

Macquarie University

Sydney, NSW

“Why Don’t You Get A Job?”

**The Post-War System, the Neoliberal System,
and Australian Employment Policy**

A thesis submitted in partial fulfilment of the requirement for the degree of

MASTERS OF RESEARCH

in the

Department of Modern History, Politics, and International Relations

by

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October 2015

CONTENTS

	Page
Abstract	3
Statement of Authorship	4
Acknowledgements	5
Chapter 1	
Introduction	6
Chapter 2	
The Post-War System	9
Chapter 3	
Defining Neoliberalism	19
Chapter 4	
The Post-War System and Australian Employment Policy	26
Chapter 5	
The Breakdown of the Post-War System	32
Chapter 6	
Hawke, Keating and Neoliberal Employment Policy	45
Chapter 7	
Howard and Neoliberalism, Rudd and the GFC	59
Chapter 8	
Conclusion	73
Bibliography	76

Abstract

This thesis provides an analysis of post-Second World War employment policy in Australia. Specific focus is paid to the post-war system (1946 to 1975) and the neoliberal system (1975 to the present), the theoretical underpinnings of these systems, and how these manifest in employment policy. The post-war system is first analysed and shown to have a positive employment record, buffered by the full employment commitment of the state. The breakdown of the post-war system during the Whitlam years, signalled by the abandonment of full employment, was driven by institutional and political forces that gained support during the 1970s crisis of stagflation. This was further entrenched by the Fraser government. The neoliberalisation of Australian employment policy during the Hawke-Keating years is then discussed, a period in which Australia underwent significant economic reform, culminating in limited jobs programs for the early 1990s recession. The Howard government further entrenched the neoliberalisation of Australian employment policy through the quasi-marketisation of employment services, and attacks on labour and unions. Finally, it is shown that the expansionary response of the Rudd government to the GFC, while providing a boost to employment, did not challenge the neoliberal system.

Statement of authorship

I declare that this work has not been submitted for a higher degree to any other university or institution. This thesis is original, except where otherwise acknowledged by conventional referencing techniques.

Rhys Walker

Acknowledgements

There are many people to thank for making this thesis possible, but special thanks go to my supervisors Associate Professor Geoffrey Hawker and Dr. Ashley Lavelle. Associate Professor Hawker's in-depth knowledge of Australian political history is especially rich and inspiring, and both Associate Professor Hawker and Dr. Lavelle provided significant support and feedback which greatly enhanced the end result. Thanks also go to my parents, Chris and Sue Walker, for their support during the process of researching and writing this thesis. Further thanks goes to family and friends for their support and encouragement.

Chapter 1

Introduction

Employment policy in Australia has been characterised by two fundamentally different systems since the end of the Second World War, that of the post-war system (1946 to 1975) and the neoliberal system (1975 to the present). There has been some variation in employment policy within each system, depending on variables such as the political party in power and prevailing economic conditions. Despite this there have been significant areas of continuation in employment policy within each of these systems.

This thesis presents an analysis of employment policy in Australia since the end of the Second World War, through a discussion of the theoretical underpinnings of these systems, and an analysis of how these theoretical underpinnings manifest in government employment policy. In conducting this, two questions are kept in mind. First, which system provides higher levels of employment, and thus a more socially beneficial environment? Second, was the abandonment of the post-war system necessary? Critiques from both the left and the right have tended to point to natural limits of capitalism as resulting in the breakdown of the post-war system. However, if the breakdown was not a *fait accompli*, a corollary question is what were the social and political forces and government decisions that resulted in the deconstruction of the post-war system?

While this thesis focusses on employment policy, it is not possible to analyse such policy independent of other aspects of the post-war and neoliberal systems. These systems are not to be treated as structural, in the sense that capitalism is structural. The post-war and neoliberal systems refer to coherent sets of theories and principles that inform policy through a period of time, thus creating these systems. As a result, policy makers and governments are pushed in certain directions, but this does not imply strict policy coherence. Such an approach allows for an understanding of continuities in inter-system policy direction, despite some differences in policy.

The post-war system defined the post-war era from 1946 to 1975. Chapter 2 provides an outline of the Keynesian revolution in economic theory that informed the structure of and

policy making within the post-war system, based in an understanding of capitalism as inherently unstable, and of the incomplete implementation of this revolution. Chapter 4 provides analysis of Australian employment policy within the post-war system, and its strong record of employment provision, during which time employment was a main frame of reference by which the economy was judged and included the bipartisan commitment to full employment.

A new form of liberalism emerged in the inter-war years as a response to socialism and the Great Depression, which became known as neoliberalism. Chapter 3 of this thesis defines neoliberalism as a political movement that aims to extend the logic of the market to both market and non-market domains through the use of the state, and discusses schools of thought associated with neoliberalism. The state extension of market rules would manifest strongly in employment policy in the neoliberal system, in which the state acts for the market.

The crisis of stagflation of the early-mid-1970s, as discussed in Chapter 5, opened up space for neoliberal critique of the post-war system, helped by pockets of resistance to the post-war system in influential Australian institutions. Nascent neoliberalism would manifest during the Whitlam government (1972 to 1975), and eventually result in the abandonment of the state's commitment to full employment by the government in 1975, and the beginning of the deconstruction of the post-war system. The adoption of a monetarist agenda by the Fraser government (1975 to 1983) resulted in a consolidation of the neoliberal system and further neoliberalisation of employment policy in Australia.

The neoliberal system would further manifest in the policy making of the Hawke and Keating governments (1983 to 1996), the topic of Chapter 6. This period would be defined by the Accord between unions and government, the pursuit of balanced budgets combined with the ideals of the Australian Labor Party. These governments would radically restructure the Australian economy and the industrial relations system, but with union and social wage roles. Unemployment came to be seen as a supply side issue, and the Keating government would implement late and weak expansionary policy as a response to the early 1990s recession.

The Howard government (1996 to 2007) would embrace further reform of Australian employment policy, free of the burden of links with the union movement, as discussed in Chapter 7. The Howard government would use the state to force greater competition between

the unemployed for jobs, as well as commodifying the unemployed through the quasi-marketisation of employment services. It also attacked union power and working conditions, most famously in its Work Choices legislation. Finally, the expansionary response of the Rudd government to the Global Financial Crisis (GFC) is analysed. It is shown that this expansionary response had a positive effect on employment in Australia through the early period of the GFC, but that this was a temporary response, with the goal of returning to the “norm” of neoliberal employment policy and the management of demand through private debt. The labour market also continues to be seen as being governed by ordinary market rules.

Through an analysis of employment policy in both the post-war system and the neoliberal system, this thesis shows that the post-war system provided greater levels of employment and a more socially beneficial environment. The abandonment of the post-war system and associated employment policy was driven by political forces as well as choices made by government, showing that it is possible to deconstruct the neoliberal system and construct a more socially beneficial system with a focus on employing those who desire work. However, due to the different conditions of the post-GFC world compared to the post-Second World War era, such a system would not involve a return to the post-war system, though it may have similarities.

Chapter 2

The post-war system

The ‘Keynesian revolution’

The post-war system was the outcome of the work of a number of theorists, and the belief brought on by the Second World War that full employment was a desirable and possible outcome. This influenced the belief of policy makers and the polity in the possibility and creation of a better post-war world.

Foremost among these theorists was John Maynard Keynes. Keynes subscribed to the Humean notion that the wealth of a nation was to be found in its labour force.¹ Joan Robinson states that Keynes challenged many assumptions of economics, showing them to be pure metaphysics.² Yet, Keynes’ economic theories and politics were built on the metaphysical assumption that full employment is desirable. Through Keynes’ influence it came to be that during the post-war era, employment was seen as a public good, and full employment desirable and a government responsibility. Joan Robinson, an acquaintance of Keynes and author of a radical interpretation of his work, states that Keynes’ attitude towards capitalism shifted between rage and despair, but that on the whole he approved of it, at least enough to patch it up and make it work tolerably, but that his defence of it was based on expediency.³ Keynes theorised capitalism as a historically-bound system, and as a phase of historical development.⁴ Keynes appears to have had something of a constructivist attitude towards capitalism, regarding its institutional structure as constructed, and desired to “work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life”.⁵ This would come about through an understanding of the structure of capitalism.

¹ P. R. Tcherneva, ‘Permanent on-the-spot job creation – the missing Keynes plan for full employment and economic transformation’, *Review of Social Economy*, vol. 70, no. 1, 2012, p. 60

² J. Robinson, *Economic philosophy*, Middlesex and Victoria, Penguin Books, 1962, p. 73

³ *Ibid*, p. 71, 72

⁴ *Ibid*, p. 71

⁵ R. Skidelsky, *The return of the master*, New York. Public Affairs, 2010, p. 163

Keynes understood unemployment as a normal feature of capitalism, as had become obvious during the Great Depression which lasted from 1929 to 1939, in which unemployment in Australia reached approximately 30%.⁶ Due to this normalisation of unemployment, Keynes believed unemployment should be dealt with by government through the business cycle, both during downturns and during so-called good times.⁷ This broke with pre-Keynesian theory which stated that capitalism naturally trends to full employment, and thus the unemployed were theorised as voluntarily unemployed. Such neoclassical theories were popular at Cambridge University pre-1929, where Keynes was a professor. Pre-depression, Keynes believed unemployment was caused by market rates of interest departing from the natural interest rate, and to solve unemployment, the monetary rate of interest was reduced, while the state implemented employment programs to provide the unemployed with short-term employment.⁸

The Great Depression undermined Keynes' faith in orthodox economics, and his understanding of unemployment. Keynes abandoned the 'natural rate of interest', and came to theorise unemployment and the depression as being caused by a lack of demand, and the long-run tendency towards full employment was dropped.⁹ Therefore, the purposes of employment programs change: they no longer facilitate employment while the economy trends towards full employment, rather they are required because, to paraphrase Abba Lerner and Michal Kalecki, in the long-run we are in another short-run, thus there is no tendency towards any employment level.¹⁰

⁶ Australian Bureau of Statistics, *Year book Australia 1933*,
[http://www.ausstats.abs.gov.au/ausstats/free.nsf/0/C28F2BD54ADA9727CA2573AD00200654/\\$File/13010_1933%20section%2024.pdf](http://www.ausstats.abs.gov.au/ausstats/free.nsf/0/C28F2BD54ADA9727CA2573AD00200654/$File/13010_1933%20section%2024.pdf), accessed 7 July 2015, p. 724

⁷ Tcherneva, *op. cit.*, 'Permanent on-the-spot job creation – the missing Keynes plan for full employment and economic transformation', p. 58

⁸ J. M. Keynes, , *A tract on monetary reform*, London, Bombay, Calcutta, Madras, and Melbourne , MacMillan and Co. Ltd, 1923, p. 20, 21

J. M. Keynes. and H. D. Henderson, *Can Lloyd George do it?*, London, The Nation and Athenaeum, 1929, p. 14

⁹ J. M. Keynes, *The general theory of employment, interest, and money*, San Diego, New York and London, Harcourt, Inc., 1964, p. 25

¹⁰ M. Kalecki., 'Trend and business cycle reconsidered', *Economic Journal*, vol 78, no. 2, 1968, p. 263

To properly understand Keynes, we must note that his position on this changed over time. In his *Tract on Monetary Reform* in 1923, Keynes stated that the “*long run* is a misleading guide to current affairs. In the *long run* we are all dead. Economists set themselves too easy, too useless a task, if in tempestuous seasons they can only tell us, that when the storm is long past, the ocean is flat again”.¹¹ At this time, Keynes believed that in the long run, with no intervention, the economy would trend towards full employment. However, in the short run, there would be economic issues and pain caused by “shocks” which caused unemployment, which the state could attempt to ameliorate. Hence, Keynes’ support for Lloyd George’s jobs programs in 1929.¹² The debate was around whether states should attempt to intervene in such fashion.

Keynes and others went about creating a more stable and socially beneficial capitalism partly through creating the Bretton Woods system. The Bretton Woods system reflected many of Keynes’ desires for an international monetary system, such as controls on international financial flows.¹³ US hegemony, and the importance of the Marshall Plan for the recovery of Western Europe after the Second World War, meant the Bretton Woods system supported many of the plans of the US contingent to Bretton Woods over the UK contingent headed by Keynes.¹⁴ This can be seen in the adoption of the US Dollar as the global reserve currency as against the creation of the ‘bancor’ as a reserve currency not tied to any nation or commodity.¹⁵ There were also controls put on bank lending, while there was a separation of commercial and investment banks.

Government spending during the post-war era is best articulated by Abba Lerner’s theory of ‘functional finance’. This states that governments should make decisions about government deficits, the money supply, and policy, with regard to their functionality, rather than

¹¹ J. M. Keynes, *A Tract on monetary reform*, London, Bombay, Calcutta, Madras, and Melbourne, MacMillan and Co., Ltd., 1923, p. 80

¹² Keynes and Henderson, *op. cit.*, p. 13

¹³ E. Helleiner, *States and the re-emergence of global finance: from Bretton Woods to the 1990s*, Ithaca and London, Cornell University Press, 1994, p. 25

¹⁴ H. James, ‘The multiple contexts of Bretton Woods’, *Oxford Review of Economic Policy*, vol. 28, no. 3, 2013, p. 420

¹⁵ *Ibid*, p. 417

inflationary and budgetary targets.¹⁶ Essential to this theory is that governments do not operate within the same limitation as households, due to the nature of state-based monetary systems.¹⁷

Government deficits were normalised during the post-war era, both in reality and in the public consciousness. The various white papers that set out post-war policy did not emphasise government budgets, instead preferring to reference the ‘functional’ aspects of policy.¹⁸ Theorists of the time came to see government budgets as outside of government control, being driven by spending and saving patterns of the private sector. Disagreements with functional finance tend to point to fears of inflation and hyperinflation resulting from government spending. However, the hyperinflation in Weimar Germany in the early 1920s was caused by a massive reduction in its productive capacities, for example through the French acquisition of the Rhineland, and the harsh terms imposed on Germany by the Treaty of Versailles.¹⁹ Functional finance opened up policy space for governments to deal with unemployment through both demand management and the provision of jobs to those that could not find private sector employment, and can be contrasted with the pre-war principle of sound finance, in which governments attempt to create an environment of business confidence through balanced budgets.²⁰ Further, functional finance does not state there are no spending restrictions on government. For example, there are inflationary constraints.

The normalisation of deficits by the post-war system had other benefits. Hyman Minsky, who showed that capitalist instability is caused by a tendency towards speculation, speculative asset bubbles and private debt (an upwards instability), rather than a falling rate of profit and

¹⁶ A. P. Lerner, ‘Functional finance and the federal debt’, *Social Research*, vol. 10, no. 1, 1943, p. 39

¹⁷ A. P. Lerner, ‘Money as a creature of the state’, *The American economic review*, vol. 37, no. 2, 1947, p. 313

P. R. Tcherneva, ‘Chartalism and the tax-driven approach to money’, in Arestis, P. and Sawyer, M. (eds.), *Handbook of alternative monetary economics*, Northampton, Edward Elgar, 2006, p. 82

¹⁸ ‘Full employment in Australia (the 1945 White Paper)’, p. 27, 28, <https://digitalcollections.anu.edu.au/bitstream/1885/47102/3/FromCurtintoKeating2.pdf>, accessed 20 March 2015

¹⁹ J. K. Galbraith, *Money: whence it came, where it went*, London, New York, Ringwood, Toronto and Auckland, Penguin Books, 1995, p. 156

²⁰ Lerner, *op. cit.*, ‘Functional finance and the federal debt’, p. 41

G. Ingham, *Capitalism*, Cambridge, Polity, 2008, p. 49

tendency to stagnation (downwards instability), points to one benefit.²¹ Consistent government deficits prevented significant build ups of asset bubbles and private debts. Thus, capitalist crises were more easily avoided.

Further, others have noted the irrelevance of the tax base to the ability of the state to spend. In the contemporary, this can be seen in a statement by Alan Greenspan during his time as Chairman of the US Federal Reserve. At the Committee on the Budget in 2005, Alan Greenspan, in response to Congressman Paul Ryan questioning him about the necessity of selling off social security to Wall Street, stated that the state has the capacity to create as much money as it wants, and thus there is no necessity of privatisation.²² This is especially interesting when considering both men share a Randian libertarian philosophy. However, Greenspan's position as chairman of the Federal Reserve meant he has a more realistic understanding of this, despite his advocacy of sound finance.

There were many influences on Keynes' thinking during the 1930s. In the 1933 draft of the *General Theory of Employment, Interest, and Money*, Keynes referenced Marx's critique of Say's Law (the idea that supply creates its own demand) and Walras' law (equilibrium theory that excess supply in one market must be matched by excess demand in another, thus equalling to zero), stating that these do not apply to market economies.²³ The final version of the book published in 1936 did not contain such a reference, with Keynes' logic substituted for that of Marx. It has been speculated this is because Keynes had not completely broken free of neoclassical thinking at this time (this happened after the publication of the *General Theory*), and that because of the political climate, including the rise of Stalin in the Soviet Union, Keynes feared being sidelined by Western policy makers. He may also have wanted to be clear that his theory broke significantly from Marx, and Keynes had a dislike for Marxist politics. This is further discussed below.

²¹ H. P. Minsky, 'Can "it" happen again? A reprise', *Challenge*, vol. 25, no. 2, 1982, p. 6 - 12

²² U.S. Government Publishing Office, *The economic outlook and current fiscal issues: hearing before the committee of the budget House of Representatives*, <http://www.gpo.gov/fdsys/pkg/CHRG-109hhrg99828/html/CHRG-109hhrg99828.htm>, accessed 3 September 2015

²³ S. Keen, *Debunking economics: the naked emperor dethroned?*, London and New York, Zed Books, 2011, p. 215

Another feature of the post-war system is that Keynes gave agency to government to deal with unemployment, and employment was the frame of reference through which the economy was judged. Further, growth was seen as the outcome of employment (under the neoliberal system, it is the other way around).²⁴ Previous to Keynes, neoclassicals, Marxists (on the left), and Austrians (on the right), emphasised structure over agency when analysing the capitalist system, including issues of recession, depression and unemployment. Keynes gave states the capacity to deal with unemployment within the structure of an inherently unstable capitalism.²⁵ Keynes also provided monetary policy that was designed to avoid depressions and recessions, not merely provide a ‘pump-priming’ solution to unemployment during downturns.

A final feature of Keynes’ theorising, and the post-war system, is its lack of determinism, and its lack of reliance on rational economic agents. While Marx had noticed problems with determinism in stressing the irreducibility of human activity to a quantifiable resource input, his political project of ‘scientific socialism’ required deterministic, class-based agents, and thus this finding was de-emphasised in his work.²⁶ Keynes broke this determinism through his focus on investment and consumption, which also resisted quantification and objectification, being driven by human psychology and expectations. A related concept was Keynes’ reflections on the contradiction between the individual and capitalism – the negative consequences of capitalism and the collective of self-interested behaviour that Keynes called the “fallacy of composition”. For example, if everyone tries to price themselves into a job by offering their labour for lower wages, demand and consumption collapse. However, the Cold War brought back much of this determinism through a return to neoclassical economics.²⁷

Through the above, it is clear that in Keynes’ work from the 1930s, and in the post-war system, the causes of unemployment are in fact found *outside* the labour market. Thus, unemployment is not caused by such things as inflexible labour markets or high wages. This

²⁴ G. Tily, ‘The national accounts, GDP, and the ‘growthmen’, *Prime Economics*, 2015, p. 10, <https://www.primeeconomics.org/s/CoyleReview.pdf>, accessed 3 April 2015.

²⁵ H. P. Minsky, ‘The breakdown of the 1960s policy synthesis’, 1981, *Hyman P. Minsky Archive* no. 166, http://digitalcommons.bard.edu/hm_archive/166, accessed 25 May 2015, p. 54

²⁶ Y. Varoufakis, J. Halevi and N. Theodorakis, *Modern political economics: making sense of the post-2008 world*, London and New York, Routledge, 2011, p. 221

²⁷ *Ibid*, p. 12

is important when, later, the extension of market based principles to the labour market in the neoliberal era is considered.²⁸ The influence of such theorising is that, during the post-war era, the state came to view the unemployed as the victims of an inherently unstable capitalism that did not provide enough jobs for all those that desired work. This filtered through to state policy that sought to provide work for all. Keynes believed a revolution in economic thought would emancipate the state, allowing for a new kind of politics and pursuit of full employment and social goals.²⁹

The post-war system in Australia, and Australian employment policy within this system, would be formed through the interaction of such theorising with the specificities of the Australian context.

The incomplete Keynesian revolution

Over time, the ‘Keynesian revolution’ was eroded throughout the world, beginning in academia. This was partly driven by the ‘neoclassical-synthesis’ approach to Keynes’ theories, which attempted to synthesise the existing equilibrium neoclassical framework (microeconomics) with Keynes’ new macroeconomic approach developed in response to the depression.³⁰ As stated, the latter stressed the contradiction between the individual and capitalism, and showed that private virtues (such as thrift) were public vices (reduced consumption and investment). Keynes, generally accepting of different interpretations of his work, condemned conciliation with mainstream techniques. In 1937, Keynes stressed the neoclassical-synthesis interpretation ignored major concepts of his work such as effective demand, the gap between income and consumption, the multiplier, a new theory of interest, and the marginal efficiency of capital.³¹ Further divergence is found in the theorising of capitalism itself. While Keynes perceived capitalism as inherently unstable, neoclassical-

²⁸ W. Davies, *The limits of neoliberalism: authority, sovereignty and the logic of competition*, Los Angeles, London, New Delhi, Singapore and Washington, DC, Sage, 2014, p. 37

²⁹ R. E. Backhouse, and B. W. Bateman., ‘Keynes and capitalism’, *History of Political Economy*, vol. 41, no. 4, 2009, p. 652

³⁰ Y. Smith., *Econned: how unenlightened self-interest undermined democracy and corrupted capitalism*, New York, Macmillan, 2010, p. 35

³¹ L. Pasinetti, *Keynes and the Cambridge Keynesians: a ‘revolution in economics to be accomplished’*, Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo and Delhi, Cambridge University Press, 2007, p. 224.

Keynesianism perceived capitalism as inherently stable (reviving the pre-depression approach of Keynes), with trade-offs possible between, for example, inflation and unemployment (known as the Phillips curve).³² Keynes wrote three articles in 1937 to highlight misinterpretations of his work, and intended to write a book clarifying his theories, but was side-tracked by the war effort and the construction of the international aspects of the post-war system.³³ In terms of unemployment, in many ways this interpretation involved a return to the pre-depression theories of Keynes.

The neoclassical interpretation of Keynes was driven by politics. Lorie Tarshis, a Canadian student of Keynes, published a textbook in 1947 which suggested markets required government intervention to achieve full employment.³⁴ Initially the textbook was well received, however, an organised campaign by conservative groups in the US resulted in the textbook being removed. Tarshis was accused of supporting socialism and calling for public ownership of enterprise.

The textbook that became accepted and led to the neoclassical interpretation of Keynes, authored by Paul Samuelson, popularised the neoclassical-synthesis. Samuelson was aware of the campaign against Tarshis and so distanced himself from the *General Theory*, also presenting his work through mathematical equations in order to limit political attacks, despite Keynes' aforementioned rejection of the neoclassical synthesis and his critique of much mathematical economics as resting on imprecise initial assumptions and losing sight of the complexities and interdependencies of the real world.³⁵ Neoclassicals argued that "underneath the hood", Keynes' new theory was merely derived from neoclassical theory. In theory, to neoclassicals, the economy could work fine if left to itself, but the real world got in

³² Smith, *op. cit.*, p. 40, 43, 113

Varoufakis, Halevi, and Theocrakis, *op. cit.*, p. 257, 258

³³ J. M. Keynes, 'The general theory of employment', *The Quarterly Journal of Economics*, vol. 51, no. 2, 1937, p. 222, 223

H. P. Minsky, *John Maynard Keynes*, New York, Chicago, San Francisco, Lisbon, London, Madrid, Mexico City, Milan, New Delhi, San Juan, Seoul, Singapore, Sydney and Toronto, McGraw Hill, 2008. p. 12, 13

³⁴ Smith, *op. cit.*, p. 40

³⁵ Keynes, *op. cit.*, *The general theory of employment, interest, and money*, p. 298

the way. Pricing mechanisms could break down, and thus stimulus was a valid remedy.³⁶ This is at odds with Keynes' theorising of the fundamental instability of the capitalist economy being caused by investors' behaviour, and large scale cautious investors resulting in a negative downward spiral.³⁷

Many, such as Geoff Tily and Hyman Minsky, see this neoclassical-Keynesian synthesis as a counter-revolution against Keynes by neoclassicals and liberals that did not like the policy implications of Keynes' new theories, especially the monetary side of their policy prescriptions.³⁸ Fiscal policy, favoured by neoclassical-Keynesians, in fact only makes up a small part of Keynes' theory for stabilisation of the economy, though it is what the neoclassicals focus on in terms of policy. The financial architecture of the post-war system shows this to be the case. Keynes' prescriptions for economic stability went well beyond pump priming, favouring permanent programs of direct jobs creation, not indirect pump priming.³⁹

Further, economists such as Samuelson could ignore the contradictions in neoclassical-Keynesian theory because he was politically in favour of, for example, the New Deal.⁴⁰ This would prove problematic later, during the years the post-war system was abandoned, because the similarities between neoclassical-Keynesian theory and monetarism (both being based in microeconomics) made it easy for neoclassical-Keynesians to jump ship to monetarism and thus to help construct the neoliberal system.⁴¹

³⁶ Smith, *op. cit.*, p. 40

³⁷ *Ibid*, p. 41

³⁸ G. Tily, 'Talk for PKSG', *Keynes Betrayed*, 2007, p. 2, 8,
<http://www.robinson.cam.ac.uk/postkeynesian/members/seminarpapers/cambridge%2007/Tily%2025%20May%202007.pdf>, accessed 27 June 2015

Minsky, *op. cit.*, *John Maynard Keynes*, p. 11

³⁹ Tcherneva, *op. cit.*, 'Permanent on-the-spot job creation – the missing Keynes plan for full employment and economic transformation', p. 63

⁴⁰ K. Puttaswamaiah, *Paul Samuelson and the foundations of modern economics*, Transaction Publishers: New Brunswick and London, 2002, p. 5

⁴¹ Minsky, *op. cit.*, *John Maynard Keynes*, p. 20

J. Robinson (1972), 'The second crisis of economic theory', *The American Economic Review*, vol. 62, no. 1/2, p. 5 - 7

Clearly, Keynes still had an important effect on monetary and fiscal policy during the post-war era, partly because the institutions were put in place that followed much of his theorising, there was a popular desire for full employment, and the practicality of many policy makers (such as the Keynes group in Australia) meant they did not follow a specific interpretation of Keynes, despite economic management often coming second to political considerations.⁴² This was a situation that could continue while the global economy performed well. The incompleteness of the revolution (and it not being integrated into a wider political program or state theory) opened up the post-war system to critique, particularly from neoliberalism, during the crisis of the mid-1970s, and allowed them to push their agenda on government, as discussed in Chapter 5.

In some ways the neoclassical interpretation of Keynes becoming the accepted interpretation also helped with the construction of a crisis narrative in the mid-1970s. While Keynes' ideas, and those the post-war system had been built on, were not discredited by this mid-1970s event, the neoclassical-Keynesian models were.⁴³ Plus, neoclassical-Keynesianism could support Keynesian policy to an extent, but was insufficient and easily attacked once a crisis hit the economy. Similarity in theoretical bases between neoclassical-Keynesianism and neoclassical-monetarism meant neoclassical-Keynesians could easily become monetarists and accept monetarist policy implications when neoclassical-Keynesian models ran into real world problems.⁴⁴

A final point must be made that the lack of a wider political interpretation may have hurt Keynes' revolution. It is arguable that Keynes' theoretical contributions were not placed in a wider political program as would have allowed it to survive for a longer period of time. Also, Keynes' theories did not result in a new understanding of the state through their informing a new state theory, rather they merely informed state policy for a time.

⁴² A Millmow, 'Australia and the Keynesian revolution: Australian government administration in the post-war reconstruction era', in S. Furphy (ed.), *The seven dwarfs and the age of the mandarins: Australian government administration in the post-war reconstruction era*, Canberra, ANU Press, 2015, p. 53, 54

⁴³ A. Burgin, *The great persuasion: reinventing free markets since the depression*, Harvard University Press: Cambridge and London, 2012, p. 179

⁴⁴ Minsky, *op. cit.*, *John Maynard Keynes*, p. 20

Chapter 3

Defining neoliberalism

For the purposes of this thesis, it is important to define neoliberalism, and thus the ideas that influenced and continue to influence the neoliberal system. Many scholars make the mistake of either using the term neoliberalism as a catch-all term for ideas they oppose, while others confuse neoliberalism with a return to classical liberal principles of ‘laissez-faire’, a night watchman state, and small government.⁴⁵ As shall be shown, these are all incorrect understandings of neoliberalism. Neoliberalism is a political project, born in the early 20th Century out of opposition to the doctrines of socialism, social liberalism, and democracy (especially its more social form, as this is before the Western Cold War conflation of capitalism and democracy).⁴⁶ A later goal of neoliberalism was to keep liberal ideals (as defined by neoliberalism’s adherents) alive as a response to the Great Depression, and during the period defined by the post-war system and associated welfare states.⁴⁷

Important to neoliberalism was the Walter Lippmann Colloquium, held in 1938, which inspired the later Mont Pelerin Society. The stated objective of the Walter Lippmann Colloquium was to construct a new liberalism as a rejection of collectivism and socialism, but also, importantly, a rejection of laissez-faire liberalism.⁴⁸ Present at the conference were Walter Lippmann, Austrian economists, German ordoliberals, Michael Polanyi, various entrepreneurs, and others. Hayek was inspired by the Colloquium in his creation of the Mont Pelerin Society. The Mont Pelerin society was formed as a think tank through which neoliberal ideas would be discussed and spread⁴⁹. Neoliberalism would spread throughout the

⁴⁵ P. Mirowski, , *Never let a serious crisis go to waste: how neoliberalism survived the financial meltdown*, London and New York, Verso:, 2013, p. 40

⁴⁶ S. M., Amadae., *Rationalising capitalist democracy: the Cold War origins of rational choice liberalism*, Chicago and London, The University of Chicago Press, 2003, p. 183

⁴⁷ A. Burgin, *The great persuasion: reinventing free markets since the depression*, Harvard University Press: Cambridge and London, 2012, p. 13, 14, 27

⁴⁸ P. Dardot and C. Laval, *The new way of the world: on neoliberal society*, London and New York, Verso, 2013 p. 51, 52.

⁴⁹ *Ibid*, p. 130

D. Harvey, *A brief history of neoliberalism*, New York, Oxford University Press, 2005, p. 20 - 22

world and to Australia by a variety of means, most noticeably a network of think tanks.⁵⁰ Since its inception neoliberalism has been a cosmopolitan movement.⁵¹ Neoliberalism is, therefore, not a movement of United States hegemony, as it is often described.

The neoliberal movement is made up of various schools of thought from a number of disciplines. These include Austrian economics, Monetarist-neoclassical economics and the public choice school. The movement, therefore, has many theoretical strings to its bow, often with contradictions that are overcome in pursuit of a higher political goal.⁵² Further, a theoretical pluralism allows neoliberalism a resistance and durability, despite the tendency for crises to develop as evidenced throughout the world since the 1980s.⁵³ A brief description of these schools of thought will be provided later.

Neoliberalism also involves an attack on the very idea of the 'social' as a sphere of human activity, which is seen as being insubstantial and unquantifiable. Indeed, Hayek and Mises describe the social as being a non-existent sphere of interaction, a cipher through which social scientists, socialists, government elites and state planners project their agenda onto an unwitting public.⁵⁴ Added to a dismissal of the 'social' is a belief in competition, and the positive effects of the inequality that results from market relations.⁵⁵ Neoliberalism is also against central planning in the traditional sense, particularly government control of economic decision making, seeing this as leading to tyranny.⁵⁶

Will Davies provides a succinct explanation of what differentiates neoliberalism from the old classical liberalism in his definition of neoliberalism as the extension of market-based principles and techniques of evaluation into various non-market domains.⁵⁷ This is especially pertinent to the change from the post-war system (in which the labour market was not seen as

⁵⁰ D. Plehwe, (2009), 'Introduction', in Mirowski, P. and Piehwe, D. (eds.), *The road to Mont Pelerin: the making of the neoliberal thought collective*, Harvard University Press, p. 4

⁵¹ *Ibid*, p. 11

⁵² P. Mirowski, *Never let a serious crisis go to waste*, London and New York, Verso, 2013, p. 51

⁵³ *Ibid*

⁵⁴ Davies. *op. cit*, p. 168

⁵⁵ *Ibid*, p. 6

⁵⁶ F. A. Hayek, *The road to serfdom*, London and New York, Routledge Classics, 1944, p. 95

⁵⁷ Davies, *op. cit*, p. 37

an ordinary market, and the causes of unemployment were seen as being outside the labour market) to the neoliberal system. Further, Philip Mirowski notes that, unlike in Laissez-Faire and classical liberalism, in which markets are theorised as natural entities that have existed for all time, neoliberalism sees markets as constructions of the state reliant on state power of various forms (for example, military, legal, and police), at their inception and throughout their existence.⁵⁸ Much anthropological and historical study, for example that of David Graeber, is in line with this conception of markets, finding that pre-state societies operated as 'gift economies' rather than 'market economies'.⁵⁹ These scholars are not neoliberal in themselves but this constructivist approach to markets is historically accurate.

The socialist calculation debates were important to formative neoliberal thought. These were debates in the 1920s and 1930s between Austrian economists such as Ludwig von Mises and Friedrich von Hayek and socialist-Neoclassicals (many being self-described socialists, such as Oscar Lange) and Marxists, about socialism and the application of state planning to the means of production as a substitute for capital markets. In these debates it became clear that an outcome of the acceptance of neoclassical marginal utility theory should be market socialism.⁶⁰ Mises and Hayek argued that state planners could not have access to the required knowledge and information on which such a planned economy would rely. Later, John Maynard Keynes, who did not engage in the socialist calculation debates, overturned the arguments against state involvement in the economy by showing that under conditions of radical uncertainty (a concept borrowed from Austrian economist Frank Knight and enhanced by Keynes in his *General Theory*, in which the future is unknown), state planning and involvement in the economy was not only possible but desirable, indeed necessary to avoid capitalist crises such as the Great Depression.⁶¹

The following paragraphs discuss some major schools of thought that have contributed to neoliberalism. Austrian economists believe that the market is a perfect allocator of resources and a superior information processor. Austrians such as von Mises theorised a business cycle

⁵⁸ Mirowski, *op. cit.*, p. 53

⁵⁹ D. Graeber, *Debt: the first 5,000 years*, Brooklyn and London, Melville House, 2014, p. 36, 130

⁶⁰ A. Cottrell and P. Cockshott, 'Calculation, complexity and planning: the socialist calculation debates again', *Review of Political Economy*, vol. 5, no. 1, 1993, p. 74 - 80

⁶¹ Keen, S., *op. cit.*, p. 226 - 229

in which a mis-allocation of resources is caused by the upsetting of the markets processes of allocation by, for example, increases in money supply, falls in interest rates (causing mal-investment by entrepreneurs), and government investment.⁶² A crash is caused when “easy money” becomes scarce, there are rises in interest rates, and mal-investments become clearer.⁶³ A recession or depression is caused by the resulting process of low consumption and production that sets in. During this period resources are reallocated to what people actually desire.⁶⁴ Austrian theory preferences structure over agency in theorising capitalism. There is no room for a positive role for the state in employment policy, with state action to help the unemployed preventing the ‘proper’ reallocation of resources, thus preventing recovery. Thus, the Austrian school has a tendency to a nihilistic attitude towards employment policy.

Monetarist-neoclassicals, most popularly Milton Friedman, mainly focus on issues of inflation and government involvement in the economy. In what was essentially a restatement of the bullion debates of the 19th century, Friedman stated that monetarism was “always and everywhere a monetary phenomenon”, meaning it only had domestic causes, in the sense that it is created by expansions of the money supply (considered “bad” central banking).⁶⁵ This theory became especially important to the breakdown of the post-war system, when governments were looking for a response to the inflation of the early-mid-1970s, which was defying neoclassical-Keynesian assumptions about links between inflation and employment.⁶⁶ Monetarists also introduced the idea of a natural rate of unemployment, through the non-accelerating inflationary rate of unemployment (NAIRU). According to such

⁶² P. Pilkington, ‘Tyler Cowen and Daniel Kuehn miss the point of the Austrian business cycle theory’, *Fixing the economists*, 2013, available at <https://fixingtheeconomists.wordpress.com/2013/12/06/tyler-cowen-and-daniel-kuehn-miss-the-point-of-the-austrian-business-cycle-theory/>, accessed 7 September 2015

⁶³ L. V. Mises, *Human action: a treatise on economics*, Alabama, Ludwig von Mises Institute, 1998, p. 560

⁶⁴ *Ibid*, p. 575 - 576

⁶⁵ M. Hudson, *Trade, development and foreign debt volume 2 rights reverted: a history of theories of polarisation and convergence in the international economy*, London, Pluto Press, 1992, p. 135
M. Friedman, ‘The counter-revolution in monetary theory’, *Institute of Economic Affairs*, Occasional Paper no. 33, 1970, p. 11

⁶⁶ W. Mitchell and J. Muysken, *Full employment abandoned: shifting sands and policy failures*, Cheltenham, Edward Elgar Publishing, Inc., 2008, p. 62

a theory attempts to push the unemployment rate below the natural rate will increase inflation.⁶⁷

The final school considered here that contributes to neoliberalism is public choice theory, which provides the basis of the neoliberal attack on democracy, especially its more social forms, and the “politics without romance” of James Buchanan.⁶⁸ The conflation by neoliberalism of the three spheres theorised as separate by liberalism (politics, society, and the economy), is partly achieved through public choice theory, with politics being subordinated to the economy (as the economy is defined by neoliberalism).⁶⁹ Public choice theory is based in rational individual agents, thus ignoring Keynes’ reflections on the contradiction between the individual and capitalism - the negative consequences on capitalism and the “fallacy of composition”. Mostly, however, public choice theory has attempted to take the place of traditional political science. While it has not been successful in academia, it has had more success at the policy and advisory level and has been frequently cited for normative purposes.⁷⁰

Monetarism and public choice theory involve a return to ‘rational choice theory’, which was discredited by Keynes. However, those Keynesians that followed the neoclassical interpretation of Keynes, based their work in rational choice theory, or at least ignored the fundamental clash between the micro and macro method.⁷¹ As stated earlier, this shows theoretical similarities between the two.

The neoliberal political movement and its associated schools of thought has continued to evolve over time, and indeed, today, it has influenced large numbers of people that do not consider themselves to be neoliberal, such as neoclassical-Keynesians (discussed previously

⁶⁷ L. Ball and N. G. Mankiw, ‘The NAIRU in theory and practice’, vol. 16, no. 4, 2002, p. 121

⁶⁸ J. Buchanan, ‘Public choice: the origins and development of a research program’, 2003, p. 8, <https://publicchoicesociety.org/content/general/PublicChoiceBooklet.pdf>, accessed 4 April 2015

⁶⁹ W. Brown, *Undoing the demos: neoliberalism’s stealth revolution*, New York, Zone Books, 2015, p. 9, 40

Davies, *op. cit.*, p. 20

⁷⁰ J. King, *The microfoundations delusion: metaphor and dogma in the history of macroeconomics*, Cheltenham and Northampton, Edward Elgar, 2015, p. 129

⁷¹ Keen, *op. cit.*, p. 255

in Chapter 2).⁷² Despite this evolution, there are generalities in the neoliberal approach to employment policy, as discussed in Chapter 6.

Neoliberalism requires a strong state, which is anathema to libertarianism. One reason for the confusion of neoliberalism and libertarianism is the alliances that help form modern political parties of the neoliberal era, especially the centre-right parties *seen* as being those that provide the most fertile ground for neoliberal ideals. In *The free economy and the strong state: the politics of Thatcherism*, Andrew Gamble analyses the coalition that made up the Conservative Thatcher government in the United Kingdom. Centre-right parties of the neoliberal era such as the Thatcher government tend to be made up of conservatives, libertarians, Christian fundamentalists, and neoliberals.⁷³ Libertarians are often the loudest in these parties, and have grown in number during the neoliberal era. Such parties do not, however, implement pure libertarian policy.⁷⁴ As will be shown in Chapters 6 and 7, in fact both the Australian Labor Party (ALP), Liberal Party and Coalition governments during these eras have been influenced by neoliberalism. Another reason for this confusion is what Philip Mirowski describes as the ‘double truth’ of neoliberalism. Mirowski shows that there is a contradiction, particularly about the role of the state, between policies neoliberals advocate to the public, such as those in Milton Friedman’s popular economics book *Free to Choose* (1980) and his journalistic articles, and what they advocate in private.⁷⁵ Friedman privately confessed the necessity of a strong state to the achievement of neoliberal political goals.

Further, neoliberalism seeks to change the role of the state, rather than wind back the state. Thus, a process of deregulation and regulation takes place. This is despite the belief of many, such as Hayek, that government control of decision making and central planning must necessarily result in tyranny.⁷⁶ To neoliberals, however, the state should intervene to enforce market rules and to create new markets, not for the purposes of state planning. It is in the

⁷² Minsky, *op. cit.*, John Maynard Keynes, p. 11

⁷³ A. Gamble., *The free economy and the strong state: the politics of Thatcherism*, Durham, Duke University Press, 1988, p. 31, 32, 157

⁷⁴ *Ibid*

⁷⁵ Mirowski, *op. cit.*, p. 86

⁷⁶ *Ibid*, p. 69

1970s that a paradigm shift, along the lines discussed by Peter Hall in reference to the UK, occurred in policy making under the influence of neoliberal ideas.⁷⁷

⁷⁷ P. A. Hall, 'Policy paradigms, social learning, and the state: the case of economic policymaking in Britain, *Comparative Politics*, vol. 25, no. 3, 1993, p. 279

Chapter 4

Full employment, the White Paper, and Australian politics

Prime Minister John Curtin commissioned a White Paper, authored by a group of economists headed by Herbert Coombs, on full employment after learning of a similar paper being prepared in the United Kingdom (UK) that was to be the basis of post-war employment policy when visiting the UK in 1945.⁷⁸ Coombs had studied at the London School of Economics, where he witnessed a contest between Keynesians and Lionel Robbins and Hayek over how to manage the underlying tendencies of capitalism. Robbins saw the LSE as a bulwark against Keynes' unsound ideas.⁷⁹

Over the course of the post-war system the Keynesian economists were sometimes able to convince politicians to accept Keynesian positions on policy, at other times they were not.⁸⁰ Despite this the Keynesian influence was often unconscious despite decisions often being made without economic considerations, and the rejection of Keynesian economist's advice. On important issues of employment policy, Keynesian policy was pursued. Further, the structure of the international and domestic monetary order was along Keynesian lines (which included repression of finance), therefore stabilising the economy.⁸¹ This influence is what defines the post-war system.

The White Paper on Full Employment was introduced to parliament by the Minister for Post-War reconstruction, John Debnam, on 30 May, 1945. Responses to the paper varied widely. Many associated with the labour movement bemoaned a lack of ambition due to a desire amongst government ministers to compromise with business and industry. The Opposition Liberal Party and conservative newspapers felt that the White Paper would inhibit the post-

⁷⁸ A. Spaul, *John Debnam: a most unexpected labour man*, South Melbourne, Hyland House, 1998, p. 88

⁷⁹ T. Rowse, *Nugget Coombs: a reforming life*, Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Cambridge University Press, 2002, p. 58

⁸⁰ S. Cornish, 'The Keynesian revolution fact or fiction', *Australian economic history review*, vol. 33, no. 2, 1993, p. 66

⁸¹ E. Helleiner., *op. cit.*, Ithaca and London, Cornell University Press, p. 35

war contribution of the business sector.⁸² The Business Council of Australia felt that the White Paper was an ALP cipher for “socialism by proxy”.⁸³ Despite such variation in response, clearly mostly driven by political considerations and alliances, the White Paper would form the basis for post-war employment policy in Australia for thirty years, through both ALP and Liberal governments.

The mobilisation of all resources towards the Second World War altered the public attitude towards employment and the role of the state. Lyndhurst Giblin stated that strong demand for job security meant the ability of the government to guarantee full employment had become a test of democracy.⁸⁴ The responsiveness of the government to such public demands meant that the full employment guarantee would become an early target of neoliberals during the period of uncertainty in the mid-1970s.

The Commonwealth Employment Service (CES) was a state employment agency established under the *Re-establishment and Employment Act 1945*. The CES was established to administer unemployment and sickness benefits to civilians and returning servicemen, thus playing a major role both in post-war reconstruction and through the entire post-war system period.⁸⁵ Another feature of the CES was in the regulation of those considered ‘voluntarily’ and ‘involuntarily’ unemployed. Those voluntarily unemployed included those that refused to work at the Award rate, while it excluded those involved in strikes, or who had left jobs of their own volition.⁸⁶ The CES was part of the process of the standardisation of unemployment, and together with the government commitment to full employment, formed the most important aspects of employment policy within the post-war system.⁸⁷

The government responsibility for full employment was accepted by the ALP with relative ease. ‘Right to work’ campaigns have a long, controversial history in democratic socialist

⁸² Spaul, *op. cit.*, p. 91

⁸³ ‘Criticism of White Paper on full employment’, *Daily Examiner*, 10 August 1945, p. 3

⁸⁴ S. Macintyre, *Australia’s boldest experiment: war and reconstruction in the 1940s*, Sydney. NewSouth, 2015, p. 237

⁸⁵ *Ibid*, p. 295

⁸⁶ A. O’Donnell, ‘Inventing unemployment: labour market regulation and the establishment of the Commonwealth Employment Service’, *Federal Law Review*, vol. 31, no. 2, 2003, p. 370

⁸⁷ *Ibid*, p. 345.

movements dating back to nineteenth century Britain.⁸⁸ The Liberal Party also accepted government responsibility for full employment. In a policy speech in 1949, Robert Menzies, leader of the Opposition Liberal Party, formed out of disappointment with successive election defeats for the United Australia Party, stated that “full employment is no guarantee of the socialists... We commit ourselves to the maintenance of full employment and the avoidance of depression”.⁸⁹ Menzies was privately scathing of the idea that capitalism could function without a large reserve army of the unemployed to control prices.⁹⁰ Popular acceptance of full employment meant these concerns were not raised in public, and full employment became a reluctant goal of the Menzies government. Other members of the Menzies government also expressed concern, and opposed making employment the frame of reference upon which the economy be judged. In response to Coombs international advocacy of full employment as a post-war goal at the Food and Agriculture Conference in Virginia, Paul Hasluck stated that unemployment was a consequence, not cause, of economic ills, and the proposal for an international agreement on full employment sought collaboration in treating ills not causes.⁹¹

It is interesting to note that it was in Lloyd George’s UK Liberal Party that Keynes first found support for public works programs, while UK Labour, the majority partner in coalition governments with the Liberals, did not accept this (though it split in the 1930s around these issues).⁹² Private opposition to full employment on Menzies part may be because coalitions of non-labour parties in Australia form around opposition to labour, thus having a broad membership (for example conservatives and liberals), while the UK’s political traditions pre-date labour (though these change over time).

⁸⁸ V. Quirk, ‘Britain and the right to work’, *International journal of environment, workplace, and employment*, vol. 3, 2008, p. 268

⁸⁹ R. Menzies, ‘Policy speech’, *Election speeches*, 1949, <http://electionspeeches.moadoph.gov.au/speeches/1949-robert-menzies?highlight=the+aspiration+for+full+employment+is+no+monopoly+of+the+Socialists> accessed 1 June

⁹⁰ V. Quirk, ‘The problem of a full employment economy’, *Centre of Full Employment and Equity*, Working Paper no. 04-02, 2004, p. 4

⁹¹ G. Bolton, *Paul Hasluck: a life*, UWA Publishing: Crawley, 2014, p. 117, 118.

⁹² Keynes and Henderson, *op. cit.*, p. 7

As Prime Minister, Menzies combined such political realism with a Cold War warrior mindset and an ideological attack on those seen as anti-capitalist, to great effect.⁹³ This approach was the most electorally successful in Australian history. In keeping with such realism, Menzies requested Coombs advise him on economic matters, despite Coombs' closeness to the Curtin and Chifley ALP governments, maintaining Coombs' position as head of the Commonwealth Bank.⁹⁴ Coombs was influential throughout the Menzies years, and his usefulness to Menzies may have been highlighted by an early event in the post-war Menzies government. In 1949 Menzies promised to remove all post-war price controls. Coombs persuaded Menzies not to remove banking controls, while the removal of the others resulted in inflation increases.⁹⁵

The two major recessions of the post-war era took place under the Menzies government, in 1952/53 and 1961/62 respectively. Both recessions were met by strongly expansionary measures, which were buttressed by large tax cuts. Such measures helped contain the recessions and ensure they were short-lived.⁹⁶ By 1953/4, growth had recovered to 6.3% and it was 6.8% in 1962/3.⁹⁷ Employment figures had similarly recovered, and employment was seen as the driving force for growth at this time, and thus the frame of reference by which the economy was judged.

Later post-war employment policy in Australia

An interesting event that may have shown political cracks in the existing system was the McMahon government's August 1971 budget. This deflationary budget seems to have been the result of the government being misled by Treasury officials about its necessity, while Treasury refused to draft an alternative budget.⁹⁸ Regardless of such accusations, in 1971 Industrial Relations minister Philip Lynch stated that industry's concerns about labour

⁹³ A. Martin, 'Sir Robert Gordon Menzies', in M. Grattan. (ed.), *Australian Prime Ministers*, Sydney, Auckland, London and Cape Town, New Holland Publishers, 2008, p. 195

⁹⁴ Rowse, *op. cit.*, p. 217

⁹⁵ 'Ideas and Australian cities, interview with Hugh Stretton', *ABC Counterpoint*, 2007, available at: <http://www.abc.net.au/radionational/programs/counterpoint/ideas-and-australian-cities/3324620#transcript>, accessed 26 July 2015.

⁹⁶ J. W. Neville, 'Can Keynesian policies stimulate growth in output and employment?', in S. Bell (ed.), *The unemployment crisis in Australia*, 2000, p. 153, 154

⁹⁷ *Ibid*

⁹⁸ Quirk, *op. cit.*, 'The problem of a full employment economy', p. 6

strength were valid.⁹⁹ This shows early opposition in Treasury to the full employment agenda. Interestingly, in response, the McMahon government seems to have implemented both a public sector jobs program and increased government spending, showing that despite some Coalition members concerns, they remained committed to the post-war system.¹⁰⁰

Employee and business groups also began to feel emboldened during the late period of the post-war system, being enhanced by the belief of some in Treasury and in the Coalition. This was partly driven by concern about the likelihood of the return of the ALP to government after 23 years of Coalition government. There were also concerns raised by Lynch about the bargaining strength of labour relative to industry under conditions of full employment, while in 1972 the Secretary of the Queensland Employers Federation stated that unemployment had to be more than doubled to 4.5%, while also stating that there are a rising number of unemployable people in Australia and many that don't work hard enough.¹⁰¹

The Gough Whitlam-led ALP won government for the first time in 23 years on 2 December 1972, on the back of an ambitious government spending plan known as “the program”. There was little change in employment policy for some time, as the seemingly stable relationships driving the post-war system seemed irrefutable. Welfare, however, came to be seen as a basic human right by the government, social spending was rapidly increased, welfare benefit rates were increased, eligibility requirements relaxed, new social programmes were created, and means testing on many programs was abolished.¹⁰² With this, and on the back of the economic crisis of the early 1970s, would come an increasing popularity of negative welfare discourses.¹⁰³ Once the full employment commitment was abandoned, such discourses, for example the “dole bludger discourse”, would become increasingly popular with governments and the polity.¹⁰⁴ Welfare was more popular under conditions of full employment, while less popular when there is higher unemployment, and it is arguably more necessary.

⁹⁹ *Ibid*

¹⁰⁰ V. Quirk, *op. cit.*, ‘The problem of a full employment economy’, p. 6

¹⁰¹ Quirk, *op. cit.*, ‘The problem of a full employment economy’, p. 6, 7,

¹⁰² V. Archer, ‘Dole bludgers, tax payers and the new right: constructing discourses of welfare in 1970s Australia’, *Labour History*, no. 96, 2009, p. 182, 183

¹⁰³ *Ibid*, p. 177

¹⁰⁴ *Ibid*, p. 181

The seemingly stable relationships and trade-offs of the post-war system seemed to be unchallenged, despite the economic trouble of the early 1970s. This would change when an economic crisis of stagflation hit the world economy. This will be further analysed in Chapter 5.

Chapter 5

The breakdown of the post-war system, neoliberalism, full employment abandoned, and Australian employment 1973 - 1983

The crisis of the global economy, and the Australian economy in the mid-1970s and the political and constitutional crisis that followed, are well discussed. Much analysis tends to focus on the political struggle between the Whitlam government and the Fraser opposition, and the controversial dismissal of the Whitlam government by the Governor General in 1975. When focussing on employment policy it becomes clear that it was in the response to the mid-1970s recession that the post-war system broke down. The first target of neoliberalism was government spending and employment policy, especially the full employment commitment of the state.

Many individuals that worked in the tradition of Keynes were aware of problems in the global economy. Weeks before the onset of stagflation (rising unemployment and rising inflation, which discredited the Phillips curve), Joan Robinson outlined such problems. Robinson pointed to the loss of Keynes' monetary policy, and military Keynesianism, in which demand is managed through military spending, which became popular due to the military-industrial complex.¹⁰⁵ When economists took over Keynes' ideas, they forgot his statement that once full employment had been achieved there had to be an ongoing political discussion about what spending should be for.¹⁰⁶ This debate mostly didn't happen, and when it did was minimal, so the arguments before World War Two were reinstated: that governments should spend money to alleviate unemployment, but it did not matter what they spent it on. A convenient thing for governments to spend on was armaments, and thus, in the global economy, the military-industrial complex became influential in managing demand.¹⁰⁷ Despite participation in various Cold War proxy conflicts in the periphery, and naval manufacturing at home, Australia did not have the military-industrial complex of nations

¹⁰⁵ J. Robinson, 'The second crisis of economic theory', *The American Economic Review*, vol. 62, no. 1/2, 1972, p. 5 - 7

¹⁰⁶ *Ibid*, p. 6

¹⁰⁷ *Ibid*, p. 7

such as the US, Soviet Union, or the UK, but it is worth keeping this in mind regarding the global context and international demand. Robinson believed such issues were the result of ignoring Keynes' warnings about the post-war economy, and his desires for the post-war world, and believed the incompleteness of Keynes' revolution foreshadowed an economic crisis. Robinson pointed to Keynes' warnings about the importance of restructuring the industrial relations system under conditions of full employment, ignored because of excessive confidence in market discipline and neglect of historical forces in the determination of wages and prices.¹⁰⁸ Further, issues of distribution and poverty were said to be obscured by mainstream economic theory in terms of the historical social reality of the forces driving these processes. To Robinson, this had resulted in a "political business cycle" as presciently predicted by Michal Kalecki, which emerged because of a lack of attention to historical context by neoclassical-Keynesians: "in real time with real interests and real political parties, the seemingly simple choice to be made along the Philips Curve was a very messy spectacle indeed".¹⁰⁹

As well as these factors, others have stated the importance of the early 1970s OPEC oil shock and the dismantling of the credit system and banking controls in influencing inflation. Defenders of the post-war system had an interest in pointing to international causes for the inflation of the mid-1970s (OPEC), and neoliberals in turn had an interest in advocating domestic causes, especially government spending.¹¹⁰ Giving inflation a purely domestic cause was a means to assign blame to the application of Keynesian principles, and Friedman's monetarism provided a theory by which this blame could be achieved.¹¹¹ However, neoliberals and those influenced by neoliberalism used monetarist theory to deconstruct the post-war system and later to construct the neoliberal system. There is evidence that this theory itself was incorrect.

¹⁰⁸ M. Wrenn, J. R. Stanfield, and M. Carroll, 'Galbraith and Robinson's second crisis of economic theory', *Journal of Economic Issues*, vol. 42, no. 1, 2008, p. 7

¹⁰⁹ J. Robinson, *op. cit.*, p. 5

¹¹⁰ J. K. Galbraith, *The end of normal: the great crisis and the future of growth*, New York, Simon and Schuster, 2014, p. 47.

¹¹¹ *ibid*

Monetarists prescribed a shrinking of the money supply to control inflation.¹¹² Interestingly, quantitative easing, which proposes increasing the money supply in a deflationary environment, is therefore essentially monetarist policy, despite advocacy by neoclassical-Keynesians. The simple relationship proposed between the money supply and inflation was one that was appealing to politicians in the 1970s, faced with stagflation, who rejected the Keynesian prescriptions of wage and price controls, to control wage-price spirals as politically difficult. This would be unpopular with unions and business, and also economists and politicians for ideological reasons.

The 1970s also offers anecdotal evidence for the proposition that neoliberalism be considered a political movement. There were a set of alternative, neoliberal policies, mostly based on monetarist principles, that were ready for adoption when a crisis hit the economy in the mid-1970s.¹¹³ This contrasts with the legitimate theoretical and policy response to the Great Depression, which eventually informed the post-war system, seeking to explain events that had taken place and build a new system on this understanding. Neoliberalism had an explanation for the failure of the post-war system and an alternate set of policies on which a new system could be constructed ready to go when a crisis came, and pushed this interpretation regardless of the actual cause of historical events. It is now clear that the relationship between the money supply and inflation is not strong, and that the government and central banks do not, in fact, control the money supply, because both central banks and private banks have the ability to create money “out of thin air”.¹¹⁴

Analysis of the breakdown of the post-war system has often been done through an application of Michal Kalecki’s political business cycle, taken from his article *The Political Aspects of Full Employment*. Kalecki stated that full employment would result in a more assertive working class and an erosion of business leaders’ social position, resulting in the abandonment of full employment policy, despite profits under this system being higher than

¹¹² Friedman, *op. cit.*, ‘The counter-revolution in monetary theory’, p. 11

¹¹³ Galbraith, *op. cit.*, *The end of normal*, p. 47.

¹¹⁴ M. McLeay, A. Radia and R. Thomas, ‘Money creation in the modern economy’, *Bank of England Quarterly Bulletin*, Q1, 2014, p. 2, 3

A. Pettifor., *Just money: how society can break the despotic power of finance*, Commonwealth Publishing, 2014, p. 15

under a laissez-faire system.¹¹⁵ Of course a laissez-faire system was not implemented but a neoliberal one was. While a loss of prestige amongst the capitalist class did have an influence on the breakdown of the post-war system, others factors should not be downplayed, including the acceptance and promotion of monetarist ideas by strong state-based institutions, business groups, and some politicians. Further, there was not a return to laissez-faire principles, but a turn to neoliberal principles, hidden from many at the time due to the influence of monetarism and cuts to government spending. Also influential were the various neoliberal think-tanks that became prominent in Australia during this time, and were important in spreading neoliberal ideas.¹¹⁶

Also, the breakdown of the post-war system eventually resulted in a complete restructuring of the Australian economy (and society), meaning neoliberalism was not in reality the friend of the existing capitalist classes in Australia in the 1970s as it may have seemed (for example, industrial capitalism), and thus was not just a regressive push-back from the status quo against the post-war system.¹¹⁷ This will become clearer in Chapter 6 where much of the restructuring of the Australian economy is examined. Other unique aspects of neoliberalism were also hard to see at the time. An early scholar of neoliberalism was Michel Foucault, who, in lectures in 1978 and 1979 noted various differences between neoliberalism and laissez-faire, such as the former's reliance on the state.¹¹⁸

The apparent shift from the post-war system to the neoliberal system first manifested itself in the abandonment of the full employment guarantee, an important feature of the post-war system. This will be the primary focus of the next section of this chapter, looking at employment policy in the second term of the Whitlam government. After this, the entrenchment of neoliberal employment policy making will be examined under the Fraser government.

¹¹⁵ M. Kalecki, 'The political aspects of full employment', *The Political Quarterly*, vol. 14, no. 4, 1943, p. 326

¹¹⁶ Archer, *op. cit.*, p. 182

¹¹⁷ G Murray and J Chesters, 'Economic wealth and political power in Australia 1788-2010' *Labour History*, no. 103, 2012, p. 9

¹¹⁸ M. Foucault, *The birth of biopolitics: lectures at the Collège de France, 1978 – 1979*, New York , Palgrave Macmillan, 2008, p. 132

The Whitlam government 1972 - 1975

Regardless of the merit of arguments about the government role in rising inflation and unemployment, stagflation would eventually give neoliberals access to policy makers and government, and would eventually be seen to undermine the entire post-war system.

Neoliberalism gained a foothold through the monetarist-neoclassical school of economics associated with the Chicago School and Milton Friedman. Monetarists advocated controlling inflation through controlling the money supply, re-popularising the quantity theory of money, which suggested a direct relationship between the money supply and prices.¹¹⁹ Keynes had originally accepted the quantity theory of money, but after the depression had abandoned it, and it did not inform his theoretical response to the depression and post-war system policy making.

It is interesting to note that even when inflation did come under control this did not happen due to reductions in government spending. The role of central banks in credit creation is minimal compared to private banks. Governments that embraced monetarism, including Australian governments, replaced a concern for inflation and employment with a concern for inflation.¹²⁰ Such a concern would dominate policy making in the neoliberal system in Australia. It is difficult to know the part played by wage increases during this time. If there was a wage-price spiral, this was the original inflation caused by the OPEC oil crisis that started inflating prices, not government spending.

With some notable exceptions, Australian institutions began embracing theories that would inform the neoliberal system before most politicians. A shift occurred in the attitudes of influential Australian institutions on the benefits (both economic and social) of full employment as against other measures. The Reserve Bank of Australia's (RBA) 1973 *Annual Report* brought it into line with the Treasury's view that inflation should be prioritised over unemployment.¹²¹ Further, the RBA accepted the notion of 'inflationary expectations' before this was embraced in academia and by policy makers, as manifest in the aforementioned

¹¹⁹ C. Crouch, *The strange non-death of neoliberalism*, Cambridge and Malden, Polity Press, 2011, p. 15

¹²⁰ C. Hay, 'Chronicles of a death foretold: the winter of discontent and construction of the crisis of British Keynesianism', *Parliamentary Affairs*, vol. 63, no. 3, 2010, p. 463

¹²¹ A. Millmow and J. Courvisanos, 'How Milton Friedman came to Australia: a case study of class-based political business cycles', *The Journal of Australian Political Economy*, no. 57, 2006, p. 118

deflationary budget of 1971. This shows an institutional embrace of neoliberal positions. It has further been argued that elements of the Treasury never entirely accepted the post-war project, despite significant support at times. Further evidence of a neoliberal shift in institutions is seen in RBA Governor John Phillip's advice to Treasurer Jim Cairns that government spending be reduced due to inflationary disruptions to business planning in December 1974.¹²²

In 1974, unemployment would reach 5% while inflation continued to worsen as part of the early-mid 1970s recession and the 1974 budget saw large increases in spending, while unemployment and inflation continued to rise.¹²³ The opposition pushed the idea that this expenditure increase crowded out the private sector and caused unemployment.¹²⁴ Shadow Liberal Treasurer Philip Lynch saw monetarist policy as a basis through which the Liberal-led Coalition could found a new, alternative political and economic policy, after the failure of the Coalition's 1974 platform at that year's Federal election. In parliament on 9 April, 1974, Lynch linked the increasing government deficit to inflation.¹²⁵ Jim Cairns, who replaced Frank Crean as Treasurer in 1974, responded by stating that the deficit was aimed at increasing production, employing resources where they are available for employment, and kick-starting the economy.¹²⁶ A shortage of money had thwarted the Scullin government's attempts to respond to the Great Depression, when the Commonwealth Bank at the operating as a quasi-central bank with responsibility for credit creation had prevented such a response.¹²⁷ This experience played an important role in informing the ALPs position. Cairns response was a restatement of the principles that had driven the post-war system. Thus, the various underlying causes of inflation, such as a possible wage-price spiral and the OPEC crisis, were not addressed publicly. Nevertheless, Cairns appears to have favoured a pragmatic approach to policy, focussed on keeping employment as the frame of reference through which the economy and policy be judged, rather than being captured by a specific

¹²² *Ibid*

¹²³ G. Whitlam, *The Whitlam government 1972 – 1975*, Penguin Books: Victoria, Middlesex, Ontario and Auckland, 1985, p. 209

¹²⁴ *Ibid*

¹²⁵ Millmow, A. and Courvisanos, J., *op. cit.*, p. 120

¹²⁶ *Ibid*

¹²⁷ K. Buckley and T. Wheelwright., *False paradise: Australian capitalism revisited, 1915 – 1955*, Melbourne, Oxford, Auckland and New York, Oxford University Press, 1998, p. 97, 98

economic theory. Despite the contradiction between his left-wing politics and Keynes' more conciliatory attitude to capitalism, Cairns was one of the last political defenders of the post-war system.

Coincidental trips to Australia by Keynesian Joan Robinson and monetarist-neoliberal Milton Friedman took place in the context of these economic troubles. Friedman and Robinson had different approaches to the economic problems. Cairns shared a belief with Robinson that inflation was being caused by price fixing practices by multinationals and a wage-price spiral, while rejecting Friedman's monetarist arguments.¹²⁸ Both thought fiscal policy and prices and incomes policies were better fixes to inflation than controlling the money supply, and that the money supply should expand and contract as the economy required.¹²⁹

While the crisis resulted in the breakdown of neoclassical-Keynesian models and assumptions on which policy could be built, others presented alternative cures. Another alternative was John Kenneth Galbraith's proposal to curb inflation through wage indexation and taxation on speculative activity.¹³⁰ Galbraith and Robinson's proposed solutions to stagflation show an attempt to save parts of the post-war system, specifically full employment.

Whitlam initially rejected Friedman's analysis of the cause of inflation, deciding against meeting Friedman once learning of his diagnosis. However, the Whitlam government would come to accept a monetarist diagnosis of the recession.¹³¹ The acceptance of this diagnosis was heightened by the crisis the government was experiencing at the time and scandals, including the Loans Affair that resulted in the resignation of Rex Connor from the ministry and Jim Cairns' removal from the ministry in July 1975. One can only speculate about whether the policy shift that followed would have occurred without the promotion of Bill Hayden to Treasurer, and if there were alternative reasons for the resignation of Cairns, such as him being seen as a bulwark against such changes. Hayden was well placed to deliver a change in the fundamentals underlying government policy, having taken an economics degree

¹²⁸ Millmow and Courvisanos, *op. cit.*, p. 118

P. Strangio, *Keeper of the faith: a biography of Jim Cairns*, Victoria, Melbourne University Press, 2002 p. 289

¹²⁹ *Ibid*, p. 125

¹³⁰ *Ibid*, p. 119

¹³¹ B. Jones, *A thinking reed*, Crows Nest, Allen and Unwin, 2006, p. 478

at the University of Queensland whilst a Member of Parliament. Interestingly, Whitlam would later state that making budgets a macroeconomic aim was unsound.¹³² The embrace of monetarism in 1975 should therefore be understood in the context of a government whose principles were under extreme attack from multiple directions including the opposition, government institutions, and think tanks. Regardless of the reasons behind it, a major policy shift did occur at this time, meaning the breakdown of post-war system occurred earlier than is often understood.

The budget delivered by Bill Hayden in 1975 can be considered the first budget informed by monetarist principles in Australia. Indeed in 1981 Friedman did not dissent when told this was the first monetarist budget in the world.¹³³ There is thus some irony that this is the budget that was blocked by the Opposition, thus kick-starting the 1975 Australian constitutional crisis.

During this time, resulting from the crisis, the budgets of the government were attacked, which limited the ability of the government to fulfil what were seen as its duties under the post-war system. However, institutions were not marketised, as they were later. The Commonwealth Employment Service continued to function as a state employment agency, but its function as an institution that could find employment for the unemployed was eroded because of the lack of a guarantee of jobs for those that could not find private sector employment. Some have pointed to the necessity of finding an institution of full employment, rather than using policy to maintain full employment. Institutions are more concrete, establish greater feelings of loyalty, and are more difficult to erode than policies (such is obvious in institutions such as Medicare). This has been addressed from an institutional point of view by Hyman Minsky and his vision of the government as employer of last resort, and the ‘jobs guarantee’ proposal.¹³⁴

Whitlam, who had come to the leadership of the ALP stating that “only the impotent are pure” had become somewhat trapped by his logic. This logic allowed Whitlam to abandon

¹³² Whitlam, *op. cit.*, p. 210

¹³³ Jones, *op. cit.*, p. 478

¹³⁴ D. B. Papadimitriou and L. R. Wray, ‘The economic contributions of Hyman Minsky: varieties of capitalism and institutional reform’, *Review of Political Economy*, vol. 10, no. 2, 1998, p. 211, 212

aspects of the ALP platform that were seen as unpopular and an anachronistic part of the ALP establishment (or elements of the ALP).¹³⁵ But, working with this logic, it was difficult to argue against reform, and it was monetarism, supported by the neoliberal political movement (for example networks of think tanks), that provided an alternative set of policies with strong political and institutional support, further helped by the neoliberal political movement and associated think tanks. The scandals that beset the government, such as the Loans Affair, contributed to the government losing public and media support and thus turning to alternative neoliberal reform, which was gaining institutional and political support, to try to regain support. Such policy responses were also supported by institutions such as the Business Council of Australia and the Treasury, which remained highly influential.¹³⁶ There was also confusion between Keynes' successors and theories and the neoclassical-Keynesians that had been discredited by stagflation, thus making it difficult to get popular support for policies based on Keynes, as against the neoliberal alternative.

The abandonment of full employment, through the state's adoption of neoliberalism through monetarism, meant that the state needed a new story to tell the polity about unemployment. It would also lead to the extension of market-based principles to the labour market (which had not been seen as an ordinary market under the post-war system).¹³⁷ A return to the pre-war system story of 'voluntary unemployment' was not feasible, while neoliberals wanted to stay within the spirit of this idea. Eventually, the state, under the influence of neoliberalism, came to promote unemployment as the result of deficiencies of the unemployed individual.¹³⁸ Also, the idea that unemployment was caused by the rigidity of labour markets and high wages was put forward. This ran directly counter to Keynes' 'fallacy of composition', the idea that lower wages would negatively affect demand, and thus would result in increased unemployment, as against the conventional wisdom that low wages reduce unemployment and solve recessions.¹³⁹ This also resulted in the re-naturalisation of unemployment, through the NAIRU, a new natural rate of unemployment.¹⁴⁰

¹³⁵ J. Hocking, *Gough Whitlam: a moment in history*, Carlton, The Miegunyah Press, 2008, p. 290

¹³⁶ Strangio, *op. cit.*, p. 289, 290

¹³⁷ Davies, *op. cit.*, p. 37

¹³⁸ V. Quirk, 'Restore full employment in Australia to shift power back towards working people', *Australian Socialist*, vol. 21, no. 1, 2015, p. 5

¹³⁹ Keynes, *op. cit.*, *The general theory of employment, interest, and money*, p. 260

¹⁴⁰ Mitchell and Muysken, *op. cit.*, p. 12

The Whitlam government came to power with an ambitious policy program that would operate within the framework of the post-war system, expecting the simple relationships of that system to continue. When these started to break down, the government first responded strongly in an attempt to boost employment. Yet over the course of the government's second term employment policy was changed drastically and the government abandoned the state's commitment to full employment. The Whitlam government was dismissed in 1975 and defeated at the subsequent Federal election. Whitlam would remain leader of the ALP in opposition until the ALP's defeat in the 1977 Federal election. As Opposition leader, Whitlam spoke of the necessity of full employment and its benefits. However, he lacked an accepted theory around which the ALP could build an alternative employment policy.

The Fraser government and employment 1975 – 1983, continued nascent neoliberalism

The Fraser government won the 1975 Federal election with a message of a return to competent government and a return to responsible economic management through restrained government spending and a reduction in public sector pay increases.¹⁴¹ The government continued the Whitlam government's agenda of social reform, though the pace of such reform was slowed. The Fraser government remained committed to reducing government expenditure, but many Coalition MPs felt that the government should have pursued more radical economic reform, such as was being pursued in the US and UK.¹⁴²

The priorities of the Fraser government would manifest in real-world figures. Business investment and corporate profits grew through the first and second terms. Unemployment, however, would reach 7% in 1978, during the government's second term, higher than at any time under the post-war system, and would climb to nearly 10% in 1983.¹⁴³ The economic frame of reference that dominated the post-war system was reversed, with Fraser stating that reductions in unemployment would follow economic growth, and that a fall in inflation,

¹⁴¹ M. Fraser and M. Simons, *Malcolm Fraser: the political memoirs*, Carlton, The Miegunyah Press, 2010, p. 374

M. Fraser, 'Policy speech', *Election speeches*, 1975

<http://electionspeeches.moadoph.gov.au/speeches/1975-malcolm-fraser>, accessed 17 August 2015

¹⁴² P. Ayres, *Malcolm Fraser*, Richmond, William Heinemann Australia, 1987 p. 304

¹⁴³ S. Bell, *Ungoverning the economy: the political economy of Australian economy policy*, 1997, Oxford, Auckland, and New York, Oxford University Press, 1997, p. 160

higher business profits, and reductions in the imbalance of wages and productivity were necessary for employment growth.¹⁴⁴ Thus the management of inflation was preferenced over employment, together with a focus on the labour market and excessive wage growth as causes of unemployment. Thus many of the principles of the post-war system of employment that had survived the reforming of the Whitlam government, were abandoned during the Fraser years. The monetarist agenda of the Fraser government is also evidenced by the Committee of Review of Government Functions, formed after the 1980 Federal election which proposed drastic cuts to government spending.¹⁴⁵ It was headed by former Treasurer Lynch and became known as the “Lynch razor gang”.

Particularly towards the end of the Fraser government there was tension within the government itself regarding economic management and employment. PM Malcolm Fraser and Treasurer John Howard disagreed over the pursuit of a more expansionary budget with an election looming and the economy in recession. Fraser favoured such a budget, while Howard favoured continued monetarist policy.¹⁴⁶ Howard also favoured financial deregulation and further removal of financial restrictions that were hangovers of the post-war system as eventually pursued by the Hawke and Keating ALP governments. Despite such disagreements, it is fair to say that the Fraser government was primarily concerned with bringing inflation under control, with less concern for employment. Many in the government believed that reform along these lines was necessary, as was the associated pain, such as increases in unemployment. Many also believed there would be long-term benefits to such reform. The failure of the government to solve the issue of inflation is further real world evidence that the relationship between government spending and inflation is not particularly strong, and unemployment would continue to rise despite a lack of success in inflationary control.

The hollowing out of government functions that took place in the between 1975 and 1983 allowed for the radical neoliberalisation of the economy in the 1980s and 1990s. While much

¹⁴⁴ Fraser, *op. cit.*, ‘Policy speech’

¹⁴⁵ J. Wood, ‘You don’t need to know: a look at the razor gang cuts’, *The Australian Quarterly*, vol. 54, no. 1, 1982, p. 44

¹⁴⁶ Steketee, M., ‘Howard and Fraser’s titanic budget clash’, *The Australian*, 1 January 2012, <http://www.theaustralian.com.au/national-affairs/howard-and-frasers-titanic-budget-clash/story-fn59niix-1226233629559>, accessed 10 September 2015.

of the structure of government involvement in the economy through the Fraser government remained in place, targeting government spending meant many functions were, in reality, hollowed out. This is clear in the functions of the CES. Further, the attempts to reduce inflation to acceptable levels, which dominated the end of the Whitlam government and the life of the Fraser government, largely failed, and unemployment climbed to about 10% in the 1982/3 recession, contributing to the Coalitions electoral defeat in March 1983.¹⁴⁷

A failure of Fordism?

Many scholars believe that the problems experienced by the post-war system in the 1970s represent a broader failure of Fordism (the dominant post-war system model of development). They see problems with increases in labour's bargaining power, an increasingly expansionary state, and a productivity crisis.¹⁴⁸ It appears to be incorrect, though, to assume that the breakdown of the post-war system was therefore a *fait accompli* and happened for natural reasons. As can be seen in the above discussion, particularly that of the Whitlam government, the breakdown of the post-war system was driven by political forces, and was a choice of government.

Marxist political economy theorises that the deconstruction of the post-war system and full employment was driven by natural limits to capitalism, whereas they were in fact policy choices made by government.¹⁴⁹ While it is often argued such choices are made because of the nature of the state, it should be noted that the state, while embedded in society, is also in an institutional position to act with some degree of autonomy, and it has in the past. It appears that Michal Kalecki's belief that capitalists would eventually rebel against full employment due to a loss of social esteem was prescient.¹⁵⁰ Yet, there were other important factors such as the spread of neoliberal ideas to Australia via think tanks and anti-Keynesian pockets in Australian institutions that grew in both numbers and confidence over time.

¹⁴⁷ Bell, *op. cit.*, *Ungoverning the economy*, p. 160

¹⁴⁸ *Ibid*, p. 85 - 99

¹⁴⁹ Mitchell, W. and Muysken, J., *op. cit.*, p. 11, 12

¹⁵⁰ Kalecki, M., 'The political aspects of full employment', *The Political Quarterly*, vol. 14, no. 4, 1943, p. 326

While Fordism may be said to be running up against environmental problems today, these problems were not generally acknowledged by policy makers in the 1970s. The breakdown of the post-war system came about for political reasons, and the problems the post-war system experienced in the 1970s were solvable within the post-war system. The neoliberal system was constructed out of the remnants of the post-war system that was wound back and deconstructed over the course of the 1970s and 1980s.

Chapter 6

Hawke, Keating, and the neoliberalisation of Australian employment

Neoliberalism and employment

The neoliberal system was informed and shaped by the neoliberal political movement and its interaction with local specificities. This section will begin with a discussion of neoliberalism and Australian political parties, and some more principles of neoliberalism. Following this, there will be a discussion of employment policy of the Hawke and Keating governments, especially focussing on the effect of neoliberalism (both through the neoliberal political movement, and the neoliberal system) on employment policy. These discussions will be informed by the idea that employment is socially beneficial, that unemployment has a negative effect on individuals and that many social issues encountered by families and individuals are the result of unemployment. Thus, the large rise in unemployment that has taken place through the neoliberal era will be viewed negatively and considered to be both socially and economically damaging.

The labour market is treated differently under neoliberalism. Under the post-war system the labour market was guided by the state to its requirements, and sometimes to the skills of the public.¹⁵¹ Under neoliberalism, government policy shapes people to the requirements of the market. Neoliberalism has targeted the welfare state. The result has not been a withering away of benefits, but the rise of coercive techniques of management of the unemployed.¹⁵² Such welfare reform has been pursued by both ALP and Coalition governments, though not equally. Despite some rhetoric from government and political parties, there has not been a reduction of the state over the period of the neoliberal system, but there have often been attempts by government to remove itself from responsibilities it was presumed to have under the post-war system.

The government creation of jobs against people's skills has advantages over attempting to train people to the requirements of the labour market as has been a labour market strategy

¹⁵¹ H. P. Minsky, *Ending poverty: jobs not welfare*, New York, Levy Economics Institute, 2013, p. 150

¹⁵² Y. Hartmann, 'In bed with the enemy: some ideas on the connection between neoliberalism and the welfare state', *Current Sociology*, vol. 53, no. 1, 2005, p. 63

under neoliberalism. This has advantages from the perspective of employment. Further, the requirements of the labour market frequently change, and thus by the time training is complete, the requirements of the labour market have changed.¹⁵³ It is difficult to treat the labour market in such a way under the neoliberal system, in which the government intervenes for the market, rather than the government intervening to shape the market to its requirements, such as full employment.

This chapter will focus on how these neoliberal principles manifest themselves in employment policy in the Hawke and Keating government. Chapter seven will focus on the Howard government, while the second part of Chapter 7 will explore the Rudd government's response to the GFC and why this did not undermine the neoliberal system despite challenging beliefs about the role of the state in employment provision.

Neoliberalism and Australian political parties

The relationship between the ALP and neoliberalism is a complicated one.

Neoliberalism is more compatible with centre-left political parties than was previously thought. While there is significant deregulation that takes place, the political goals of neoliberalism are dependent on a strong state that is able to enforce the market, and also expand it through the creation of new markets.¹⁵⁴ The centre-left (the ALP in Australia) was able to embrace neoliberalism with some ease, as it had embraced the principles that informed the post-war system, because it had few historical qualms with market intervention by the state.¹⁵⁵

Throughout the period of the Hawke-Keating governments, the Liberal Party Opposition, headed at various times by Andrew Peacock, John Howard, John Hewson, and Alexander Downer, also further embraced neoliberalism. Over time, this required a move away from classical liberal ideals, in order to pursue neoliberal intervention. Neoliberalism does not manifest itself in ALP and Coalition governments in the same way because its ideals mesh with the history of those parties. However, as with the post-war era, there is an overarching

¹⁵³ Minsky, *op. cit.*, *Ending poverty* New York, p. 108, 112 – 113

¹⁵⁴ Mirowski, *op. cit.*, p. 53

¹⁵⁵ Dardot and Laval, *op. cit.*, p. 245

neoliberal system. Neoliberal ideals also mesh with the local Australian context and thus have a unique effect on policy.

Both parties would continue to pursue balanced public budgets through this time, further embracing sound finance. For the ALP this would culminate in the 1988 budget, seen as a major achievement by the Hawke government, with Treasurer Paul Keating famously claiming it was the budget that would “bring home the bacon”.¹⁵⁶ Keating predicted a soft landing for the economy, while the consequence was in fact severe contraction and recession.¹⁵⁷

The pursuit of balanced budgets as part of the neoliberal system would also be contentious. Changes to the structure of the international economy and the Australian economy, and the running of consistent trade deficits, meant the pursuit of a balanced government budget was more difficult and this would result in higher levels of private debt. Wynne Godley has shown that in a national economy, two of either the public, private or external (trade) budgets have to be in deficit.¹⁵⁸ If a national economy is running a trade deficit and a public surplus, then the private sector must be in deficit.

The pursuit of a balanced budget would also mean that unemployment would be pushed higher. Despite this pursuit of balanced budgets or surpluses, the primary frame of reference through which the economy is judged by neoliberals is competition.¹⁵⁹ Alternatively, competition can be thought of as the goal, while the frame of references are inflation, government spending, and other measures. The neoliberal logic of competition implies market interactions which must result in winners and losers.

Many have noted the negative effects of neoliberalism on democracy, with Wendy Brown going so far as stating it is not compatible with any genuine form of democracy.¹⁶⁰ Others

¹⁵⁶ M. Blenkin, ‘This was the year to bring home the bacon’, *The Sydney Morning Herald*, December 30, 2014, <http://www.smh.com.au/breaking-news-national/this-was-the-year-to-bring-home-the-bacon-20150101-3negd.html>, accessed 3 August 2015

¹⁵⁷ *Ibid*

¹⁵⁸ Galbraith, *op. cit.*, *The end of normal*, p. 83 - 87

¹⁵⁹ Davies, *op. cit.*, p. 40, 41

¹⁶⁰ Brown, *op. cit.*, p. 201

have noted a de-democratisation taking place throughout this time, with Colin Crouch coining this “post-democracy”, while Lindy Edwards notes that rational choice theory attacks traditional approaches to democracy.¹⁶¹ Wendy Brown states that neoliberalism is incompatible with all forms of democracy, including liberal democracy.¹⁶² Neoliberalism is theorised as promoting de-democratisation by various means. During the post-war era, full employment was seen as a test of democracy. High levels of unemployment are still seen as politically damaging to governments by the public in the neoliberal system, while much unemployment is now hidden. The increases in unemployment under the neoliberal system can be partly considered a symptom of a de-democratisation that has taken place, particularly in terms of direct democracy, and the rise in importance of a professional political elite. This would also manifest itself in technocratic policy advice being taken with little regard for public mandates or the public in general (though not always), and an increase in importance of technocratic policy advisers trained in economic rationalism.¹⁶³ As stated previously, a main target of neoliberalism was social democracy, aspects of which had remained despite the breakdown of the post-war system and the full employment guarantee, but in changed form.

A feature of the neoliberal system has been a large increase in inequality, which is justified as economically beneficial, and beneficial to employment.¹⁶⁴ The link between pay inequality and unemployment levels during the neoliberal era has not been strong. However, this inequality, driven by a bubble economy, leads to instability and crises, and thus can increase unemployment.¹⁶⁵ James Galbraith has found that inequality drives up unemployment, and his studies showed that greater equality coincides with more sustainable growth and levels of employment.¹⁶⁶ This puts considerable pressure on the neoliberal idea

¹⁶¹ C. Crouch., *Coping with post-democracy*, Fabian Society: London, 2000, p. 7, 8

L. Edwards., *The passion of politics: the role of ideology and political theory in Australia*, Sydney, Allen and Unwin, 2013, p. 149, 150

¹⁶² Brown, *op. cit.*, p. 18, 42, 43

¹⁶³ M. Pusey, *Economic rationalism in Canberra: a nation building state changes its mind*, Cambridge, New York, Port Chester, Melbourne and Sydney, Cambridge University Press, 1991, p. 59

¹⁶⁴ Davies. *op. cit.*, p. 35 – 37

¹⁶⁵ J. K. Galbraith, *Inequality and Instability: a study of the world economy just before the great crisis*, Oxford, and New York, Oxford University Press, 2012, p. 147, 148

¹⁶⁶ *Ibid*, p. 147, 148

that rigidity in the labour market results in greater unemployment, and that greater labour market flexibility results in lower unemployment. As will be shown, this has been an important area of neoliberal reform. Galbraith also provides data showing that regional inequality, as caused by neoliberal economic restructuring increases unemployment.¹⁶⁷

Further, Galbraith's findings do not conform to the idea that wage flexibility necessarily leads to lower unemployment.¹⁶⁸ The 1980s Prices and Incomes Accord, with a different approach, was designed as a possible solution to both sides of stagflation (rising inflation *and* rising unemployment).¹⁶⁹ Inequality is an aspect in which the post-war system resulted in a more egalitarian society and more stable employment, while the neoliberal system has been the opposite. The embrace of such ideas comes with the change in the frames of reference through which the economy is judged.

Inequality would manifest differently in Australia to other parts of the world. The ALP would reform the economy in such a way that inequality did not increase to the extent it did in, for example, the UK or New Zealand, when neoliberal reforms took place.¹⁷⁰ However, the long-term changes to the structure of the economy meant inequality would rise, and also would result in large increases in private debt and asset bubbles, helping to mask some inequality, while creating other issues.¹⁷¹

Over the course of the neoliberal system there have been significant changes to the measurement of unemployment with the move away from the full employment guarantee. Because the public and political concern for unemployment cannot be fully removed, governments seek means by which figures can be made to look better than they are. For example, under the neoliberal system an individual working one hour a week is considered

¹⁶⁷ *Ibid*, p. 182

¹⁶⁸ *Ibid*, p. 174

¹⁶⁹ C. F. Wright, 'The Prices and Incomes Accord: its significance, impact, and legacy', vol. 56, no. 2, 2014, p. 265

¹⁷⁰ B. Spies-Butcher, 'Markets with equity? Lessons from Australia's Third Way response to neoliberalism', in D. Cahill, L. Edwards and F. Stilwell, (eds.), *Neoliberalism: beyond the free market*, 2012, p. 206

¹⁷¹ M.C. Howard and J. E. King, 'Reflections on the long Australian boom', *The Journal of Australian Political Economy*, no.61, 2008, p. 67

employed.¹⁷² Underemployment and employment figures can be more useful guides than unemployment figures, but are more difficult to find and less frequently cited. However, the measurement of unemployment over the course of the post-war period seems to have been fairly consistent. This also provides a benign example of how the neoliberal system has adopted measures from the post-war system that are of public and political concern. It is not possible to completely remove employment as a frame of reference, hence also the need to say certain things will increase employment when they clearly won't and increasing employment is not the goal of policy.

The Hawke government

Bob Hawke replaced Bill Hayden as leader of the ALP one month before the 1983 Federal election, in which the ALP returned to government for the first time since 1975, and would govern for an ALP record of 13 consecutive years. The Hawke and Keating governments would embark on major economic reforms that would considerably change the structure of the Australian economy, and would make major changes to employment policy. The Third Way approach of the Hawke-Keating governments was the result of the merging of neoliberal theory with the ALP's ideals.¹⁷³ Throughout the Hawke-Keating governments the neoliberal understanding of unemployment, as a supply-side problem of unemployed individuals, rather than a demand-side problem of an inherently unstable capitalism that did not produce enough jobs for all those desiring work and for the benefit of the population, was further entrenched. The government would start to take a more hands-off approach to the provision of jobs for the unemployed, which, somewhat ironically, and informed by neoliberalism, would over time result in a more hands-on coercive approach to the management of the unemployed by the state.

The ALP did not win the 1983 election on a traditional right-wing platform.¹⁷⁴ The Hawke government initially pursued an expansionary fiscal policy to stimulate growth and an accommodating monetary policy, while wage-driven inflation pressures were to be held in

¹⁷² 'How does the ABS measure unemployment', *Australian Bureau of Statistics*, available at <http://www.abs.gov.au/ausstats/abs@.nsf/products/FBE517ECA9B07F63CA257D0E001AC7D4?OpenDocument>, accessed 12 June 2015

¹⁷³ Spies-Butcher, *op. cit.*, p. 208

¹⁷⁴ Helleiner, *op. cit.*, p. 165

check through a wages Accord with the unions.¹⁷⁵ The pursuit of an Accord between industry and labour was influenced by Keynesian concerns about a wage-price spiral as an unintended response to stagflation. Such a position was likely informed by the fact that monetarist policy had failed to curb inflation between 1974 and 1983, while unemployment had increased from about 3% to 9%.¹⁷⁶ Rises in unemployment were similarly extreme in the United Kingdom between 1979 and 1983, the years in which the most pure monetarist policies were pursued by the Thatcher government, and under the Reagan administration in the US.¹⁷⁷

As part of the ALP National Committee of Inquiry from 1977 to 1978, launched in the aftermath of the Fraser government's re-election in 1977, Australian economists Geoffrey Harcourt and Prue Kerr had recommended an incomes policy be combined with fiscal and monetary policy.¹⁷⁸ Incomes policy was adopted in the Hawke government's first term, as the first Prices and Incomes Accord, between 1983 and 1984, though later Accords had a different focus. The first Accord can be seen as being informed by theorising aimed at retaining elements of the post-war system structure by providing a solution to continued stagflation, while the later Accords were more in line with neoliberal ideas and goals, such as linking wage increases to efficiency offsets, as well as government 'social wage' benefits.¹⁷⁹ Of course, a neoliberal aspect of the Accord is the idea that high wages were driving unemployment up. The growth of precarious work has been linked as an unintended consequence, and while it facilitated neoliberal structural adjustment the Accord has not had a lasting effect on productivity.¹⁸⁰

¹⁷⁵ Bell, S., *op. cit.*, *Ungoverning the economy*, p. 142

¹⁷⁶ *Ibid*, p. 160

¹⁷⁷ D. B. Robertson, 'Mrs. Thatcher's employment prescription: an active neo-liberal labour market policy', *Journal of Public Policy*, vol. 6, no. 3, 1986, p. 282

A. Hartung, 'Obama outperforming Reagan on jobs, growth and investing', *Forbes*, 2014, available at <http://www.forbes.com/sites/adamhartung/2014/09/05/obama-outperforms-reagan-on-jobs-growth-and-investing/>, accessed 15 September 2015

¹⁷⁸ 'Economic issues and the future of Australia', *Australian Labor Party national committee of inquiry discussion papers*, Australian Political Studies Association, p. 58

¹⁷⁹ 'Report Chapter 1', *House of Representatives standing committee economics* available at: http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees.html?url=economics/productivity/report/chapter%201.htm, accessed 15 August 2015

¹⁸⁰ C. F. Wright, 'The prices and incomes accord: its significance, impact and legacy', *Journal of Industrial Relations*, vol. 56, no. 2, 2014, p. 267

There was some opposition to the first Accord from the opposition Liberal Party, with concerns over negative effects on employment due to reducing flexibility. By contrast, government Ministers argued that the Accord was a better system to encourage wage restraint than the use of unemployment to control labour and wage claims. Unemployment would trough in 1990 at 6%, lower than the highs of the Fraser government, but would rapidly rise to 11% in the early 1990s with the onset of recession, to which the government provided a late and limited response.¹⁸¹ As pursued, the various Accords did not provide a solution to the rising unemployment that began in the mid-1970s, and since the early 1990s recession average unemployment levels have been much higher than the in the post-war era.

The experience of the various Accords provides some evidence for the idea that unemployment had a multitude of causes, for example the restructuring of the Australian economy during the Hawke years.¹⁸² Thus, wage increases were at least not the only cause of unemployment. As a result, the various Accords pursued by the Hawke government could not solve both sides of the stagflation issue (high unemployment and inflation) as they were originally intended to, amongst other things. The 1990 recession eventually resulted in deflation through high unemployment.

From this discussion it can also be said the Accords were at first informed by an attempt to understand the crisis of the post-war system of the mid-1970s and were something of an attempt to overcome that crisis and retain elements of the system, but these concerns were later replaced with neoliberal concerns. Nevertheless, the Hawke government adopted neoliberal and monetarist ideas but was more left-of-centre on social benefits and saw a role for unions.¹⁸³ However, this could not prevent the flaws of the neoliberal system.

Indeed, there is some controversy over the cause of the high inflation of the mid-1970s, considered the crisis of the post-war system, to which the Accord was a response, and which

¹⁸¹ Bell, S., *op. cit.*, p. 160

¹⁸² R. E. Gregory, 'The impact of labour-market and economic reforms in the UK, NZ, Australia and the US', in Bell, S. (ed.), *The unemployment crisis in Australia: which way out*, Cambridge University Press: Cambridge, New York, and Oakleigh, 2000, p. 107

¹⁸³ Spies-Butcher, B. *op. cit.*, p. 207

would be exploited in the creation of the neoliberal system, both in Australia and internationally. Geoff Tily states that accepted mainstream arguments ignore the deregulation that began in the 1960s, a process that included US President Nixon's initiating the dismantling of the Bretton Woods system 1971.¹⁸⁴ Also, focussing on the UK, the Thatcher government's *Competition and Credit Control* deregulation of constraints on private bank credit creation and their ability to set interest rates (important aspects of the post-war system) was partly informed by flawed ideas that the government controlled the money supply and that banks operate on a fractional reserve banking system, and interest rates.¹⁸⁵ In fact, banks create money "out of thin air" as discussed previously, while Keynesian policy meant interest rates should be maintained at low levels.

For Monetarists such as Milton Friedman, inflation was "always and everywhere a monetary phenomenon", and thus was caused by bad central banking. In reality, inflation had a multitude of causes, and it is not clear whether inflation was caused by monopoly capital setting prices, oil suppliers setting prices, union power and lack of wage restraint, or government spending. The cause of high inflation could be a combination of all these factors, and some may be of greater importance than others. The neoliberal political program would focus on certain elements of these, especially those that could be considered informed by the idea of the "social". Hawke government policy was heavily informed by neoliberal thinkers, and at the minimum was a response to reform implemented in the name of such thinkers, in the process being informed by it.

It should be noted that as previously stated, neoliberalism did not involve a direct attack on labour as was evident prior to the post-war system, manifesting in the redistribution of wealth, power, and capital to the owners of industry. Rather, neoliberalism attacked labour through a restructuring of the economy resulting in the withering away of heavily unionised industries, and a financialisation of the economy and society, as well as the rise of the services economy and associated jobs.¹⁸⁶

¹⁸⁴ 'Nixon and the end of the Bretton Woods system', 1971 – 1972, *Office of the Historian, U.S. Department of State*, available at <https://history.state.gov/milestones/1969-1976/nixon-shock>

¹⁸⁵ G. Tily, 'On prosperity, growth, and finance', *Prime Economics*, 2015, p. 12, available at <https://static1.squarespace.com/static/541ff5f5e4b02b7c37f31ed6/t/54fda47ee4b0da8321734ee4/1425908862241/12.Prosperty.pdf>, accessed 20 August 2015

¹⁸⁶ Murray and Chesters, *op. cit.*, p. 9

Interestingly, the Hawke government believed that their economic reforms would make industry more competitive and thus, arguably, were seeking to strengthen traditional industries, such as manufacturing.¹⁸⁷ This was certainly the rhetoric coming from the government, which appeared to be informed by the neoliberal logic of competition: that industry and labour must be made more competitive and productive to compete more strongly with overseas industry. It was only in hindsight, when significant economic and industrial restructuring had taken place alongside an associated restructuring of the makeup of the labour market, that government ministers started referring to the rise of the services economy as though this had been a policy goal. Similar reforms took place in other parts of the world. For example, in the UK, the Thatcher government attacked the ‘cinder of labour’ and once organised labour was weakened, industries were offshored, and vice-versa, industry was attacked to weaken labour. Thus in processes of neoliberalisation, including in Australia, there was not a simple redistribution away from employees and towards owners of capital. Instead there were changes in the make-up of the economy, with declines in manufacturing and the rise of the services economy and finance. Through this came a strengthening of the position of finance in the Australian economy and politics, and further deregulation.

The Keating government

Paul Keating, Treasurer of the Hawke government, became Prime Minister in late 1991 after a protracted leadership battle with Bob Hawke. Enterprise bargaining would replace the Accord structure of wages that featured during the Hawke years. This meant direct negotiations would take place between unions and industry in the setting of wages and working conditions. It is difficult to know whether this is neoliberal in itself, however, the benefits of such a system for employees are lessened when union membership is declining, as had been taking place in Australia.

Australia was in a major recession in 1991 when Keating became Prime Minister. The government wanted to allow “market forces” to provide a solution to the recession. Keating would criticise any government ministers that talked down the economy, claiming they were eroding confidence. For example, he criticised John Button when Button acknowledged a

¹⁸⁷ A. Leigh, ‘Trade liberalisation and the Australian labor party, *Australian Journal of Politics and History*, vol. 48, no. 4, 2002, p. 498

serious downturn was taking place.¹⁸⁸ Under neoliberalism, the restoration of confidence is used as a justification for austerity, the idea being that austerity will increase confidence and thus lead to recovery. In 1991/1992 unemployment reached 11%.¹⁸⁹ As noted by Stephen Bell, throughout this period, the Treasury and the Business Council of Australia would argue, as they had before, against any expansionary policy with the Business Council calling for a tightening of fiscal policy.¹⁹⁰ Treasury and the Business Council had taken this position for a long time, regardless of the outcome of such changes, or the strength of the economy and the labour market.

In 1992, in belated response to the recession, the Keating government introduced a soft Keynesianism in the guise of a program titled *One Nation*. Keating believed this provided a new direction for a government that had been growing increasingly unpopular due to the consequences of the recession. The package was small given the scale of the recession. One official stated that the size of the package was determined by what financial markets thought was appropriate.¹⁹¹ Further, the short-term stimulus was contained within a long-term deficit reduction scheme.¹⁹² The main element of *One Nation* was tax cuts, not buttressed by increased government expenditure, and which were not to be implemented until 1994. Thus, the *One Nation* package was directed as a government response to the opposition Coalition's *Fightback!* policy package, matching its tax cuts while discarding the politically contentious consumption tax, rather than an embrace of Keynesian policies or an alternative to neoliberal employment policy.¹⁹³ There were few labour market programs in *One Nation*, and there was only later a small expenditure on infrastructure.

Later there were attempts to stimulate investment, but this was to be achieved through a reduction in company tax. This is the preferred neoliberal solution to increasing investment, and contrasts with other means of increasing investment during the post-war era, which focusses on demand. It also contrasts with the idea that was more popular during the post-war era that the government should have a greater role in investment because it is less subject to

¹⁸⁸ Bell, S., *op. cit.*, p. 157

¹⁸⁹ *Ibid*, p. 160

¹⁹⁰ *Ibid*, p. 157

¹⁹¹ *Ibid*

¹⁹² *Ibid*

¹⁹³ *Ibid* 157, 158

shifts in expectations, and will make higher-risk investments with long-term benefits that the private sector may not.¹⁹⁴ By contrast, the neoliberal system relies on supply-side solutions, in this case measures such as tax cuts. Such solutions are built on a different understanding of the capitalist system than that of the post-war era, and are not built on an understanding of capitalism as an inherently unstable system. They also change the understanding of the nature of the state and its responsibilities, a necessity for the neoliberal desire for a state that acts in the interest of the market, regulating for the market, and as a market creator.

Later, partly in response to the 1991 recession, the Keating government began drafting a plan for the state creation (neoliberal, as discussed in Chapter 3) of a competitive market that would supply the provision of employment services. This was put forward in the Working Nation white paper of 1994, which was a response to the mass unemployment created by the 1991 recession, and the lack of a significantly expansionary government response to this recession. Up until this point, the government relied on ‘market forces’ for economic recovery, rather than introducing a fiscal stimulus. The Keating government would introduce aspects of the ‘Working Nation’ White Paper, while the Howard government would introduce a state-driven marketisation of employment services. HC Coombs wrote a paper in which he was critical of the ‘Working Nation’ White Paper, unfavourably comparing it to the post-war White Paper on Full Employment.¹⁹⁵

In important ways employment policy in the neoliberal system has been bipartisan. Where it hasn’t there has often been a manufactured contest between the major parties, because reform has been based on policies the previous government has been floating or trying to get through parliament. Occasionally such policies are opposed by the party that first proposed them when they have lost office and these reforms are being pursued by the new government. This is partly the nature of a democratic political system, but it may also be because of changes in the nature of democracy under neoliberalism. This could explain the high level of

¹⁹⁴ M. Mazucatto, *The Entrepreneurial State: debunking public vs. private myths in risk and innovation*, London, New York, and Delhi, Anthem Press, 2013, p. 108 – 113

¹⁹⁵ H. C. Coombs, ‘From Curtin to Keating: the 1945 and 1994 White Papers on employment a better environment for human and economic diversity?’, 1994, p. 14, 15, <https://digitalcollections.anu.edu.au/bitstream/1885/47102/3/FromCurtintoKeating2.pdf>, accessed 20 March 2015

bipartisanship on aspects of policy in the 1980s and 90s, from economic restructuring to employment policy.

Keating defended his government through the recession, stating that the 1991 recession was a “recession we had to have”.¹⁹⁶ The idea that the 1991 recession was inevitable, or at least beneficial, or a “recession we had to have”, and that there is such a thing as beneficial deflation is a somewhat less extreme vision of the Austrian principle of the necessity of recession, and negative consequences of government attempts to aid recovery and prevent recession. This also drove the government's ongoing soft response to the recession. By contrast others, such as Monetarists, had various solutions to recession, such as quantitative easing (QE) programs, which Milton Friedman advocated for Japan in the 1990s. QE is similar to policies that Keynes considered as a possible solution to the depression before he embraced more radical non-neoclassical ideas.¹⁹⁷

Neoliberalism would have an effect on employment policy and unemployment benefits during the Keating government era. For example, a progress report on the ‘Working Nation’ paper published in 1995 noted a dual effect of welfare, that is that unemployment benefits meant contemporary unemployment did not have the same destitute effect as unemployment in the 1930s, but that generous social security nets were also the cause of unemployment.¹⁹⁸ Unemployment is theorised as being caused by supply-side issues, such as generous unemployment benefits. This contrasts with the post-war system, in which capitalism was understood as providing a deficient number of jobs (demand side). This latter is a more common sense understanding of unemployment for a number of reasons. Regardless of the availability of unemployment benefits, the extent of wage claims, and other things, there are not enough jobs for the unemployed to fill. Regardless of how much competition the unemployed are forced to partake in in order to receive welfare payments, and indeed to achieve employment, there are a deficient number of jobs available. Competition amongst the unemployed does not increase the overall number of jobs available in the economy. As a

¹⁹⁶ D. Watson, *Recollections of a bleeding heart*, Vintage Books Australia: North Sydney, 2002, p. 82

¹⁹⁷ M. Friedman, ‘Canada and flexible exchange rates’, *Bank of Canada Keynote Address*, p. 421, available at: <http://www.bankofcanada.ca/wp-content/uploads/2010/08/keynote.pdf>, accessed 20 September 2015

¹⁹⁸ ‘Working nation: a progress report’, *Parliamentary Research Service*, Current Issues Brief no. 32, p. 3 <http://www.aph.gov.au/binaries/library/pubs/cib/1994-95/95cib32.pdf>, accessed 30 August 2015

result, reforming unemployment benefits does not improve employment numbers. Reform focussed on supply-side issues also does not analyse capitalism as a whole system, ignoring the effect reductions in welfare payments can have on demand, and thus on the economy and employment.

Many in government seem to believe neoliberal theories about unemployment. However, given the “double truth” of neoliberalism itself, there is also a highly political element here.¹⁹⁹ This is also the case because the neoliberal political movement was at its inception an attempt to keep liberal principles alive in a world where classical liberal principles had been superseded by reality. As a result, neoliberalism has normative political goals, not based on an understanding of real-world processes, but based in an attempt to remake the world in its image, and according to its preferred method of marketisation. There is also a belief that the unemployed should be made to compete with each other for jobs, and that “generous” social security nets prevent this competition. Competition is seen as being good for employment for various reasons, such as that it decreases wages, which allows businesses to hire more employees. Another political element here is that lower wages means less equal distribution, thus benefiting certain members of society. Meanwhile, the attack on welfare is a means by which the state, informed by the neoliberal political movement, can manage the unemployed and force greater competition for jobs.²⁰⁰

The above does not imply that the individuals engaged in reform did not believe in them. In many cases they felt that they would have a positive long-term benefit to employment. But the real-world data contradicts such belief. In the grand scheme of the causes of unemployment, the generosity of welfare is a distraction, in which the unemployed are punished because of a major change in the frame of reference through which the economy is judged.

¹⁹⁹ Mirowski, P., *op. cit.*, p. 105

²⁰⁰ Y. Hartmann, ‘In bed with the enemy: some ideas on the connection between neoliberalism and the welfare state’, *Current Sociology*, vol. 53, no. 1, 2005, p. 64

Chapter 7

Employment services and the Howard government, and employment and the GFC

The Howard Government

The Howard government came to power on 11 March 1996, ending 13 years of ALP government. It continued with neoliberal reform, in particular in relation to employment policy, in important ways. The three main aspects of Howard government employment policy to be analysed are the privatisation of employment services, attempts to make the labour market more flexible and reduce the influence of trade unions through anti-union legislation, and implementation of punitive (surveillance) reform to unemployment welfare services. As with the Hawke and Keating governments, informed by neoliberal theory, there also remained a focus on the productivity of the labour market, which was said to be held back by labour laws and the rigidity of the labour market. The Howard government was influenced by the New Right idea that society was no longer responsible for the individual, as had become more popular throughout the whole neoliberal era.²⁰¹ This has a kindred spirit in the neoliberal disregard for the social as discussed in Chapter 3 of this thesis.

The Howard government shows the evolution of the Liberal Party from that of the nascent neoliberalism of the Fraser government towards a political party with a strong neoliberal influence. The embrace of neoliberalism was dependent on an abandonment of small government and non-interventionist principles with regards to the market.²⁰² It's worth pointing out that the Liberal Party never had such a pure classical liberal approach to the market. However, it has changed under the influence of neoliberalism, and is more explicit in policy despite some libertarian rhetoric. This process began after the defeat of the Fraser government and went through both the Peacock, Howard, Hewson and Downer led oppositions, while the philosophy was put into practice by the Howard government.

²⁰¹ P. Kelly, *The march of the patriots*, Carlton, Melbourne University Press, 2009, p. 292

²⁰² Dardot and Laval, *op. cit.*, p. 44, 45

An important initiative of the Howard government was the partial privatisation and quasi-marketisation of employment services, which had remained the responsibility of the state-run CES through the period of the post-war system and the neoliberal system until that point. In 1998, the functions of the CES were transferred to a new government provider, Employment National. Employment services were placed against the Job Network (now Job Services Australia), which was made up of a competitive network of community, government, and commercial job agencies.²⁰³

Minister Mal Brough stated that the Job Network would reduce the cost to the government of helping the unemployed find work. Brough also stated that the state-owned CES delivered worse outcomes while increasing costs.²⁰⁴ Shadow Minister Anthony Albanese stated that the Job Network was an abandonment of the direct role of the government in finding employment for the unemployed, and that this meant this was no longer considered a core government responsibility.²⁰⁵ The Kim Beazley-led ALP opposed the policy on this rationale. Interestingly, however, the Job Network reform was based on a set of reforms that were originally put forward by the Keating government as part of the 'Working Nation' paper.²⁰⁶ This shows that while the ALP actively participated in the neoliberalisation of employment policy, this was not always a consensus position amongst all ALP MPs (at least in all areas). However, it also shows continuity in reform between the ALP and the Coalition.

Neoliberalism had an influence on the institutional structure of the Job Network. This is seen in the creation of a quasi-market by the state, allowing for the state to set the rules of the game, and intervene to force competition between not just the unemployed, but also between employment agencies themselves. This commodification of the unemployed is the logical extension of neoliberal marketisation, was driven by government policy, and was not a withdrawal of the state.

²⁰³ Hartmann *op. cit.*, vol. 53, no. 1, p. 69

²⁰⁴ 'Government defends Job Network employment agency', *ABC PM*, available at: <http://www.abc.net.au/pm/content/2004/s1048118.htm>, accessed 17 September 2015

²⁰⁵ *Ibid*

²⁰⁶ J. Jose and J. Burgess, 'Working nation: context and consequences', *Journal of economic and social policy*, vol. 9, no. 2, 2005, p.7

The Howard government transferred the responsibility for the administration of unemployment benefits to its agency Centrelink. Sanctions were introduced for those on unemployment benefits who did not conform to market expectations and rules, such as job seeking and reporting requirements. Thus, the state was intervening in the market, in order to aid the market through sanctions, an important aspect of neoliberalism.²⁰⁷ The Job Network (and its successor, Jobs Services Australia) provided justification for taking punitive measures against the unemployed, including cutting off welfare benefits, in an environment in which there were a deficient number of jobs for job seekers. Another aspect of the neoliberalisation of competition and welfare was the Work for the Dole scheme introduced by the Howard government in 1998. Individuals were placed in programs, generally in community services, in order to claim unemployment benefits, initially targeting 18 to 24 year old job seekers, extending to 17 year olds in 1999.²⁰⁸ This is another coercive measure taken against the unemployed by government under the neoliberal system.

Studies have found that those on work for the dole schemes were likely to stay unemployed for a longer period of time.²⁰⁹ Thus, it was not effective in decreasing unemployment, as a scheme for finding work for the unemployed, or an incentive for the unemployed to accept work. It can be argued that such schemes are in fact the logical extension of the changing state attitudes towards the unemployed that have come about after the abandonment of the full employment objective by government. As with the Job Network reforms, it can be strongly argued that work for the dole schemes were designed to punitively punish the unemployed, rather than to help them find employment. This also points to reasons for the continued popularity of such schemes amongst Australian governments (for example the Abbott government), despite their lack of success by traditional employment measures. From this study, it is clear that youth unemployment was mostly and continues to be mostly driven by government policy. It is certainly true that there has been a loss of unskilled labour and, for example, industrial jobs, but the response of consecutive governments to this has been inadequate. It was not necessary for these individuals to become long-term unemployed.

²⁰⁷ Dardot and Laval, *op. cit.*, p. 173

²⁰⁸ J. Bessant, 'Regulating the unemployed: Australia's work-for-the-dole scheme', *Journal of Australian Studies*, vol. 24, no. 64, 2009, p. 76

²⁰⁹ J. Borland and Treng, Y. P. 'Does 'work for the dole' work? An Australian perspective on work experience programmes', *Applied Economics*, vol. 43, no. 28, p. 4364

As seen from the above, a unique aspect of the neoliberal influence on employment policy is that it does not seek to abolish unemployment welfare (after all, outright abolition is unlikely to be viewed positively by the public), but rather seeks to regulate it in such a way that the unemployed are forced to act in certain ways, in fact regulating the unemployed themselves.²¹⁰ This can also be achieved through making it harder to qualify for welfare.

The Howard government continued with the neoliberal reform of the labour market. It is important to remember that under the post-war system, the labour market was not considered an ordinary market (because it involved people), and that the problems of unemployment were perceived as being found outside the labour market. Therefore the labour market can be considered to have been re-marketised under the neoliberal system. Also, the government played an important part in enforcing what it saw as market rules. It created such rules along neoliberal lines, influenced by ideas about natural markets and associated rules. This was also a way of forcing job seekers into more competition in their seeking of employment, beyond the traditional competition of the unemployed competing with each other for limited jobs.²¹¹

The Howard government attempted to push wages down and made numerous attacks on trade unions during its time in office (including its failed effort in 1998 to install a non-union workforce of the Sydney waterfront). This was a long-term goal of the Howard government, culminating in Workchoices once it had gained control of the senate in 2005.²¹² Many Liberal MPs felt the party had missed such an opportunity when it last controlled both houses of parliament during the Fraser years. Workchoices made fundamental changes to workplace law, for example in the areas of unfair dismissal, the removal of no disadvantage tests for workplace agreements, and attempts to shift more employees from collective enterprise agreements to individual contracts. It significantly weakened the scope for employee protection and union action. Such policy was an attempt to increase productivity, but was also designed as a direct attack on the surviving remnants of organised labour.²¹³

²¹⁰ M.Gray, M. Dean, K. Agllias, A. Howard, and L. Schubert, 'Perspectives on neoliberalism for human service professionals', *Social Service Review*, vo. 89, no. 2, 2015, p. 372, 381

²¹¹ Mirowski, *op. cit.*, p. 53

²¹² A. Roan and C. White, 'A rhetoric of change: the language of the howard government's 2005 Work Choices agenda', *Australian Journal of Political Science*, vol. 45, no. 3, p. 341, 342

²¹³ *Ibid*, p. 345

It is generally accepted that Workchoices played a major part in the defeat of the Howard government in the 2007 Federal election. The Rudd government would introduce the Fair Work Act, which wound back significant portions of Workchoices such as restrictions on union right of entry and weakened unfair dismissal laws, however other aspects, such as restrictions on union strike action outside of bargaining periods, were retained.²¹⁴

The Howard government continued the inflation targeting of the previous governments of the neoliberal era. There was also a focus on public sector budget surpluses, meaning an increase in the private sector debt, along the lines described by Wynne Godley's sectoral balances approach. This was buttressed by trade deficits. Nonetheless, during the Howard years, the employment rate increased significantly. However, spending and demand was kept up by drastic increases in private debt.²¹⁵ Under the neoliberal system this is the preferred means of demand management, but can have negative consequences, as seen in the GFC. For example, in the US, the private debt bubble that had been building since the 1990s Clinton government, which deregulated finance and ran consistent surpluses, burst in 2007-08 as part of the GFC.²¹⁶

Unemployment levels were significantly improved under the Howard government. However, this was not sustainable. The lower unemployment rates were not due to the government reducing rigidity in the labour market, or punitive policy towards the unemployed, but were driven by demand increases through private debt, as well as a definition change that meant an individual working one hour per week was considered employed.

In conclusion, some of the problems with the Job Network have become clearer with increases in unemployment since the end of the Howard government, but it should be noted that its employment rates were not sustainable (and regardless were understated). Most compelling is evidence that neoliberal reforms to employment policy, the job market and

²¹⁴ M. Hilder and D. Davies, 'The fair work act: saviour for unions?', *Employment Relations Record*, vol. 11, no. 1, 2011, p. 35

²¹⁵ M. C. Howard, and J. E. King, 'Reflections on the long Australian boom', *The Journal of Australian Political Economy*, 2008, no.61 p. 67

²¹⁶ L. R. Wray, 'Global financial crisis: causes, bail-out, future draft', *UMKC Law Review*, vol. 80, no. 4, 2012, p. 1008, 1009

welfare have not resulted in higher levels of employment, and that when there have been higher levels of employment during the neoliberal era it has been driven by demand being met through private debt and asset bubbles. Employment services work best as a public monopoly, rather than a competitive market, in which the government takes responsibility for the unemployed.

The Global Financial Crisis, the Rudd Government, and Employment Policy

The GFC began in 2007 with the bursting of the US housing bubble, and associated private debt bubbles.²¹⁷ Some scholars see the housing bubble as a symptom of society's addiction to private debt, and the importance of private debt to the neoliberal system, and thus see this as the true cause of the crisis, along with systemic financial fraud.²¹⁸ Due to the highly integrated nature of the global economy and global financial flows of the neoliberal system, the GFC spread quickly to other parts of the world, and there was serious concern in Australia as to the effect of the crisis on the Australian economy and Australian employment.

In early response to the GFC, national governments turned to Keynesian pump priming and stimulus. Many saw this as evidence for the end of neoliberalism.²¹⁹ As has become clear since, this was not the case. In Australia, Keynesian policy was turned to as a means to return the economy to normality, while in other parts of the world, supposed Keynesian policy has in fact been informed by ideas that are antipathetic to Keynes' theories. Further, there has been limited attempt to embrace the idea of the social, while the frames of reference through which the economy is judged retain the necessity of justifying neoliberal policy and a neoliberal world view. Also, growth, inflation, and competition remain important economic frames of reference.

Neoliberalism has at its heart an innate ability to survive the crises it inevitably creates. Such crises have become more frequent internationally since the 1980s. Neoliberalism also has an innate ability to turn its own crises to its advantage. The GFC is the inevitable conclusion of

²¹⁷ Wray, L. R. *op. cit.*, p. 1008, 1009

²¹⁸ Galbraith, *op. cit.*, *The end of normal*, p. 153, 154

²¹⁹ Mirowski, *op. cit.*, p. 31, 32

the neoliberal system that has evolved since the mid-1970s, the logical conclusion of the influence of the neoliberal political program. As will be shown most responses to the crisis are either neoliberal in themselves or have merely been unwittingly designed to strengthen the neoliberal system.

Neoliberalism tends to use crises to support reform. This includes reforms generally understood to be neoliberal, for example, austerity drives, privatisation, and marketisation (as pursued by the state and achieved through state power). For neoliberals, market solutions are sought to all problems. The economic idea of ‘market failure’ that has become especially influential since the outbreak of the GFC, especially amongst neo-Keynesians, is something of a misnomer. It refers to failures of markets to reach optimal output levels, rather than a failure of the market *per se*.²²⁰ Generally, under the neoliberal system, market solutions are proposed as responses to market failure and other policy problems, and the state acts to insulate the market from democratic interference.

Despite a brief turn to direct job creation by the Australian government, there was a quick return to a neoliberal reliance on private sector job creation and the coercive management of the unemployed, and the pursuit of a budget surplus.²²¹ State intervention in the labour market for job creation was very brief, and attempted to be used to get the economy back on track. This is problematic in itself, because capitalism is inherently unstable, as has become clearer since the beginning of the GFC. The logic of the neoliberal system is clashing with the rules and logic of capitalism. There was only a brief period where the instability of capitalism was considered in policy making.

The supposed re-embrace of Keynesian principles, proclaimed by Keynes biographer Robert Skidelsky as ‘the return of the master’, took the form of ‘pump priming’ neo-Keynesian policies in most of the world.²²² In contrast, Australia had a greater emphasis on direct government works to create jobs, including the home insulation schemes and building the

²²⁰ *Ibid*, p. 56

²²¹ A. Garnett. and P. Lewis., ‘The economy’, in Aulich, C., (ed.), *The Gillard governments*, Carlton, Melbourne University Press, 2014 para. 6

²²² Skidelsky, R., *op. cit.* p. 19

Tcherneva, P, *op. cit.*, ‘Permanent on-the-spot job creation – the missing Keynes plan for full employment and economic transformation’, p. 59

education revolution, that were successful at creating employment and stimulating the economy.²²³ It is widely believed that they helped keep the Australian economy out of recession during the early period of the GFC.²²⁴ Despite this, these programs were controversial and the Abbott-led Liberal Opposition stated they were wasteful, and often failures. This shows a neoliberal understanding of waste, considered in terms of government spending, and can be juxtaposed against the understanding of waste under the post-war system when idle, unused labour was considered wasteful (for both the economy itself, and the unemployed individuals that had to go without work and income), and socially damaging.

In Australia, the Rudd government had a strong response to the GFC, implementing stimulus programs in October 2008 and February 2009 of \$10 billion and \$42 billion respectively.²²⁵ The makeup of the packages was partly influenced by the advice of Treasury Secretary Ken Henry that the government “go early, go hard, and go households”.²²⁶ Indeed, the Rudd government avoided the issues that other countries stimulus programs have had, for example through bypassing the banking system and giving cash handouts direct to individuals. Thus the stimulus was much more effective than, for example, the US stimulus packages, much of which was made up of tax cuts, the bailout of financial institutions, and money given to the banks, with only a small amount spent on direct job creation.²²⁷ Also, money created for stimulus did not bypass the banking sector, and thus did not have as positive an effect in relation to demand.

Jobs generated by the Australian programs were intended to be a temporary solution to unemployment as part of the response to the GFC, rather than permanent job creation measures, and as such they cannot be seen as undermining the neoliberal system of

²²³ ‘Labor saved Australia: Nobel laureate Stiglitz’, *Sydney Morning Herald*, August 6, 2010, ‘Labor saved Australia: Nobel laureate Stiglitz’, *Sydney Morning Herald*, August 6, 2010, <http://www.smh.com.au/business/labor-saved-australia-nobel-laureate-stiglitz-20100806-11lkq.html>, accessed 15 May 2015

²²⁴ A. Garnett and P. Lewis, ‘The economy’, in C. Aulich and M. Evans (eds.), *The Rudd government Australian Commonwealth administration 2007-2010*, 2010, ANU E-Press, p. 185

²²⁵ G. Robinson, ‘Rudd’s stimulus package: what will you get?’, *Sydney Morning Herald*, February 4, 2009

²²⁶ M. Grattan, ‘Treasury’s unleashed rock star’, *Sydney Morning Herald*, May 14, 2010

²²⁷ A Nasser, ‘The kind of stimulus we need: putting people to work’, *Counterpunch*, April 13, 2011

employment in themselves.²²⁸ They certainly opened up policy space for the restructuring of the economy (for example of private debt markets), and changing the frame of reference through which the economy was judged, or in terms of different understandings of what generates employment. If such restructuring and changes in understanding had happened there could have been a challenge to the neoliberal system. Of course, there were some problems with the administration of these programs, for example the home insulation scheme. This was likely because the government did not have the infrastructure to cater for such programs as similar programs had not been provided by government for some time, and thus there was difficulty with training and the regulation of the programs.

One way in which the government's response to the GFC remained neoliberal is that it was not used to restructure the private debt markets. The restructuring of the economy along neoliberal lines has meant the rise in importance of the financial sector, and vast increases in private debt.²²⁹ Spending and the necessary processes of the capitalist economy are kept going by increasing levels of private debt. Recall that Hyman Minsky noted it is a tendency towards speculative bubbles and private debt that is the cause of capitalist instability, as in the GFC.²³⁰ The government did not use the policy space opened up to it by its aggressive response to the GFC to restructure the Australian economy, rather it was used to avoid a crisis of the neoliberal system, or to put this crisis off. While a restructuring along the lines of the post-war system was unlikely because the condition of the world was different after World War Two, a lack of any real restructuring at all shows the resilience of the neoliberal system.

It is interesting to note the doubts of former ALP Prime Minister Paul Keating about the effectiveness of stimulus, with his statement that stimulus in the past had failed to lift confidence or boost the economy.²³¹ This shows a continued neoliberal understanding of the economy among influential former ALP members, and that some did not believe such a

²²⁸ S. Kennedy, 'Australia's response to the Global Financial Crisis: a speech to the Australia Israel leadership forum', *The Treasury, Australian Government*, 2009, p. 6, 11, 12

²²⁹ Howard and King, *op. cit.*, p. 67

²³⁰ Minsky, *op. cit.*, 'Can "it" happen again? A reprise', p. 6 - 12

²³¹ 'Keating's stimulus doubts', *The Sydney Morning Herald*, March 6, 2009, <http://www.smh.com.au/national/keatings-stimulus-doubts-20090305-8q31.html>, accessed 26 June 2015.

policy response to the GFC was appropriate. While the Rudd government's response to the GFC was a more genuine embrace of Keynesian principles than the Keating government's One Nation policies, it cannot be said to have been a direct attack on the neoliberal system itself. There was also no restructuring of the monetary system itself nor an attempt to change employment policy outside of the stimulus schemes. There has not been a restructuring of the financial sector, or restrictions placed on banks and their ability to set interest rates, as there were under the post-war system based on Keynes theories. Thus, there appears to be nothing that will prevent crises in the future or lead to greater stability.

The Australian stimulus packages have been praised as having been more effective than other OECD countries responses to the GFC. The two stimulus programs received widespread praise, for example from the International Monetary Fund, and various economists.²³² It is interesting to consider whether such groups would have praised the response had they been used as a launching pad for an attack on the aspects of the neoliberal system that were the cause of the crisis, or a deconstruction of the neoliberal system and the causes of the GFC.

It has been argued that the stimulus package was ineffective and Australia's jobs performance through 2008 and 2009 was driven by demand for resources from China. Demand from China did have a positive economic effect on the Australian economy but it was not alone in keeping the Australian economy out of recession.²³³

The Rudd government made genuine attempts to understand the crisis within the context of neoliberalism, particularly the Prime Minister himself. This is evidenced by Rudd's 2008 article 'The Global Financial Crisis' in the magazine *The Monthly*.²³⁴ This article was a genuine, though somewhat flawed, attempt by the Prime Minister to attempt to understand the causes of the GFC, and to grapple with the meaning of neoliberalism. Its flaws stem from a failure to understand the broader nature of neoliberalism and the role of the state within it. Nevertheless, a strongly expansionary response to the GFC partly resulted from an attempt to understand the cause of the crisis.

²³² C. Stone, 'It's not just the size of your stimulus package...', *Canberra Times*, June 3, 2013

²³³ A. Garnett. and P. Lewis, 'The economy', in Aulich, C. and Evans, M. (eds.), *The Rudd government Australian Commonwealth administration 2007-2010*, ANU E-Press, 2010, p. 185

²³⁴ K. Rudd, 'The Global Financial Crisis', *The Monthly*, 2009, vol. 42

Another way there has been a continuation of the neoliberal system is that there has not been a change in the frame of reference through which the economy is judged. The RBA continues to target inflation, while not acting upon its mandate of the maintenance of full employment. Undoubtedly, the RBA believes it is fulfilling this mandate because of the continuing belief in the NAIRU, or the idea that if it pushes unemployment down below the natural rate it will cause inflation.²³⁵ In this way, the RBA can claim to be fulfilling its full employment mandate because of a change in definition of full employment that has taken place.

More punitive measures continue to be taken against the unemployed, in line with the idea of voluntary unemployment, despite increases in unemployment, and the number of unemployed individuals as against available jobs (and despite no theoretical move back to the pre-depression idea of voluntary unemployment).²³⁶ Further, the NAIRU, whatever its flaws, contradicts the idea of voluntary unemployment. Perhaps coercive government policy is driven by something else - because governments and policy makers no longer believe in the idea of voluntary unemployment they believe more punitive measures must be taken to force people into employment.

Despite a brief break out of the constraints applied by neoliberalism on government spending, there has been a move back to the principles of sound finance, and both ALP and Liberal Party governments since 2010 have prioritised the achievement of a budget surplus. Ironically, the budget deficit has grown during this period, for reasons understood during the era of the post-war system: the government does not control the budget, and attempts to bring the budget into surplus through austerity and reductions in spending negatively affect the economy and the tax base.²³⁷

Finally, and perhaps most importantly, the attitude towards capitalism has not changed over the medium term, with unemployment still seen as the result of issues such as high wages,

²³⁵ S. Bell, 'The scourge of inflation? Unemployment and orthodox monetary policy', *The Australian Economic Review*, vol. 32, no. 1, 2009, p. 78

²³⁶ L. Taylor, 'Tony Abbott recycles work-for-the-dole policy with tough new rules', *The Guardian*, August 27, 2013

²³⁷ R. Marks, 'Are we really stealing from our kids to fund a debt crisis?', 2015, *The Monthly*, available at: <https://www.themonthly.com.au/blog/russell-marks/2015/25/2015/1424827192/debt-deficits-and-averting-disaster>

lack of training, and problems with the unemployed individual, rather than the outcome of an unstable capitalist system. These areas have generally been the target areas for governmental reform. Such was seen in the Abbott government, and it appears the Turnbull government will be little different in its broad economic management, with Treasurer Scott Morrison proclaiming a focus on jobs, while saying people should save.²³⁸ Further, Turnbull had opposed the Rudd government's stimulus plans.²³⁹

The Rudd government's response to the GFC should not be seen as neoliberal itself (or as having in the short-term broken some of the rules of neoliberal employment for the benefit of the neoliberal system), but it has not resulted in a displacement of the neoliberal employment system in Australia. The understanding of the unemployed did not really change in the long-run, it was just that there was a temporary problem with capitalism's ability to provide jobs, rather than a permanent one. Further, outside of these state jobs programs, there was little to no reform of the labour market itself. The understanding of the labour market has not changed. It is still seen as being dictated by ordinary market rules, especially the neoliberal logic of competition, unlike the post-war system where the labour market was not seen as an ordinary market, and thus not subject to the usual market rules (that is a constructivist attitude to the labour market even if informed by a structural understanding of capitalism).

It is clear that the neoliberal system has an effect on wider politics. For example, there has for the most part over the neoliberal era been a broad acceptance of the benefits of budget surpluses as a target, even if there has been disagreement about the means by which this should be achieved. Attempts to bring the budget back into surplus in the current environment would have negative consequences, regardless of the means by which it is done. Reductions to welfare, cuts to pensions, reductions in spending on public services, all take spending out of the economy and are thus economically damaging, while concentrating on revenue through raising taxes has this effect as well. Thus, both negatively affect capitalism

²³⁸ P. Hartcher, 'Scott Morrison: work, save, invest the new mantra for the new Treasurer', *The Sydney Morning Herald*, September 24, 2015, <http://www.smh.com.au/federal-politics/political-news/scott-morrison-work-save-invest-the-new-mantra-for-the-new-treasurer-20150923-gjt9x.html>, accessed September 24 2015

²³⁹ 'Opposition to vote against Rudd's \$42 billion package', *The Sydney Morning Herald*, February 4, 2009, <http://www.smh.com.au/national/opposition-to-vote-against-rudds-42-billion-package-20090203-7x4q.html>, accessed 6 July 2015

and employment through reducing demand, which is only beneficial if the economy is overheating. That political parties generally accept this neoliberal constraint shows the hegemony of neoliberalism. However, under the neoliberal system government surpluses are viewed as necessary in and of themselves.

There has also been no movement against international capital, or attempt to manage international capital, or bring it under state or democratic control. It should be noted, the post-war era was an era of expected growth and job security. Individuals felt more secure and were more willing to spend. The neoliberal era has not been an era of security for individuals.²⁴⁰ During boom times, individuals spend credit, but current economic conditions resulting from such debt means individuals are not as willing to spend.²⁴¹ Thus, it can be strongly argued that the government should be taking a greater, post-GFC, role in spending and investment because individuals are less willing to do this.

An example of the way the neoliberal system was built out of the post-war system is the continuation of welfare provided by the state to some extent (though in more pernicious form). Interestingly, this is another way the neoliberal system can survive crises. Welfare has a positive economic effect, because it increases the deficit where necessary, acting as an automatic stabiliser. The increase in government spending allows the private sector to deleverage while also keeping spending levels up. It also keeps spending in the economy which is good for demand and thus jobs. While the highly monitored and regulated welfare of the neoliberal system is less economically beneficial than the post-war era welfare state schemes, it still has economic benefits during times of increased unemployment.

It is interesting that so many of the solutions, and certainly those that have been attempted, to the economic problems that have been proposed and tried at various levels have been informed by neoliberal ideas in some way. Austerity politics has certainly been neoliberal, informed by ordoliberalism in Europe and neoliberalism in much of the world.²⁴² Also, as

²⁴⁰ C. Crouch, *The strange non-death of neoliberalism*, Cambridge and Malden, Polity Press, 2011, p. 114

²⁴¹ *Ibid*

²⁴² Blyth, M. (2013), *Austerity: the history of a dangerous idea*, Oxford and New York, Oxford University Press, p. 141 – 142

stated previously, quantitative easing is an inverted monetarism adapted to a deflationary environment, as advocated by Milton Friedman for Japan in the 1990s.²⁴³ Thus, a significant part of the US response to the GFC is neoliberal.

Australia was somewhat outside of this in its response. It did not fall into recession during this time, but has since implemented austerity policies that have become harsher with the passage of time from the outbreak of the GFC. The above gives some credence to Philip Mirowski's idea that neoliberalism seeks to provide policy responses across the entire spectrum, and takes up as much policy space as possible.²⁴⁴ This can also be applied to reform through the neoliberal period, and policy responses to the GFC.

²⁴³ M. Friedman, 'Canada and flexible exchange rates', *Bank of Canada Keynote Address*, p. 421, available at: <http://www.bankofcanada.ca/wp-content/uploads/2010/08/keynote.pdf>

²⁴⁴ Mirowski, *op. cit.* p. 332

Chapter 8

Conclusion

This thesis has analysed employment policy in Australia in the post-war system (1946 to 1975) and the neoliberal system (1975 to the present), looking at both the theoretical bases of these systems, and the way these theories manifest in policy. In doing so it has been shown that the post-war system has a significantly better record than the neoliberal system in the provision of jobs and minimising unemployment, and thus was a more socially beneficial system.

Chapter 2 showed that the post-war era was built on the work of JM Keynes and his understanding of capitalism as inherently unstable, and an understanding of employment as a public good and a government priority. Neoliberalism was defined in Chapter 3 as a political movement with the aim of extending the logic of the market to both market and non-market domains. This would require the use of the state, and the state extension of market rules would manifest strongly in employment policy in the later neoliberal era.

Chapter 4 showed that the post-war era in Australia was characterised by a full employment guarantee of the state, resulting in high employment levels, and expansionary measures to counter the two main recessions of the post-war era in Australia, both of which occurred under the Menzies government. Chapter 4 examined the positive record of post-war system employment policy, though resistance to the system were shown to be emerging in the early 1970s in government institutions.

As shown in Chapter 5, the early-mid-1970s stagflation crisis opened up space for the critique of the post-war system. Despite their theoretical deficiencies, neoliberals were able to attack flaws in the mainstream (neoclassical) interpretation of Keynes' economics, which had been incorporated into the post-war system. This was bolstered by pockets of resistance to the post-war system that existed in Australian institutions, and the eventual embrace of a monetarist understanding of stagflation by the Whitlam government, followed by a stronger embrace of these principles by the Fraser government. The deconstruction of the post-war system was therefore not a *fait accompli* as it is often portrayed, but was driven by political

forces internal and external to Australia. The abandonment of full employment saw the rise of negative welfare discourse, which continues to this day.

The Hawke and Keating ALP governments would further entrench the neoliberal system, as shown in Chapter 5. These governments would significantly restructure the Australian economy, industrial relations, and employment policy, through a combination of neoliberal ideas and the ideals of the ALP that would see a role for social policy and trade unions in the neoliberal system. The limited Keating government employment initiatives in the 1990s recession mostly aligned with neoliberal principles.

Chapter 7 analysed the employment policy of the Howard government, including coercive measures taken against the unemployed by the state, and the commodification of the unemployed through the quasi-marketisation of employment services (that had remained a state monopoly until the end of the post-war era). As has been shown, this is the logical extension of the neoliberalisation of employment policy. The Howard government had a positive employment record, but this was driven by the resources boom, as well as demand being maintained through large, unsustainable increases in private debt.

The Rudd government's strong response to the GFC, with expansionary measures and job creation programs, had a positive impact on employment. Such measures, while politically controversial, have received wide praise as successful responses to the GFC as against other OECD nations. However, these measures were used as an attempt to return to the normal socio-economic conditions of the neoliberal system. Therefore, the response to the GFC, while positive in many ways, cannot be seen as an attempt to challenge the neoliberal system. This is indicative of the process by which neoliberalism is able to survive its own crises, and turn them to its advantage.

It has been shown that the neoliberal system clashes with the structure of capitalism, and thus is prone to crises. Despite its aforementioned ability to survive its own crises, the neoliberal system is likely to be deconstructed in the future due to a combination of a tendency to private debt-driven economic crises and political opposition. Any succeeding system to neoliberalism would be likely to contain elements of the neoliberal system, and would not be a direct regression to the post-war system, due to the different conditions today compared to

those of the post-Second World War environment. However, it may be inspired by or contain elements of the post-war system.

Within the confines of the neoliberal system itself, it is difficult to see a return to full employment policies, despite there being no structural reason this could not be achieved.²⁴⁵ Given this, a more socially beneficial neoliberal system would have to reform welfare provision and pensions. For example, lowering the age of eligibility for the pension could open up space for younger people in the job market. This, however, clashes with the attitude of the state towards welfare under the neoliberal system, and so is unlikely. It also would not solve the tendency of the neoliberal system towards crises.

The neoliberal system was constructed out of the remains of the post-war system that had come under attack from political movements internal and external to Australia. The neoliberal system has a significantly worse record on the provision of jobs, and is less socially beneficial. A more socially beneficial employment policy can be built on an understanding of the theoretical bases of post-war employment, and the implications of this theoretical understanding for policy.

²⁴⁵ R. Pollin, *Back to full employment*, Cambridge and London, A Boston Review Book, 2012, p. 15 - 37

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