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## **THE LABOUR MARKET AND LABOUR MARKET 'REFORM'**

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The idea of a labour market was liberalism's most repugnant achievement. Reliance on market criteria for the remuneration and deployment of labour has been challenged by almost all traditions of political economy, though each analytical perspective has its own preferred policy response. The recoil from the treatment of labour as a commodity in favour of anti-liberal social protections has diverse rationalizations, sometimes conservative and sometimes radical. The hope of this article is that, by reminding ourselves of the long-standing and intellectually-weighty arguments against the sort of industrial relations reforms criticized in the previous issue of this journal (the special issue on the current IR 'reforms'), we can reconstruct a lost confidence in those 'market rigidities' that constituted the progressive reforms of an earlier age.

### **Labour And Anti-Liberal Traditions**

Five major challenges to the liberal treatment of labour, each part of a wider tradition of heterodox political economy, are worthy of note.

Marxism has consistently advocated decommodification of labour, arguing for full employment guarantees and efforts to reduce market inequalities (strategically taken up with considerable institutional success by the most robust social democratic regimes). In its most anti-liberal moments Marxism has anticipated the long-term displacement of capital's prerogatives by the unfolding of 'labour's mission' (to usurp

progressively the capitalist social relations that define the capitalist market economy). In volume 3 of *Capital*, Marx went as far as to argue that capital's own success would have the effect of making labour stronger. In his own words: 'The development of the productive forces of social labour is capital's historic mission and justification' (1894:368). He had already concluded, after much elaboration, that the logic of a capitalist market economy was continually threatened by hostile reactions to the subordination of labour, and that formal market relations would eventually need to give way to more substantive wealth-creation mechanisms under labour's auspices (1894:359.)

From an anthropological perspective, Karl Polanyi not only insisted that the complete commodification of labour was impossible (since humans were not 'produced for sale') but that people would revolt against any sustained project that attempted to divorce their economic and social activities from each other. (1944:72-73). The history of capitalism, particularly in the twentieth century, was the contradictory evolution of both commodifying and de-commodifying, that is, both pro-market and anti-market ways of remunerating and deploying labour (the 'double movement').

Contemporary economic sociologists, such as Wolfgang Streeck, also accept, with Polanyi, that markets are embedded in and shaped by non-economic conditions. And they argue, in consequence, that national economic development in the richest countries has benefited from public policies designed to prevent employers getting the flexibility they have wanted (or, alternatively, forcing them to accede to social obligations they opposed) with respect to the treatment of labour (Streeck 1997:199). Training and re-training programmes, welfare state institutions, trade unions operating as purveyors of a general interest (rather than as interest groups), and the health and education standards of the wider community are all examples of labour-initiated interventions which, because they constrain employers and the market, demonstrate the functional importance of non-economic aspects of the economy.

Writers in the social economy tradition (associated with conservative Christian social thought) point with some satisfaction to the passages in the Papal encyclical *Rerum Novarum* which similarly imposed societal obligations upon the winners in market competition. They have defended

for more than a century the very principles of trade unionism and economic democracy that are anathema to economic liberalism. (See Pecci 1891: paragraphs 57-60; and the commentaries 40 and 70 years later by Ratti 1931: paragraphs 49,71,88 and Roncalli 1961: paragraphs 18,21,31-33.) Emancipation of the powerless from exploitation has been a theme in much religious thought, not just Catholic, for two millennia.

Thorstein Veblen (1898) and other economists in the tradition of institutionalism that he inspired protested that work should not be treated as an irksome disutility in return for which income was reasonable compensation. Instead, as human labour is always necessary for the sustainability and progress of humanity, society (and policy) should accept responsibility for ensuring employment is as fully available, as safe, as democratic and as well-remunerated as possible. Once again, the costs of social provision are regarded as paling into insignificance compared with the costs of not providing it, the more so as societies become wealthier

In such intellectual and normative terms, the inevitability of labour market regulation and the undesirability of capital's liberal proscriptions on it have recurrently been affirmed. The common elements of concern, directly relevant to the current industrial relations 'reforms', are the two defining aspects of labour markets – their treatment of labour as if it were a commodity, particularly with respect to wages, and their inability to guarantee sufficient employment. So those who might be covered by the changes being made (by people and institutions harbouring great conviction) need to be re-assured of the moral force and intellectual resonance of the anti-liberal critique of labour markets. The rationales for the regulations we are being asked to jettison are more substantial than the wreckers' reforms.

### **Non-Market Determination Of Incomes**

It was in Australia (and New Zealand) that the world's most interesting institutional expressions of these anti-liberal social principles and controls were developed. And they attracted bi-partisan support for so long because of the appeals to civilized values and social betterment that

Henry Bournes Higgins, President of the Commonwealth Court of Conciliation and Arbitration from 1907 until 1921, repeatedly invoked. There is little doubt that Higgins wanted the constitutionally-grounded system of industrial conciliation and compulsory arbitration to become a social experiment with ramifications beyond prevention and settlement of disputes - the original mandate providing the guise for 'living' or non-market determined wages, and hence for one of the world's most egalitarian economies.

In *A New Province for Law and Order*, Higgins had attempted to defend a commitment to 'definite official responsibilities', as if to disavow its radical implications:

I am not unaware of the far-reaching schemes, much discussed elsewhere, which contemplate conditions of society in which the adjustment of labour conditions between profit-makers and wage-earners may become unnecessary. Our Australian Court has nothing to do with these schemes.... Its objective is industrial peace, as between those who do the work and those who direct it. It has no duty, it has no right, to favour or to condemn any theories of social reconstruction (1915:37).<sup>1</sup>

Nonetheless, he later admitted:

When those who know the court from within say that the court is of incalculable value to the public, they are thinking of it not only as a mere device to prevent stoppages of work, but as a means of raising the downtrodden, and for inspiring the stamina and character of the coming generations. These aspects, and the aspect of our duty to our neighbour, must appeal strongly to people of religious spirit (1926:180).

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<sup>1</sup> Incidentally, it is easy to detect the reasoning behind some conservative Senators' misgivings towards the recent industrial relations reforms in Higgins' own thoughts: 'Sobriety, health, efficiency, the proper rearing of the young, morality, humanity, all depend greatly on family life, and family life cannot be maintained without suitable economic conditions' (1915:37).

Presumably he included himself within this cognoscenti. It was the resulting 'activism' which has so riled liberal critics of the industrial relations institutions over the ensuing century.<sup>2</sup>

Liberals' objections to socially-responsible wage fixing principles have provided the emotive force for the attacks on the system by the HR Nicholls Society and the Business Council of Australia (BCA) since the 1980s. The BCA announced in 2001 its wish to engineer a 'dramatic shift' towards 'employee alignment' with the goals of corporate competitiveness.<sup>3</sup> Yet we have known for decades that industrial innovation and competitive success depend much more upon social capital, economies of scale, cost-sharing strategies, research cartels, networks, collaboration, and the embeddedness of economic activity in cohesive community activity than it does on flexibility, rationalization, deregulation, subservience to market-led structural adjustment, elimination of unions, freedom from (legislated) protective measures or an 'enterprise culture' (see Parker 2001). The business attitude is based on what it collectively thinks is good for the economy, not on the conditions that actually generate wealth.

Tripartite and corporatist forms of industrial governance, capital-labour dispute settlement and state institutions<sup>4</sup> have not been found to be detrimental to corporate or macroeconomic performance, however much globalist hostility to national policy peculiarities suggest otherwise

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2 Recall journalist Padraic Pearse McGuinness' hysterical insistence that economists (and not a new province for the state) should be custodian of the public interest: 'a lawyer, totally unqualified in economics, is employed to present large amounts of statistical material and economic argument to a bench for the most part nearly as ignorant' (1985:17).

3 A survey of 57 CEOs commissioned for the BCA in 2001 had revealed that managers wanted employees and their unions to minimize the force of their structural differences with employers and capital, to 'voluntarily' subjugate their own interests ('optimise their discretionary effort'), and to accede to management's preferences on 'competitive enterprise behaviour' and a 'continuous change culture' (Angwin 2001:8-14).

4 Typically these are extra-parliamentary arrangements, which explicitly recognize that some problems (inflation, structural change in industry) are resolvable only by negotiation and suasion oriented to changing the activities of those causing the problems. Tripartite and corporatist decision-making is subject to the (I think unfair) criticism that it is undemocratic: in any case liberal principles are normally violated.

(Scharpf 2000; Hay 2004; Visser 2003). But employers are opposed to state regulation and corporatist institutional developments in principle, intending to defy the legitimacy of politics and democracy itself. As the former head of the BCA, Hugh Morgan, has said, 'The BCA believes ownership of dispute resolution should not be assumed by a public agency' (Morgan 2005); still less wage-fixation, incorporation of union prerogatives with respect to non-wage incomes, control over income distribution, or the setting of substantive economic objectives. Clearly, as Kalecki and the post-Keynesians have always argued, employers are incapable of consistently rational calculation and confidently destroy, for ideological reasons, even those structures that have served them well<sup>5</sup>.

The Keynesian tradition has usually accepted, grudgingly, the metaphor of a labour market, but has argued that the market is not an acceptable basis for either the remuneration of labour or its deployment. Hence its call for 'new political institutions' to gradually augment public competences in response to complex problems (Kalecki 1943). Schumpeter, too, had been concerned that capitalist polities were less willing than their maturing, technical capacities allowed to eliminate the terror of unemployment (1943:70).

Although Australia began abandoning its early state experiments at about the time of the 1930s depression,<sup>6</sup> becoming progressively more liberal, it retained the mechanisms of compulsory arbitration for another seven decades. During the Accord period from 1983, the arbitration system seemed on the brink of allowing a further impressive politicization of the economy. Designed as a system to prevent and settle industrial disputes, arbitration had metamorphosed into one that gave Commonwealth

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5 Comparative political economy shows that capital's profitability or even viability is not secured by low or market-determined (that is, flexible) wages. So capital's preferences do not coincide with its long-term interests. Nonetheless employers or state elites may make what appears to them to be a rational calculation, at particular stages of the economic cycle (or particular periods of structural change), to pursue reduced wage costs in preference to high cost, high value-added production strategies. Kalecki formulated this dilemma as a choice between profitability and control.

6 Those experiments variously referred to as the Australian settlement: 'colonial socialism', 'protection all round', restrictive practices, small public enterprises and public infrastructures (see Butlin *et al* 1982: ch.2).

tribunals, commissions and other deliberative processes substantial influence over the level of wages and incomes, without explicit constitutional warrant.<sup>7</sup> By the mid-1980s National Wage Cases could hear unions' submissions on money wages, the social wage, health, education, taxation, broad macroeconomic policy and even the private sector's capital investment and dis-investment plans. These had all become legitimately part of NWCs' arbitration of conflicts between living standards and economic capacities. For a time NWCs were also the occasion for the publication of explicit wage-fixing principles and reviewable 'reasons for decisions'.

The resilience of the arbitration system was confirmed during the Accord period. It was a social accomplishment able to preserve and transmit living standards in accordance with anti-liberal principles. Critics of the Accord have commonly claimed that real wages fell during the 1980s and 1990s because of the regular 'discounting' of wages increases (that is, the Commission acceding to the government's requests for less-than-full indexation).<sup>8</sup> However, the social wage increased in the decade 1985-1995 at a time when government spending as a whole fell; so the central plank of the Accord (the 'maintenance' of real wages over a period of time within the framework of a centralized wage fixing system) was honoured. Social expenditures rose by 5 percentage points of GDP while total public outlays fell by more than 2 percentage points.<sup>9</sup> Furthermore, as Table 1 also shows, the share of total incomes accruing to the bottom 60 percent of income earners steadily increased (due to the NWCs and the ability of the arbitration system to protect the most lowly-paid). Although inequalities increased from the 1970s, this was more a function of the blow-out in high and non-wage incomes than a reduction in low incomes. (The fall in the wages share of GDP compared with the profits share over the last three decades is not an indicator of falling real

7 S.51(xxxv) gave the Commonwealth government power to prevent and settle industrial disputes, not to set wages.

8 The claim has been repeated recently by Tim Rowse (2004:51).

9 The Australian welfare system improved in these years, as it has throughout the twentieth century, but not relative to the rest of the world. Although public provision here has more than doubled since the 1970s; we remain almost the most miserable provider of decommodified incomes in the OECD.

wages; it is normal in the upturn of the economic cycle for the *share* of wages to fall while actual incomes increase.)<sup>10</sup>

**Table 1: Changes in Inequality, Low Incomes and the Social Wage in Australia**

	1970s	1980s	1990s
<u>Income inequality</u> (The proportion of total income accruing to the richest 20% of income earners has been divided by the proportion accruing to the poorest 20%)	5.9 [8th most unequal internationally n=11]	5.8 [4th most unequal internationally n=17]	7.0 [3rd most unequal internationally n=24]
<u>Income earned by the bottom 60%</u> (% of total income)	30.4%	33.0%	35.1%
<u>Social security spending as % GDP</u>	4.1%	7.1%	9.1%
<u>Total government spending as % GDP</u>	30.0%	38.0%	35.7%

Source (rows 1 & 2): *World Development Report* (various years): 1985:229; 1995:221; 2001:282-283.

Source (rows 3 & 4): *OECD Historical Statistics 1970-2000* Paris 2000; and *OECD Economic Outlook* no.76, December 2004:192 (and earlier issues).

<sup>10</sup> It should nonetheless be noted that these progressive developments (protection of real incomes and expansion of decommodified provision) occurred despite the intentions of the Labor governments of the time. Wilson, Meagher & Breusch point out that the trend continued into the Howard years, and for the same reasons - that is, that 'growth in family income ... kept up with average income growth through more generous family payments and not through increased wages and salaries' (2005:103).

These remarkable achievements were not replicated in many other countries during the long recession since the 1970s. In Sweden the share of the bottom 60 percent rose continuously through the 1970s, 1980s and 1990s; but in the USA it fell in each of the three decades and in the UK it declined from the 1970s to the 1980s rising again in the 1990s (see *World Development Reports* referenced in Table 1).

There is one distributive consequence of a centralized wage system, such as Australia's was, that is rarely acknowledged by economists but is of considerable importance to other social scientists with a commitment to institution-building and the development of state capacity. This is the capacity of the National Wage Cases to transmit the benefits of productivity increases from leading, technologically innovative sectors to the entire workforce, either directly via Commission decisions or through the mechanisms of comparative wage justice and 'flow ons' regardless of sectoral capacity to pay. Every civilized society needs such an institutional mechanism to guarantee the integration of less productive but socially-desirable workers into the economy and society on the basis of non-market principles. Market outcomes are unnecessarily offensive, *but can be readily subverted*. An additional, unexpected by-product of equality-enhancing, centralized wage fixation is that it also helps maintain higher levels of economic activity, a central proposition in Keynesian-Kaleckian political economy (Kalecki 1971). Wages are never just a cost to the economy; they also constitute its main dynamic.

It is not only the distribution of income that matters; high incomes lead to improved macroeconomic performance both by enabling purchasing power and by permitting the development and retention of a skilled population. Remember, *all* the low-unemployment countries over the past thirty years have been high-wage economies (Boreham, Dow and Leet 1999:96-106,215-222).

One would not expect conservatives to want to destroy such a societal accomplishment, and the social capital implied, given their familiar mantra: 'if it's not broke don't fix it!'. The Liberals' social conservatism has clearly been subordinated to their economic liberalism; and the resulting social disquiet from genuinely conservative Senators,

churchmen, rural spokespeople and defenders of public morality is on show for all to contemplate.<sup>11</sup> Liberals who wish to link wage advances tightly to productivity advances do so at the cost of inequalities that are not popular and to the detriment of public capacities that are well-affordable. This new and unnecessary social regressiveness, in the context of economies that are wealthier than they have ever been, reintroduces very austere and iatrogenic criteria of success. High-quality employment conditions are surely more noble cynosures of civilization than restless mobility and the everlasting uncertainty associated with competitiveness. As John Ralston Saul has recently asked: 'Who says that permanent economic insecurity and disorder are progressive?' (2005:33)

The business sector is serviced by ideologues who do it no favours in their campaign for industrial relations 'reform'. Social protections and wage-determination arrangements constitute part of the 'fabric' that makes commercial life possible. Deliberated wages also deny, or at least ameliorate, the force of a 'race to the bottom' and typically produce higher standards of living, less fractured, more inclusive societies and workers more capable of acquiring and retaining the skills appropriate to successful and productive industry. Far from generating sclerosis and disincentive, high and stable wages in rich economies encourage socially desirable enterprises. Legally-low wages encourage businesses that would otherwise face extinction to use workers' lowered living conditions to subsidize inefficient and undesirable activity. Even in the absence of meaningful industry policy, unions in Sweden, for example, have been able to influence patterns of industrial investment and disinvestment, industrial development and downturn, by insisting on high and more evenly-distributed and secure incomes; they thereby become

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11 Throughout 2005, the churches re-activated their long-practiced engagement with economic issues. Archbishops Jensen and Aspinall protested against excessive 'flexibility' in worklife. And Cardinal Pell was reported as having said: 'Transnational corporations can be very, very powerful indeed. I think we need strong and effective and humane and altruistic unions to continue to dialogue with these people'. The church apparently believes the erosion of the unions' influence on worklife outcomes has gone too far and needs 'modest strengthening' (Hughes & Smith 2005). The Salvation Army also joined the protest.

true custodians of the public interest (Meidner 1980:364-365). Is there not scope for such interventions here?

Public dissatisfaction with the course of liberalization is now well-documented (Pusey 2003). It increases as the full extent of the disruption to civic politesse and the growth of economic inequalities become apparent; so there is reason to expect that labour market reform too will provoke more dismay in the community than has been recorded so far (Pusey & Turnbull 2005:171-175). At any rate there are fairly clear indications from surveys of social attitudes that Australians both understand that the 'Australian settlement' was an achievement worthy of its costs and that it continues to deliver benefits that define the nation. The same surveys reveal growing unease with the perceived erosion of social provision and a 'huge increase in support for paying higher taxes' since the early 1990s (Wilson, Meagher & Breusch 2005:109).

That there has been so little constructive political expression of this underlying discontent is presumably because the potential bearers of it have been so inept, serially unwilling to develop the social democratic alternative, and even reluctant to succour the conservatives' troubled efforts to preserve the state-building attainments of the past.

Just as contemporary policy elites have an insouciant attitude to the dismantling of public accomplishments, so they distort and celebrate present failures with a frightening hubris. Principled behaviour in and by public organizations has been expunged from much of the bureaucracy, but nowhere more so than for the state-builders who nurtured the arbitration system for so long (see Lind 2005).

### **Non-Market Determination Of Employment**

Aside from their commodification of human beings, the other most notable *market* aspect of labour markets is their chronic inability to create sufficient employment.

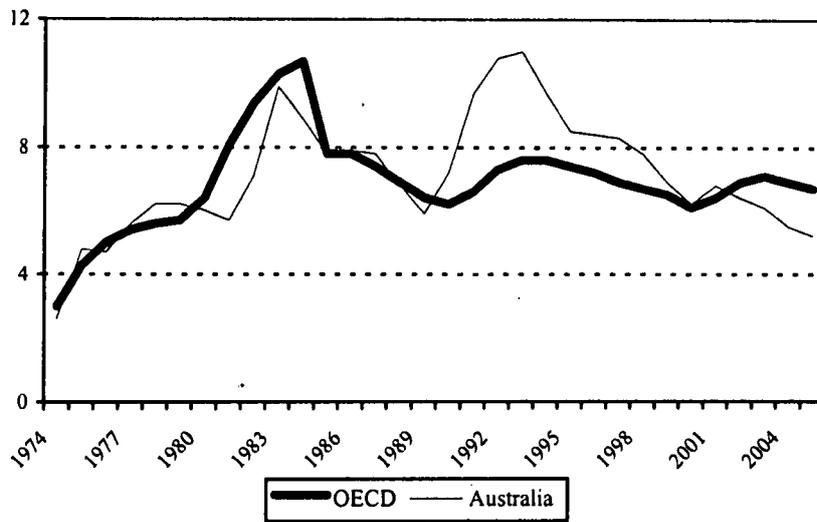
There is a perpetual tendency in capitalism for wealth generation to outpace employment generation. This alters the nature of policy needed for employment-creation, requiring increasing public sector and, most

probably, more low-productivity jobs. In Australia, this requirement has been clouded in recent decades by increases in total employment. As higher employment rose in tandem with unemployment during the 1970s, '80s and '90s, the former was the focus of politicians' self-congratulations; but the latter is of continuing, perhaps growing, concern as its long-term effects cascade to following generations.

Conventional opinion in Australia depicts the current unemployment as the 'lowest for a generation'. This is an admission that it's been appallingly high for that period and is a tragic example of the absence of collective discomfort with what has long been, and still is, mass unemployment (Stretton 2005:88). Figure 1 shows the persistence of the problem. Australia has endured above OECD-average unemployment for thirty years (with an average 7.2 percent of the workforce officially unemployed, compared with 6.9 percent for the period 1974-2004, as noted in Table 2). So the policy problems confronting us are complex: to increase economic activity despite the orthodox talk of the 'unrelenting strength' of the economy; and to deal with the social consequences of these thirty years of largely unacknowledged recession, manufacturing decline, inequality and structural weakness.

The full long-term effects of decade after decade of this deceptive affluence, of second and third generation losers in the 'miracle economy', are scarcely imaginable; but they have clearly become apparent to conservatives. The declining quality of employment – casualization, stress, intensification, longer working hours, underemployment and invisible unemployment, sweating of assets and excess capacity (see Watson *et al* 2003) – is not what we were promised when the economic 'reform' mania was first unleashed thirty years ago. Abrogation of civilized work conditions is hardly an inevitable or reasonable *quid quo pro* for global competitiveness. Rather, it is a policy-driven assertion that the labour market *should in principle* regulate the availability of work and a commensurate denial of the possibility that policy and institutions can create full, and properly remunerated, employment.

**Figure 1: Unemployment 1974-2005**  
Australia compared with OECD average (%)



**Table 2: Average Unemployment, by Periods**

	1974-2004	1973-1975	1976-1982	1983-1996	1997-2004
<b>Australia</b>	7.2	3.2	6.5	8.6	6.8
<b>OECD</b>	6.9	3.5	5.9	7.7	6.7

Sources: *OECD Economic Outlook* no.76, December 2004:198-199; *OECD Historical Statistics 1960-1995* Paris 1997:45; *OECD Historical Statistics 1970-2000* Paris 2002:42; *OECD Economic Outlook* no.49, July 1991:192-193.

Thoughtful, and passionate, analysts of the human condition - from Thorstein Veblen and John Maynard Keynes to Hugh Stretton - have argued that no matter how complex and contradictory the problems of structural and technological unemployment may be, 'determined government' can and should be charged with the task of securing full employment. First, full employment policy should redress the power imbalance in employer-employee relations by *politically* ensuring that there are 'more vacant jobs than men seeking jobs' (Beveridge 1944:125,130,131). Beveridge knew that no job can be permanently secure and that skills mis-matches routinely occur; so the implied policy is that employment is too important to be relegated to employers' demands for 'flexibility' in times of rapid structural change.<sup>12</sup> Above all we should recognize, with Keynes and Schumpeter, that liberal indifference to the fate of societies whose wealth-creation outpaces job-creation is scarcely tolerable; so the solution to unemployment in rich societies cannot ever be a market solution. In other words we need to reject the argument that democratic demands can no longer be accommodated by democratic politics (Streeck & Thelen 2005:3).

The most effective ways to increase the level of high-quality employment are to increase public investment and to re-create corporatist decision-making structures such as were attempted but left unconsummated in Australia during the Accord period. The value of public investment is not so much the part it can play in redressing the under-provision of infrastructure, but the part it can play in generating new industry. Australia needs economic activity which can compensate

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12 Beveridge expressed this as a condition in which 'no one ever expects to stand by for long' before being offered appropriate employment (1944:126), the advances in policy knowledge by the 1940s providing the rationale for public assumption of broader-than-expected responsibilities. Beveridge's preparedness to accept that full employment exists while there are still unemployed people alerts us to the fact that the policy problem changes at low levels of unemployment. It could also be noted that even if the number of vacancies equalled the number of unemployed job seekers, 'full employment' would not necessarily accurately depict the situation, although then the task of full employment policy would shift to retraining or relocation or 'trouble shooting'. Most policy-makers would welcome this re-orientation of their task. Hugh Stretton reports that over the past 25-30 years the unemployed to job vacancy ratio in Australia has ranged between 10:1 and 44: 1 (2005:87).

for the employment- and value-enhancing industries lost since 1974, without further degrading work-standards; and this is the major potential spin-off from a politicization of investment. In the light of excess capacity in almost all private sector industries worldwide, the preference must be for public investment, mandated by political, rather than market, modes of calculation. Public investment in Australia (as a proportion of GDP) has been in steady decline since the 1950s, a decline which alone could be said to account for our three decades of high unemployment (see Boreham, Dow & Leet 1999:136-141).

Changing the auspices for decision-making towards more corporatist structures is also a challenge. However, tripartite arrangements have proven successful in this endeavour, not only internationally but even in Australia where, as noted above, the de-industrializing strategies of large companies were once recognized as industrial disputes that could be arbitrated through official processes. That the peak council of unions has become less assertive, less confident and less influential with respect to its macroeconomic obligations since the mid-1980s does not obliterate the historical importance of its mission. Unions need to re-assert their right to insist that the creation of new value-adding employment should precede the further dismantlement or down-sizing of industry.

### **Conclusion**

Various currents of thought in social science and political economy have produced broad intellectual authority for policies and institutions which usurp the labour market. We do not have to accept that wages and employment levels are determined purely by market processes. To do so would represent a victory for neo-liberalism and the interests opposed to political control of the economy. Production and productiveness are an outcome of deliberative and institutional practices, not just of individuals or entrepreneurs. Australia once enjoyed experiments of considerable merit in their ability to value and employ people other than in the narrow context of a labour market. If the current 'reforms' persist, the new experiment will have considerable capacity to undermine the standards of social wealth, employment and decency that remain.

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