countries started out with similar collective bargaining structures, faced similar problems and produced similar outcomes (wage restraint in favour of employment growth) suggests that there might be some underlying logic of appropriateness that produced this outcome. Danish, Dutch and Australian collective bargaining after all changed in the same ways, and all saw substantial increases in both women's labour force participation and part-time employment. These countries had relatively centralized collective bargaining systems in which the state generalized wage gains and cost of living increases across sectors through "concatenation" in Denmark, "arbitration" in Australia, and "mandatory extension" in the Netherlands. In all three countries the state intervened recurrently in bargaining during the turbulent 1970s, and this frequent resort to legislated or judicially imposed settlements meant that labour market actors conducted their conflicts under the shadow of hierarchy (Scharpf 1997a). All three countries also ran large current account deficits and import penetration. Consequently, organized but market-vulnerable actors sought to re-establish their autonomy in the 1980s by behaving responsibly and using state institutions to punish or discipline potential defectors, rather than suffering indiscriminate state sanctions and an erosion of competitiveness.

By the same token, employers in all three countries sought one firm–one contract type bargains from one industry–one organisation type actors, and all three bargaining systems saw rising proportions of purely locally negotiated labour contracts. In all three countries actors located in the metals industry drove decentralisation following a long established logic of appropriateness present in that industry, which exchanged wage gains for productivity gains and which then let employers and workers adjust local wages to local conditions (Thornthwaite and Sheldon 1996; Due et al. 1994). Finally, in all three countries the "new" forms of collective bargaining cum wage restraint in many ways restored older patterns from the 1960s. Indeed, in ret-

respect, what seems unusual is not the “centralized decentralisation” of collective bargaining, but the breakdown of collective bargaining in all three countries in the late 1960s and early 1970s. The 1980s were thus something of a restoration of older patterns, particularly in the Netherlands. In Australia, at least, collective bargaining changes reversed the ability of white-collar and especially public sector white-collar workers to push their wages up relative to blue-collar workers. Indeed, through the 1980s and 1990s white-collar workers lost ground relative to blue-collar workers. But unorganised and part-time workers also paid a price for this reversal of fortune. Although the residues of the arbitration system protected them, the concentration of employment into job-rich (dual-income) and job-poor (partial or no income) families meant that poverty particularly affected households with children. So here, stuck explains more than pluck, although there was substantial change in Australian collective bargaining practices under the Liberal governments after 1996.

Fiscal balance

Australian governments reduced general government spending from 38 percent of GDP in 1985 to 32.9 percent in 2000 (OECD 2001a, p.230). On either a percentage point or proportional basis, this decline is nearly twice as large as the comparable reduction in government spending that occurred in the Euro area countries (only 2.9 percentage points from 47.7 percent of GDP to 44.8 percent), is comparable relatively speaking to the decline in Sweden (7.7 percentage points, from 60.4 to 52.7 percent), but is not as large absolutely or proportionately to the decline in the Netherlands (10.3 percent, from 51.9 to 41.6 percent). These reductions occurred despite secular increases in pension and health care costs everywhere. In both Australia and the OECD as a whole, social expenditure’s share of GDP rose by roughly 4 percentage points from 1980 to 1997. As with the fiscal deficits, this indicates a larger proportional increase in Australia, because it started (and ended) with a lower ratio of social spending to GDP. Despite this, the general government financial balance averaged a surplus of just over 1 percent through the 1990s, slipping into a small deficit during the 2001-2002 recession. Net Australian public debt remained consistently stable at around 10 percent of GDP in both the 1980s and 1990s, in contrast to the rising and considerably larger public debts of most European nations.

How did Australian governments square rising social spending with declining overall spending? Most of the answer lies in a vigorous effort at com-

mercialisation (i.e. corporatisation) that forced public sector firms to become profitable (thus reducing the fiscal deficit) and allowed them to be privatised (thus reducing public debt). The government also disguised much government spending as private spending, through mandatory private sector spending. For example, private sector employers are responsible for paying 12 percent of current wages into individually owned secondary pensions (earnings-related pensions).

Fiscal balance: Luck

As with other countries, “luck”, in the form of the normal working of the business cycle and budget balancing efforts by the Clinton administration in the USA, played an enormous role in balancing budgets in Australia. Falling US interest rates led to declines in nominal interest rates from the early 1980s to the late 1990s. Real and nominal interest rates were quite high in the 1980s, and stayed high in the early part of the 1990s. At the end of the 1980s, real interest rates in Australia were nearly 10 percentage points higher than in the USA. But by the end of the decade, Australian real interest rates had converged with US levels, and the premium on Australian public debt relative to German or US equivalent had disappeared (Gruen and Stevens 2000, pp.60-61). This obviously helped reduce the fiscal burden of public debt, and the timing of the interest rate declines comports well with the reduction of the fiscal deficit. Nonetheless, interest costs for the Australian governments were never that substantial, *relatively speaking*, so the decline in interest rates cannot explain all of the turnaround in the government’s fiscal position. Australian general government net interest payments were typically lower than either Euro area or EU area payments as a percentage of GDP despite higher real interest rates (OECD 2001a, p.235). This reflects the substantially lower net government debt in Australia as compared with many European governments noted above. Indeed, bad luck worked against Australia, because the early 1990s recession was particularly deep in Australia, and the Asian financial crisis should also have slowed Australian growth more substantially than it actually did.

Fiscal balance: Stuck

Making a better case for stuck is also difficult, though not impossible. Given that social expenditure rose steadily throughout the entire period being considered, an overall decline in public spending can only have come through cuts or relative stagnation in other spending areas. Otherwise,

aside from demographic changes, the distribution of government spending should have stayed fairly constant. On the spending increase side, as noted at the beginning, cash benefits to families increased more (absolutely and relatively) than the usual demographic spending drivers, namely pensions and health care. The biggest declines in spending occurred through the removal of subsidies for the whole range of infrastructure services, and through changes in collective bargaining that worked to the disadvantage of public sector employees.

Adjudicating between pluck versus stuck, however, requires more than just data on raw spending. How money was spent also matters – indeed it might be the only thing that allows us to distinguish between stuck and pluck. In contrast to Denmark and the Netherlands, where changes were quite consistent with old routines and justified by reference to existing norms, the structure of social spending changed markedly in Australia (Cox 2001). Australian welfare changes departed substantially from the country's older tradition of a “wage earners' welfare state”, with high minimum wage and full employment obviating the need for all but a minimal formal (tax and transfer) welfare state (Castles 1985). The federal state increased formal social transfers, imposed tuition charges for higher education, and expanded public financing of health care services in ways that all departed from existing norms. However, it should be noted that in what is almost always the single largest area of state spending – old age pensions – the state reinforced the old system of occupational welfare through a mandatory employer-funded second-tier pension. It similarly made training an occupational benefit through a “pay or play” surtax on businesses.

The changes noted in the section on collective bargaining above allowed public sector wages to drift downward in relation to private sector wages, reversing a decade-long compression of wage relativities in the 1970s. Australian public sector wages fell roughly 10 percent in real terms during the 1984-1994 decade, while private sector wages remained constant, and then grew in the late 1990s. By contrast, in the Netherlands nominal public sector wages fell 30 percentage points relative to private sector wages, and public sector employment fell by 7 percent, and in Denmark public sector wage growth remained fairly close to private sector wages (Hartog 1999, p.22; Van Ark and De Hann 2000). Insofar as collective bargaining changes involved a higher proportion of pluck than stuck, this would tend to indicate that this part of the fiscal puzzle is explained in roughly the same proportion. Meanwhile, despite extensive privatisation, public sector employment as a proportion of the working population was constant at roughly 10 percent in Australia from 1980 to 2000, which contrasts with the 3 percent-

age point increase in the average public sector employment ratio in the other 12 small OECD countries in the same time period.

Finally, the privatisation of commercially viable public entities had an equally large fiscal impact. Starting with a higher level of state ownership of commercial firms in 1980, Australia naturally privatised a far greater volume of entities. Here there was also a marked departure from traditional Australian norms. From their origins as British colonies, the Australian states had been involved in infrastructure investment through state-owned enterprises. But the Australian federal and state governments privatised the whole range of infrastructure services in the 1980s and 1990s. For the most part, privatisation was designed to prevent the replacement of public sector monopolies by private sector ones (the Argentine disease). Privatisation thus took money-losing operations off the states' books, generally resulted in lower prices for consumers, and allowed the direct reduction of public debt. It also facilitated the productivity 'miracle'.

Evaluation

Luck clearly had little to do with the achievement of fiscal balance. Pluck seems to outweigh stuck in several of the areas considered, including privatisation and collective bargaining. Fiscal balance was achieved without substantial cuts in social welfare. Instead, Labour governments in 1984-96 redesigned social welfare programs to address the needs of the bottom 60 percent of the electorate and promoted a gradual expansion of social spending ahead of demographic trends. Some of this followed long established routines, like the provision of pensions through private mandates. But many other programs, including public health care, represented novel developments or better institutionalised versions of earlier forays. Although the Liberal-National governments after 1996 did attack some areas, particularly health insurance, their efforts largely failed.

Conclusion

Changes in industrial policy, collective bargaining and the structure of state spending all played a major part in the recovery of the Australian economy in the late 1980s and 1990s. These changes undid existing institutions that arguably had helped to create the economic problems of the 1970s and early 1980s, and facilitated sharp and simultaneous increases in employment and productivity. To make a very compressed argument, these changes, particu-

larly privatisation and the effort to explicitly link productivity and wage gains at the enterprise level, created an environment that made possible substantial productivity gains in both the manufacturing and service sectors. Australia's rate of total factor productivity growth thus went from 1.5 percent per year in 1960 to 1975 (below the OECD average of 2.2 percent) to 2.4 percent after 1993 (versus an OECD average of 0.7 percent) (OECD 2000b, pp.80-86). Rising productivity created a larger pie, permitting changes in collective bargaining and the distribution of fiscal resources.

In summary then, in Australia the volume of change, the direction of change, and the justification for change all deviated substantially from existing logics of appropriateness. This contrasts with Denmark, where change flowed largely from existing logics of appropriateness. Even so, there were substantial elements of continuity in the Australian case, particularly with respect to how all this was achieved. The raw political mechanisms behind the Australian story also contain large elements of stuck. The ALP forged anew the same alliance between itself and the metals industry that had permitted Labour to govern before World War I, during parts of the inter-war period, and during and shortly after World War II. Each of these periods also saw an expansion of social protection for workers. Similarly, the emergence of essentially caretaker right-wing governments after a period of intensive ALP-sponsored change follows an established Australian pattern. Thus, while the case for pluck in Australia looks stronger in the restoration of fiscal balance than it does in the other two issue areas, overall the Australian case still demonstrates strong elements of stuck. Nonetheless, because stuck is in many ways the default outcome, Australia presents a clear case in which policy directed at a set of employment and fiscal problems led to significant changes in the shape and direction of policies, and to the institutional terrain in which politics takes place.

Note

- 1 The Dutch curve is somewhat flawed because domestically produced exports have done worse in the period under consideration. Dutch exports were upheld by the increasing share of re-exports (cf. chapter 2).