Labour Parties and the State in Australia and the UK

Greg Patmore and David Coates[*]

During the Hawke-Keating period of federal government in Australia and under Blair in the UK both Labor Parties reset traditional understandings about the role and capacity of the state. State power is now exercised in a cultural context in which neo-liberal axioms largely prevail over social democratic ones. What impact did this context have in shaping policy in areas such as the national economy, social structure and political system? This article maps continuity and discontinuities in the theory and practice of the state displayed by Labor Parties in both countries since the 1980s; and contrasts the novelty with the effectiveness of the `New Labour' positions.

Since the 1980s the labour parties in both Australia and the UK have exercised state power in a cultural context in which neo-liberal axioms largely prevail over social democratic ones. Since 1989-90, they have exercised power too in a post-Cold War universe in which the pursuit of qualitatively superior alternatives to capitalism is no longer generally fashionable. The hegemony of neo-liberal views has put parties of the centre-left on to the defensive, even when they are in office; a defensiveness that the 'victory of capitalism over state socialism' has then reinforced. Both in relation to the state as an instrument of policy and to socialism as an end of that policy, we live in new and uncongenial times; and because we do, it should come as no surprise that labour parties so distant from each other in space and context should have demonstrated a common resetting of their attitudes to, and use of, state power. The purpose of this paper is to clarify the nature of that new thinking and practice, and to establish the degree of novelty that it contains.

To that end, this paper will trace the pattern of *continuity and discontinuity* in state theory and practice displayed by both labour parties both before and since the early 1980s. The 'discontinuities' are the more visible, not least because labour leaders make such a virtue of them; but as we shall show, their need to do so reflects in part the existence of deep and powerful lines of continuity on which such leaders tend to dwell less. These lines of continuity reflect the existence of underlying and strong political traditions that both link generations of the parties over time, and link the parties together as similar political animals.[1] In fact what is most striking about the 'newness' of the politics of both labour parties in relation to their use of state power is its *unevenness* as between different dimensions of that power's deployment. Figure 1 below differentiates four such dimensions: foreign policy (which for space reasons will not be discussed here), and the use of state power to restructure the state, to manage civil society, and to trigger economic growth. The paper will argue for elements of continuity and discontinuity in all three spheres – with the greatest extent of discontinuity for the labour parties in both countries being the economic – and will do so while understanding the state, as the parties themselves have done, in very simple terms: as encompassing the main institutions of government at both national and sub-national levels.

Figure 1
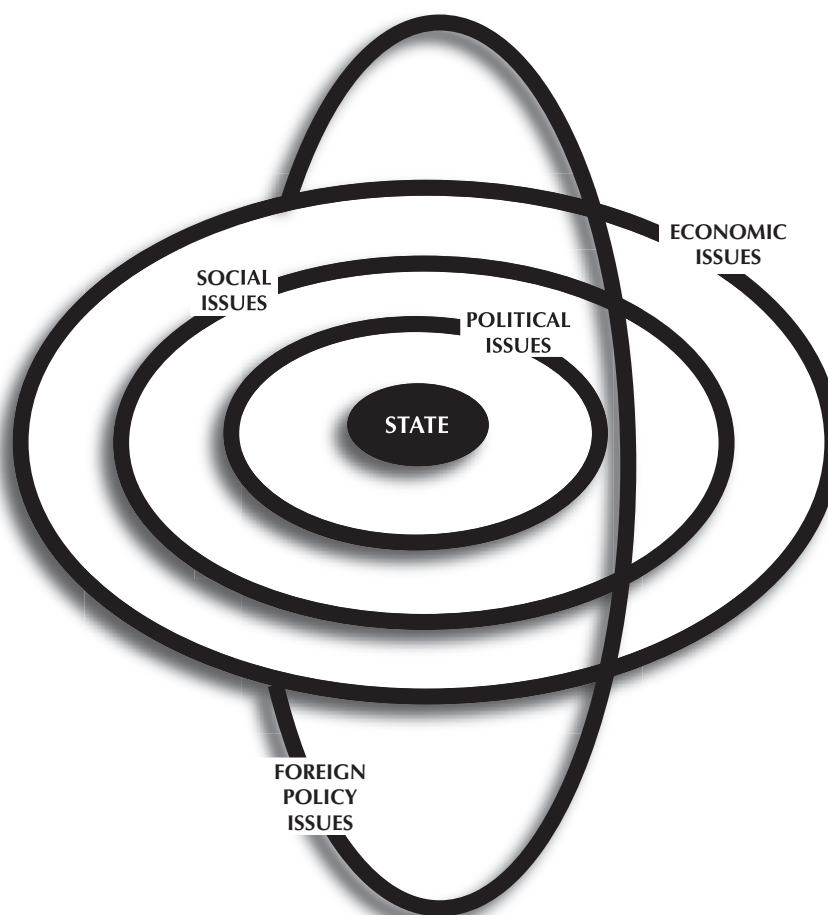
I. 'Old' Labour

Attitudes to the State in Australia and the UK

There is a huge theoretical literature on the nature, role and determinants of the modern state – much of it generated by intellectuals concerned with the problems and possibilities of left-wing politics. Yet what is striking about that literature is just how little of it actually emerged from within the ranks of either of these parties. For what has been defining of their politics from the outset has been the ease and speed with which they settled into a wholly parliamentary understanding of political theory and practice. This is not to say that their early leaders were either theoretically ill-informed or driven purely by pragmatism. It is possible to see, in the Australian case for example, the clear influence of writers like Karl Marx, Henry George and John Maynard Keynes on such Labor heroes as Curtin and Chifley. It is simply to note that, whatever ideas influenced such men, none disturbed their acceptance of the

need to capture the state through parliament, or to make parliamentary work the centre-piece of their politics. It is also to underscore the importance of the fact that, from the outset of these parties, their leading figures viewed the parliamentary state as a class-neutral institutional device that, once captured by electoral means, could be used to prevent the exploitation of workers and to improve their lives.

This parliamentary approach contrasted sharply, of course, with the ideas of anarchists and syndicalists in each labour movement; and at times the Australian and British communist parties. For both labour parties, this clash with more radical socialist forces was a genuine learning process with recognizable stages. In the UK case, we can see three such stages. Between 1893 and 1906, there was an *initial positioning* of first the ILP and then the Labour Party in the wider debate about the potentialities of the democratic state as a tool of social reform, with the new parties determinably operating within a left-liberal tradition that looked to parliament and legislation to advance labour interests. If that left-liberal tradition was theorized at all in that period, then the theorizing was Fabian, and the clearest expression of it was provided by George Bernard Shaw.[2] To this was added in the 1920s the Labour Party's *incorporation* into the established practices of British parliamentarianism, with the party leadership's associated acceptance of a particularly narrow definition of the scope of legitimate political action. That definition combined a developing faith in the capacity of the state as an administrative instrument with a refusal to countenance the use of the industrial wing of the movement to strengthen parliamentary initiatives.[3] The party's learning process was then topped up in the 1930s by the adoption of *public ownership and planning* as key mechanisms for controlling the excesses of market capitalism, a control that for them was by then thought of as being synonymous with socialism itself.[4]

The Australian Labor Party came earlier than its UK equivalent to this view of the parliamentary state as an instrument for managing capitalism, and did so in part because of the very different political and economic context in which it was obliged to operate. For even before federation in 1901 and the rise of the labour movement, the public sector was larger and more interventionist in Australia than it was in the UK, and by quite a margin. Shortages of private capital and labour meant that the Australian state played a key role in economic development in ways that the pre-1945 UK state did not. The Australian state provided infrastructure for the development of a capitalist economy. In Australia railways, postal and telegraph systems were generally state owned. The state triggered a supply of labour through assisted immigration schemes and assigned convict labour to private employers. There was also a push to broaden the colonial economies beyond a dependence on primary production. Victoria adopted tariffs and bounties to encourage local industry.[5] Australian Labor, that is, did not have to make so sharp a break with nineteenth-century liberalism as its UK equivalent, and was in consequence a 'big' state party a whole generation earlier than Labour in Britain.

The UK Labour Party did, however, eventually arrive at a similar view of how best to use the parliamentary state to manage capitalism, but only after the traumas of two failed inter-war minority governments and MacDonald's betrayal of the party at the height of the Great Depression. The culmination of this learning process was the willingness shown by post-war Labour governments to use the existing machinery of the state as an instrument of economic reconstruction, as a vehicle of economic

management and electoral manipulation, and as a means of social engineering and social reform. Indeed, when these days New Labour advocates in the UK talk dismissively of Old Labour, and contrast Blairite politics with that of 'the men from Whitehall'[6], this is the prime focus of the contrast. Old Labour took office in 1945, and again in 1964 and 1974, wedded to the view that the state could buy or direct industries and companies, build and run large welfare bureaucracies, and pull and push economic levers to generate employment and growth (and thereby, votes). It took office, that is, as a 'big state' party.

This is not to say, however, that the early political context faced by Australian Labor was entirely open to the use of the state power for progressive ends in ways that the UK state was not. The situation was always more nuanced than that. Federation in particular initially posed particular long-term problems for the Australian labour movement. Labour, despite its support for federation, played a negligible role in the process, and was generally opposed to the constitutional limits placed upon what future federal Labor governments could do in regard to key policy areas such as nationalisation, industrial relations and social welfare. This weakness of federal Labor then contrasted with Labor's success in some states. Indeed Labor could be characterised as the natural party of government in NSW, the most populous state in Australia; and accordingly state level politics had an importance for the Australian labour movement that municipal politics failed to generate in the UK. In Australia, state governments have wide ranging powers in areas such as health, education and industrial relations; and state governments also control local governments, which have less powers than their UK counterparts and have not fulfilled any promise of 'municipal socialism'.[7] Yet even here the use of state power has not been without constraints. For with the exception of Queensland from 1922, state Labor governments have invariably had to deal with hostile upper houses; and since World War II state governments have become reliant on the federal government for funding due to its control of income tax revenue. They have also faced the constitutional requirement that federal law overrides the state law where there is an overlap of powers.

In both countries, the adoption of a parliamentary strategy has involved the acceptance of key political and social constraints on radicalism. The political ones have been particularly evident in the Australian case. As the Whitlam federal government dismissal in 1975 highlights, despite all the rhetoric of defiance, the authority of the vice-regal representative was ultimately accepted. A parliamentary strategy also brought the need to expand the electoral appeal of the party beyond its trade union base to secure government. While unions dominated Labor conferences, particularly at the state level, they could not deliver the votes of all union members; and Labor politicians had in consequence to compromise with groups such as the Catholic Church. When those compromises then produced Labor governments, power often eluded those who formally held office; for as a Queensland Labor government found in the early 1920s when it attempted to borrow funds to purchase private industry, business interests and their political allies could, and regularly did, frustrate progressive Labor governments.[8]

There are UK parallels to both this business resistance and party-induced retreat from any initial close union embrace.[9] What the UK case demonstrates even more clearly, however, is the degree to which this 'Old Labour' embrace of parliamentary

politics was also embedded in a deeply conservative view of the limits of politics *per se*. For the UK Labour Party, even when it was a party of 'big government' explicitly committed to the 'management' of capitalism, remained wedded to the view that it could achieve that management with only the most limited degree of state redesign and reconstruction, and that it could do so while simultaneously leaving intact the operating assumptions and governing institutions of private civil society. For in the UK, Old Labour after 1945 was not simply a 'big state' party: it was also a party that took as axiomatic the existence of a huge private sector. It was committed to the public provision of education, health care and welfare: but it also left unchallenged the governing assumptions and institutions of a civil society within which life chances were still overwhelmingly fixed by inequalities of class, gender and ethnicity. In the triangular relationship of state, economy and society that governed its internal policies, that is, Old Labour, even in its most radical period, was prepared to leave large swathes of the economy subject to market forces and private control, and large swathes of civil society subject to established and deeply conservative patterns of authority and patriarchy.

In consequence, the much vaunted 'radicalism' of Old Labour that is now often hankered after by left-wing critics of New Labour was a radicalism defined primarily in relation to its domestic political opponents rather than in relation to social democratic or other left-wing forces elsewhere in the advanced capitalist world. Against more Marxist parties on the Left, Old Labour always asserted the autonomy of the State,[10] and occupied a position to the right of European Social Democracy as a whole; and in that sense was never particularly radical at all. But against its Conservative opponents at home, it was prepared to use that state autonomy to force a limited set of issues of social reform onto a political agenda that had been historically controlled by, and disproportionately sensitive to, the concerns of the privileged: so that against its own local political opposition therefore, Old Labour was perceived (and perceived itself) to be radical. As will now see, the story of the Australian Labor Party, even in its 'radical' phase, was a similarly 'conservative' one in this wider sense.

Using the State in Australia and the UK

State/Economy

Despite an early interest in nationalisation, federal Labor adopted economic policies that not challenge the fundamentals of Australian capitalism. During the Depression of the 1930s the Scullin government adopted the orthodox policies of reducing government expenditure and increasing tariff barriers to protect local capitalists and employment. During World War II the Curtin government issued National Security Regulations that established extensive controls over wages and prices. While the ACTU advised on manpower and industrial issues, Curtin would not allow union representation on the committee which planned essential war production. Ben Chifley, Curtin's Treasurer and successor, enacted Labor's plan for post-war reconstruction, which was strongly influenced by Keynesian ideas of state intervention. The success of wartime planning contributed to a distrust of unregulated market forces. The Labor governments also began to rely on experts in the growing federal public service recruited from universities and business, who pushed Labor towards Keynesianism. The focus of the Labor's plan was full

employment. Although the Constitution frustrated Chifley's attempts to nationalise the banks, these efforts were based on a desire to maintain a tight control of the economy rather than on an ideological commitment to state socialism. Other sections of private enterprise were seen as socially beneficial and integral to developing an independent Australian economy.[11]

The Whitlam government, which held power federally from 1972 to 1975, coincided with the end of the post-war boom. It expanded public sector expenditure, with the budget deficit as a proportion of GDP increasing from 1.6 to 4.7 per cent. However, the government became more fiscally conservative as unemployment and inflation rose. The 1975 budget emphasised restraint on 'excessive' government spending. The Whitlam government faced a hostile Senate, which frustrated many of its legislative reforms and played a crucial role in its dismissal by the Governor-General in 1975.[12]

Despite its social radicalism, the Whitlam government commenced a move towards market liberalisation in the area of trade policy. Whitlam did share Curtin and Chifley's preoccupation with the establishment of independent and modern Australian economy, industry and culture through Keynesian intervention. Whitlam believed that strong economic growth would provide a platform for new expenditure programmes in areas such as social welfare, which in turn would provide the basis for future economic growth. Like Curtin and Chifley, he favoured domestic capital over multinational capital in developing the Australian economy. There was, however, a weakening of the traditional suspicions within Labor of market outcomes and a desire for a more competitive market economy. His government established an Industries Assistance Commission to review industry protection, slash tariffs and move against restrictive trade practices. There was a limited dialogue between unions and the Whitlam government.[13]

While Labor was out of office federally for most of the period of post-war prosperity, it still held office in the states for the varying periods. NSW Labor held government continuously from 1941 to 1965. Its leadership shared Chifley's views on post-war reconstruction and embarked on a Sydney urban planning scheme and major public works programmes such as state housing and hospitals. A close relationship developed between the Labor government and the unions, which brought major legislative benefits such as annual leave, long service leave and a 40-hour week.[14] This relationship contrasts with the union experience with federal Labor governments prior to the Accord, and has no UK parallel.

If Old Labour in the UK is taken to encompass the Attlee governments and the Wilson ones, and everything in between, then clearly over time the chosen methods of economic management did change; but what did not change, as in Australia, was the commitment of all four governments to extensive, direct and detailed intervention in the economy. What also did not change was the willingness of all four governments, again as in Australia, to leave the bulk of economic activity in private hands. Intervention did not always mean ownership. Often it did not. It more normally meant financial support, inducements on investment and location, and the creation of industry- and economy-wide planning structures. The Attlee governments inherited both wartime direct controls and post-war resource shortages. They nationalized heavily, taking 20 per cent of the economy into the state sector. They initially exercised direct financial and fiscal controls over the remaining 80 per cent,

and were heavy purchasers of military equipment under the Ministry of Supply.[15] And they developed a central economic planning staff, under whose guidance they progressively abandoned direct controls in favour of Keynesian-inspired Aggregate Demand Management.

A generation later, the first Wilson governments experimented with National Planning and liaised with a series of industries through little 'Neddies'. They created Ministry of Technology (MinTech) to sponsor new industries and the Industrial Reorganisation Corporation (IRC) to buy holdings and assist restructuring in existing ones. Labour governments in the 1970s did even more: creating the National Enterprise Board (NEB) to extend the IRC role (to include the public ownership of failing companies and industries) and using the powers of the 1975 Industry Act to seek planning agreements with major companies. Unsuccessful there, the Wilson and Callaghan governments of the 1970s then established a string of sectoral working parties under the National Economic Development Council (NEDC), used procurement policies to reconfigure the military wing of the industrial base, and generously supported private investment with public funds.[16] Old Labour saw its job as picking and developing national winners; and it used public ownership and aid to private industry extensively for that purpose.

Moreover, Old Labour was progressively more and more corporatist as it sought to strengthen the competitive position of UK-based industry while squaring the circle of full employment and price stability. Trade union access to ministers was extensive and frequent during the Attlee governments, lubricated by the presence of former trade union leaders in cabinet posts and as heads of nationalized industries. The Attlee governments also negotiated and sustained the first set of post-war incomes policies. The later Wilson governments of the 1960s created new corporatist bodies, such as the National Board for Prices and Incomes (NBPI) and the IRC, and settled into a pattern of national bargaining with unions on wages and productivity. A decade later, similarly-led Labour governments inherited/created yet more tripartite bodies, including the Manpower Services Commission (MSC), the Advisory, Conciliation and Arbitration Service (ACAS) and NEB, to which executive powers were delegated; and introduced new and favourable sets of labour legislation. They too negotiated a series of national wage policies directly with trade union leaders; and they too – as in the 1960s and as is well known – in the end met rank and file resistance to those policies, and electorally-disastrous winters of discontent[17]. It was this dialogue between the Attlee and Wilson governments and UK trade unions that contrasted so sharply with the lesser trade union input into the Curtin and Whitlam governments in Australia.

State/Civil Society

Compulsory arbitration had an impact on the form of the Australian welfare state. Combined with tariff protection and restrictive immigration policies, compulsory arbitration created a 'wage earners' welfare state'. Tariffs allowed employers to tolerate high wages since they were protected from import competition. Restrictions on immigration weakened competition in the labour market. Compulsory arbitration provided a minimum wage, which was often less than adequate, for a white male worker and his family. This 'breadwinner model' marginalised the unemployed, single women and Aboriginal workers. It reinforced wage inequality in regard

to gender and race. The welfare state was 'residual' to the arbitration system and focused on those who could not undertake paid work. Consolidated revenue rather than contributory insurance schemes funded this 'residual social welfare' system. At the beginning of the twentieth century there was a considerable amount of casual and seasonal labour in Australia, which meant that it was very difficult for workers to fund weekly insurance payments. Later, high levels of home ownership and mortgage payments fuelled a reluctance to expand the tax base to pay for a comprehensive welfare state. There was an emphasis on means and income tests to limit the state liability for welfare payments.[18]

State Labor governments before World War II took the lead in setting up a welfare state. During the 1920s a Queensland Labor government initiated unemployment insurance and a NSW Labor government introduced a new system of widows' pensions and family allowances. The federal Labor government during and after World War II introduced a wide range of social welfare programs such as unemployment benefits, child endowment and widows' pensions. It failed in its efforts to establish a health benefits scheme and its two attempts at pharmaceutical legislation were declared unconstitutional by the High Court. However, these were a 'safety net' if the primary objective of full employment failed, and were financed by lowering the income tax threshold to 41 per cent of the 1943 basic wage. Further, Australia lagged in regard to social security and had one of the lowest expenditures in this area of GDP during the 1950s compared to other major industrial countries. Welfare was a 'second-order priority' for Chifley.[19]

The Whitlam government attracted high expectations of social reform after over two decades of conservative rule. It introduced Medibank, which provided for universal health benefits. This was not nationalized medicine and involved subsidising private sector medicine and health insurance companies. The Whitlam government did raise pensions and abolished means tests for pensioners over 70 years of age. While it supported the formal adoption of equal pay in the Commonwealth Arbitration Commission, it reinforced the concept of the 'male breadwinner' model by introducing supporting mothers' benefits.[20]

Labour governments in the UK during the 1940s created universal welfare provision (in health care, unemployment assistance and pensions), and extended the quantity and length of state education provision. They actively pursued policies of full employment and industrial relocation, encouraged the building of publicly provided housing for rent, and created planning structures to contain urban sprawl. As in Australia, the 'male breadwinner' model was heavily embedded into the initial structure of the UK welfare state. A generation later, Labour governments recommitted themselves to the maintenance of the National Health Service and its associated welfare bureaucracies, actively engaged in urban renewal, and focused its reforming zeal both on the restructuring of higher education (polytechnics and the Open University) and on the removal of selection from the secondary education sector. The first Wilson governments were also notable for the liberalism of their legislation in the area of sexual orientation and abortion; a liberalism which in the second set of Wilson governments was reinforced by legislation outlawing sexual discrimination. The record of the Wilson governments on issues of immigration and race relations was noticeably patchier: the liberal legislation of 1949 being replaced by restrictive immigration legislation in the 1960s, but then balanced in the

1970s by major initiatives to outlaw acts of racial discrimination. Old Labour was committed across the entire social agenda to the establishment and improvement of basic standards and rights, and to the development of individual opportunities for self-improvement and social mobility. Comparing the social sphere to the economic, Old Labour was less ubiquitously active: but where it was, its initiatives tended to be universal rather than targeted, and to be designed directly to shape specified sets of social outcomes. The cumulative impact of its programs was the creation of a large and labour-intensive publicly funded set of welfare institutions, which by 1979 absorbed 28 per cent of GDP (the figure for the much smaller GDP of 1938 had been 11.3 per cent), and distributed pensions, unemployment and disability benefits and child allowances to nearly half the population.[21]

Constitutional Policy

In Australia, Labor sought to expand the federal powers to remove limitations on what labor governments could do in regard to key policy areas such as nationalisation, industrial relations and social welfare. The Fisher Labor government from April 1910 to June 1913 twice tried unsuccessfully to extend Commonwealth powers to improve federal arbitration and nationalise monopolies. The Curtin Labor government's ambitious overhaul of the Constitution in the August 1944 referendum, which included the insertion of clauses that protected the freedoms of speech, expression and religion, was defeated. By contrast the Chifley government extended the Commonwealth powers in 1946 to cover a variety of social benefits and services relating to health, family, unemployment and students. In the face of union objections to wage controls, the Whitlam government tried unsuccessfully in 1973 to amend the Commonwealth Constitution to allow it control over prices and income to fight rising inflation.[22]

By contrast, 'Old Labour' in the UK on constitutional issues was relatively inert. Periodically it generated proposals for House of Lords reform, and briefly in the 1930s contemplated the use of Emergency Powers at times of economic crisis; but otherwise remained largely content with an unreformed electoral system and a set of government institutions that lacked any written constitutional underpinning.

II. New Labour

Rethinking the Role of the State in Australia and the UK

The election of the federal Labor government led by Bob Hawke in March 1983 did mark a major shift in attitudes to the role of the state in economic management. This was Australia's longest period of Labor Party federal government with Labor winning four more elections before its defeat in 1996. It failed, however, to capture the Senate, where it had to negotiate with minor parties.

The partial interest of the Whitlam government in free market forces became a fully-fledged dominant philosophy in many other policy spheres under Hawke and Paul Keating, his successor. Hawke and other key Labor parliamentarians had received a conservative economics training at university. The Centre-Left faction held the balance of power in the Federal Parliamentary Labor Party (FPLP). It consisted of middle-class professionals with few links with trade unions and was a strong supporter of the free market, modernisation and efficiency. The Labor

Left in the FPLP was muted by an 'inner accord' to minimise factional conflict and focussed on social welfare reforms. This coincided with the background of Commonwealth public servants in key economic portfolios such as Treasury, who formed part of an 'economic rationalist deluge' that had flooded out from Australian universities to ultimately dominate Canberra. Keynesianism was discredited by the collapse of the post-war economic boom; and economic rationalism provided an acceptable ideological alternative for Labor to prove its credentials in economic management to the business community. These credentials were weakened by the apparent economic mismanagement of the Whitlam government. While the Hawke-Keating governments shared a desire for the modernisation of Australia with their predecessors, Labor now did so within the framework of pre-Keynesian 'neo-classical' economics. The deterioration of the terms of trade, exploding foreign debt and inflation during the mid-1980s pushed Labor further in the direction of the market.[23] As Keating later noted:

> The Labor government embraced rational economic solutions and market orientated policies because they were the best way of getting growth and the best way of ensuring the future of ordinary Australians.[24]

There was also a shift in their view of the welfare state. Keating later claimed that the 'traditional downwards, passive and universal model of welfare was no longer appropriate' and supported a 'new welfare model', which 'imposed greater responsibility on the individual but which was also responsive to the individual's needs'.[25]

In the UK there was also a shift towards the market. After two decades of political opposition and Thatcherite neo-liberalism, the leadership team led by Tony Blair lacked their predecessors' enthusiasm for Big Government, and was no longer willing to leave unchallenged the underlying premises of what they now defined as the politics of 'Old Labour'. Instead, the New Labour leadership first talked and later theorized their way to a new and more limited role for the state: not normally as the provider of services in the first instance, but rather as the *lubricator* of that provision by private institutions[26] and as the *enabler* of self-development and self-help by a modern individualized citizenry. From the earliest days of the New Labour project, change was promised on all three key policy fronts under review here – on the Constitution, the economy, and civil society – but the full integration of this new view of the state took time both to articulate and deliver. In retrospect it is clear that the full thrust of the changes proposed were presented only sequentially, as the New Labour leadership laid out new benchmarks for the appropriate activities of the modern state: initially emphasizing its limited but critical role in relation to the economy; then forging for it a new role in relation to issues of community and social control; and finally resetting both institutions and policies in the pursuit of popular empowerment both internally and at home. There is, in that sense, a progression here, with its stages marked by a series of key leadership speeches.

So, even before taking office, Blair and Gordon Brown both put down very clear markers for the *economic role* of the State, one that gave both space and legitimacy to the central role of market forces. The New Labour state was not to be one wedded either to 'crude market dogma' or to old style 'tax, spend and borrow, nationalization, state planning, isolationism, full-time jobs for men while women stay at home'.[27]

Rather it was to be one operating on the premise that:

> where there is no over-riding reason for preferring the public provision of goods and services – particularly where those services operate in a competitive market – then the presumption should be that economic activity is best left to the private sector with market forces being fully encouraged to operate.[28]

As David Miliband (initially head of Blair's Policy Unit and later schools minister) put it:

> the case being made here is that to debate the balance between market and state is to misconstrue the issue: the real question is what sort of markets we want to create and what sort of state we want to develop, not how much we have of each.[29]

By the time the 1997 election had come and gone, all that rethinking had been joined to three other themes as well. The first was action on *social exclusion and community*: the building of 'a new social order in Britain … based on merit, commitment and inclusion'. New Labour came to power committed to building 'social order and stability through strong values, socially shared, inculcated through individuals and families'. It talked the language of shared rights and responsibilities in a new concept of citizenship: one, as Blair put it as early as 1996 that 'gives rights but demands obligations, shows respect but wants it back, grants opportunity but insists on responsibility'.[30] New Labour linked this new sense of citizenship to the role of the state in at least three ways: through Home Office policies designed to enhance law and order at community level; to education and training policies designed to equip individuals to improve themselves and simultaneously to enhance the quality of the overall stock of `social capital'; and through welfare policies targeted to move people from welfare to work while still supporting those who, for individual or social reasons, could not use their position in labour markets for self-improvement. As Blair later told Jeremy Paxman:

> the role of government today is enabling. It is not the old controlling role of the state and it is not laissez-faire. It is … about enabling people, equipping them to survive this process of change.[31]

Or, as Brown said: 'It involves a credible and radical view of citizenship and a new view of the state as an enabling state.'[32]

From the outset all this was also accompanied by an extensive set of proposals for *democratizing the structures of the existing state*: devolving power to newly elected assemblies in Wales and Scotland, reforming the House of Lords, introducing a Freedom of Information Act, signing up to the European Convention on Human Rights, and even exploring the possibility of replacing the first-past-the-post electoral system at Westminster with one based on proportional representation. For behind the New Labour unease with what Blair called 'the era of big centralized government' was a widespread desire within the Labour Party in opposition to break from the habitual secrecy, centralization and patronage of the State. Oppositions often say that of course – particularly if their period of opposition was prolonged – but in

New Labour's case the assertion of devolved and accountable power (if not always the practice) persisted into government. For when Brown chose to reflect upon the use of state power by New Labour in a landmark speech before the Social Market Foundation (SMF) in February 2003, it was again this importance of empowering people close to where they work and vote that he made centre stage.

The Brown SMF speech constituted an important moment in New Labour's rethinking of the role of the state. It contained key statements on the relationship between the state and the market and on the importance of decentralization as the route to consumer responsive and efficient non-market based forms of public provision.[33] In it, Brown committed New Labour in its second term to a twin mission: 'in large areas of the economy … to strengthen markets to maximize efficiency'; and in those areas 'where market failures are chronic … to pioneer more decentralized systems of public service delivery'. In fact so confident was he about New Labour's view of the state that he offered it as a third, and superior, model of economic growth, distinguishing it from 'continents … defined as beacons of enterprise at the cost of fairness' and from continents defined 'as beacons of fairness or social cohesion at the cost of efficiency'. He offered New Labour's new state, that is, as 'wholly in tune with British traditions and enduring British values', as a 'very British idea' and one with 'enormous potential for shaping our country's future prosperity'.[34]

The New Labour 'State' in Action in Australia and the UK

The State and Economy

In Australia, the consequences of this thinking were the dismantling of state regulation, state enterprise and public investment. The floating of the Australian dollar in December 1983 gave the financial markets increased power over government economic policy. Other changes included the abolition of exchange controls, the deregulation of the financial sector, and major tariff reductions in 1988 and 1991. There was also a strong advocacy by the Labor government of free trade agendas in international forums such as GATT. The Hawke government, like the Whitlam government in its later phase and the preceding conservative Fraser government insisted on fighting inflation first through the reduction of real wages and government expenditure, leaving the market to achieve the goal of full employment. While there were some progressive taxation reforms such as the introduction of capital gains tax, the Hawke government exacerbated income inequality through decreasing the 'tax burden'. It reduced the company tax rate, cut the top marginal tax rate for personal income, and introduced negative gearing on assets. As early as 1986 the Labor Party abandoned its traditional view of public ownership. It opposed the call for privatisation by the Liberals in the 1985, but supported privatisation on a case by case basis by 1988. Major state enterprises such as Qantas and the Commonwealth Bank were privatised, while the monopoly of the state-owned Telecom was broken up. A significant legacy is the National Competition Policy Act, which required both federal and state governments to implement comprehensive pro-market programmes under the supervision of the unelected and unaccountable National Competition Council.[35]

During the Hawke-Keating period Australian trade union leaders, through the Australian Council of Trade Unions (ACTU), exercised unprecedented influence at the federal level of Australian politics. The ACTU was by 1983 the sole peak

national trade union in Australia. It gained representation on bodies such as the Economic Policy Advisory Council and direct access to key Labor ministers during the preparation of the annual federal budget and labour legislation. This influence is based on the Accord, which the ACTU concluded with the FPLP before Labor's 1983 federal election victory.[36]

The Accord was part of an overall economic strategy to reduce unemployment and inflation simultaneously. It also allowed the Hawke government to distance itself from the Whitlam government in the area of industrial relations and suggest that Labor could manage the unions better than the previous conservative government. The FPLP's part of the original Accord included: a commitment to a centralised wage system with wage indexation; provisions to prevent non-wage incomes rising faster than wages; price surveillance; tax reform; intervention in industry to improve economic performance and create jobs; a universal health insurance scheme; and the repeal of anti-union legislation. In return trade unions were not to submit 'extra claims' outside the wage principles determined by the federal arbitration commission. When formulating wage claims unions were expected to take into account government economic policy and consult with the government. There was an emphasis in the original Accord not only on the maintenance of real wages, but also the 'social wage'. The federal Labor government convened a National Economic Summit in April 1983 and obtained widespread community and employer support for wage indexation. Although not obliged to support the Accord, the federal commission endorsed wage indexation at the National Wage Case in September 1983. In the four National Wage Cases between September 1983 and November 1985 the commission granted full indexation. While the Confederation of Australian Industry, the major employers' federation, did not formally support the Accord, employers participated on tripartite committees overseeing industry policy.[37]

From 1985 the Accord underwent several revisions, in a sequence which had many parallels with the degeneration of incomes policies under Labour governments in the UK between 1964 and 1979. Deteriorating terms of trade, an exploding foreign debt and inflation led the Accord partners to focus on wage restraint and improving productivity through micro-economic reform. There was a shift away from a centralised arbitration to enterprise bargaining overseen by the industrial tribunals. The federal commission abandoned wage indexation in December 1986. The Labor government further encouraged enterprise bargaining in 1993 by amending the federal arbitration legislation to allow non-union bargaining, which challenged the previous privileged position of unions in bringing industrial issues before the federal tribunal. The Labor government was not enthusiastic about active intervention in industry planning. It sat uncomfortably with its economic rationalism. While several industry plans were established in the early years of Accord, they were short-lived and undermined by the government's impatience for general reductions in tariffs. The shift towards enterprise bargaining did not halt a decline in union membership, which fell from 51 per cent in 1976 to 30.3 per cent in 1997. Workers also faced retrenchment in many key industries, increased casualisation, declining real wages, work intensification and longer hours.[38]

Unions, however, remained committed to the Accord because of the fear of the Labor Party losing office to an increasingly conservative opposition and the absence of a clear alternative strategy that would obtain union support. Also unions

that tried to by-pass the wage principles of the Accord were ostracised by the ACTU and the Labor Government. The most extreme example was the 1989 strike by the domestic airline pilots, who were not affiliated to the ACTU. They put forward wage claims that seriously breached the guidelines of the Accord. The ACTU, to support the Accord, did not publicly question the federal Labor government's tactics to break the strike. Like Chifley, Hawke used the military to break a strike and supported the payment by the government of compensation to the airlines during the strike.[39]

While the Labor Party was defeated at the federal level in 1996, Labor won the 1995 NSW elections. While Labor Premier Carr supported the market-orientation of federal Labor, there were limitations. An attempt to privatise the Pacific Power Company was defeated at the 1997 NSW Australian Labor Party (ALP) conference, which also passed a range of resolutions opposing privatisation. Unions persuaded the Carr government to repeal the industrial legislation of its Liberal-National Party predecessor, which emphasised enterprise bargaining at the expense of both the state industrial tribunals and trade unions. It even tried to reintroduce preference to unionists but was blocked by the Legislative Council. The NSW experience highlights that the labour's movement's traditional views of the role of the state still persisted in Australia despite the greater emphasis by the Hawke-Keating governments on the free market.[40]

In the UK the shift towards the market had both a negative and a positive impact on New Labour policy. Negatively it has meant a denuding of old policy instruments. So, in contrast to Old Labour, New Labour went to the country in 1997 claiming that it could achieve its economic (and by implication, its social) objectives by avoiding a whole litany of past policy instruments: public ownership (as in 1974), state control/direction of private industry (1983), extensive state investment in industry (1974, 1983), the creation of a state investment bank (1983, 1987), and the extension of industrial democracy (as in 1974, 1983, 1987). Instead New Labour proposed to achieve low rates of inflation by the adoption of strict rules for public spending and borrowing. It proposed to stimulate levels of investment across the economy through tougher competition law, more Private Finance Initiatives (PFI), help for small businesses, the establishment of Regional Development Agencies, and public funding of research and development. It proposed to create a flexible but highly skilled labour force through the retention of most of the Thatcherite labour laws, a new welfare-to-work program, the adoption of the European Social Chapter, and the establishment of individual learning accounts and a national minimum wage. It did not propose a return to corporatism. It did not propose to try once more to pick winners. Instead it offered what Brown in 2003 would call a new industrial policy: positive and active support for public-private partnerships, enhanced competition, support for free trade, the creation of regional development agencies, the encouragement of an entrepreneurial culture, extensive business deregulation, labour re-skilling, a limited set of new trade union and worker rights, and greater labour market flexibility.[41]

In much of this, New Labour has been true to its word. The setting of interest rates was immediately handed over to the Bank of England, and private-public investment partnerships were increasingly encouraged: initially on a relatively modest scale in transport and the prison service, but after the 2001 election more actively in education and heavily in the health sector. Welfare to work (on which

more below) was the centrepiece of the first Brown budget. The encouragement of small businesses, reductions in corporate taxation, and assistance in research and development became increasingly central to the budgets that followed. Legal changes of a pro-union and pro-worker kind were introduced during Labour's first term; as was a national minimum wage and Individual Learning Accounts. All this was rather modestly done however: learning accounts were also scrapped during that first term, the minimum wage was set and kept at a very low level, and UK labour markets remained the least regulated in Western Europe. Competition policy was strengthened, regional development agencies were created, the national architecture for the delivery of training was slowly put in place, and pressure was steadily maintained on the schools for the delivery of basic skills. And throughout New Labour's first two terms, the Treasury maintained a persistent verbal pressure on industry and the public sector to increase productivity levels first to Western European and eventually to North American levels.

State/Civil Society

The Labor government introduced Medicare, a public health insurance scheme in February 1984. This replaced Whitlam's Medibank, which had been weakened by the previous Liberal-National Party federal government. It was compulsory for all Australians and was financed by a one per cent levy on taxable income. It included an 85 per cent rebate on medical bills and free treatment at public hospitals when treated by a doctor appointed by the hospital. The government did attempt to introduce fees for Medicare in 1991 but this was reversed. The system remained a mixture of the private and public sectors, but provided universal access to high quality medical care at least cost. The Labor government delivered on its promise to increase and maintain the single aged pension at 25 per cent of total male average weekly earnings. This, however, was funded by the reintroduction of the means test for those over 70 (in 1983) and assets testing (in 1985). While there was substantially increased funding for child care, families with more than $50,000 in household income were excluded from the child care allowance. The Hawke government in 1988 reversed the Whitlam government's decision to abolish university fees and introduced a scheme whereby students could pay the fees through the tax system upon reaching a certain income threshold. This had an adverse impact on the proportion of students from lower socio-economic backgrounds going to university.[42]

In 1992 the Labor government introduced legislation that required all employers to make a minimum contribution on behalf of their employees' salaries into private superannuation funds. The government saw advantages in both reducing government expenditure and boosting the economy. It hoped to reduce the level of age pension outlays in an ageing population and increase the level of national savings to provide for investment and economic growth. While these superannuation benefits focussed on workers in the paid workforce, they also extended occupational pension schemes to women and low income earners. Despite the union hopes for a National Development Fund, which would invest in new capacity for industry and be financed by a levy on superannuation funds, it never materialised. The state here played a role of supervisor rather than as a provider of assets and services. This supervisory role can also be seen in Keating's *Working Nation*, which improved the employability of the young and long-term unemployed.[43] Overall John Quiggin

has concluded that the 'net effect of policy changes was progressive and at least partially offset the increase in inequality associated with the government's free market reforms'.[44]

In the UK, New Labour has stuck very much to its word in the social field. Its welfare-to-work programme, laid out in Brown's first budget and reminiscent of Keating's *Working Nation*, gave the young unemployed a series of routes back into work or training, and increasingly obliged them to take that journey. The commitment to the ending of child poverty played itself out through a series of tax innovations from the Chancellor: primarily the introduction of a working family tax credit and a childcare tax credit: the first guaranteeing a minimum income to families with full-time wage earners of £200 a week; the second allowing working single parents and couples who both work to reclaim up to 70 per cent of their childcare costs. The government maintained and intensified the system of performance indicators imposed on the UK school system by its predecessors; and when the two-year moratorium on public expenditure rises ended, new funds were found for both the education and the health budgets. This, in spite of New Labour's initial insistence that it was not a 'tax and spend' party, but one committed to the modernization of welfare provision. In fact a key element in that modernization – and one that was politically highly controversial by the start of New Labour's second term – was the extensive use of private finance in the capital expenditure programmes of particularly the health service: an initiative so controversial in fact that Brown was obliged to defend it at length in his SMF address[45] All this was accompanied by a string of initiatives from the newly created Social Exclusion Unit to break into, and alleviate, hitherto closed and self-sustaining cycles of deprivation; as the Home Office persisted in moves to fast-track persistent offenders and to cut back on levels of vandalism, hooligan behavior and racial harassment.

Constitutional Policy

The Hawke-Keating governments pursued constitutional reform and introduced legislation to protect individual rights. There were unsuccessful attempts to change the Constitution through referenda in 1984 and 1988. While these referenda were largely concerned with electoral reform rather than extending the federal parliament's legislative powers, the 1988 referendum did attempt to extend constitutional rights such as trial by jury and religious freedom. Labor also abandoned a Bill of Rights in 1986 following Senate opposition. It did take advantage of the external affairs power in the Australian Constitution to introduce anti-discrimination and equal opportunity legislation in accordance with Australia's international obligations. Some critics claim these reforms did not redress the inequalities for women's wages arising from the Accord and the refusal of the federal arbitration tribunal to hear comparable worth claims for women. Hawke also did not proceed with legislation in 1984 providing for Aboriginal land rights due to pressure from mining companies. The issue was only revisited after the High Court's decision in the Mabo Case in 1992, which forced the Keating government to introduce legislation restoring Aboriginal native title. Keating also began a push for establishment of an Australian republic and the end of the links with the British monarchy.[46]

In the UK New Labour delivered in regard to constitutional policy, if in a muted and increasingly unenthusiastic manner. It moved quickly to devolve power to

local assemblies in Scotland and Wales. It incorporated the European Convention on Human Rights in UK law, so opening the way to judicial oversight from Strasbourg. It removed the bulk of the aristocratic element from the House of Lords. It created the office of Mayor for London, and it set up a commission under Roy Jenkins to consider changes to the voting system. But then it stalled. Its Freedom of Information Act was widely criticized as too restrictive. Its various schemes for completing House of Lords reform failed to win the necessary Commons majorities. The Jenkins Report gathered dust: and the promised referendum on its proposals never came. Instead a regular and persistent line of criticism emerged: of excessive media manipulation, of Blair's centralization of power to himself, and even of his incipient presidentialism.[47]

III. The Adequacy of the New

In Australia and the UK the labour movements chose the path of capturing the state through parliament to benefit their members. This path implied an acceptance of parliamentary democracy and its constitutional constraints. As unions could not deliver a majority of votes, both parties found it necessary to broaden their electoral appeal and minimise radicalism to win office. While socialist tendencies were present in both parties, their main focus was on modernising capitalism to ensure sufficient wealth to benefit their constituents. As they operated in the confines of capitalism, they tended to be influenced by economic doctrines that reinforced it though to different degrees at different times.

In Australia during the 1930s Depression, the Scullin government draw upon a range of ideas that certainly did not challenge the fundamentals of capitalism. The Chifley, Curtin and Whitlam governments were willing to adopt Keynesian economic ideas to highlight their role as reformers in Australian economic, political and social life. The Hawke and Keating governments in turn were willing to abandon Keynesianism and adopt neo-classical economic theory to establish Labor's economic credentials as a responsible party of change and modernisation in the period those governments operated. In so doing, the Hawke-Keating governments challenged traditional perceptions of the role of the state in the Australian labour movement and dismantled tariffs, deregulated financial markets and privatised state assets. While the Hawke-Keating governments introduced progressive changes in social welfare and social legislation, these were not sufficient to offset the inequalities created by the acceptance of markets. They also retained a focus on constitutional reform.

The Hawke-Keating governments did rediscover the benefits of a close relationship between trade unions and the Labor Party. The Accord gave the ACTU unprecedented union influence on a federal Labor government but at the price of wage restraint. The Hawke-Keating governments were also successful in persuading the unions to accept the shift to enterprise bargaining and the market by highlighting the risks of an alternative conservative federal government. As with previous federal Labor governments, the Hawke-Keating governments found state conciliation and arbitration a useful tool in pursuing its economic policies and restraining union demands. Like the Curtin and Chifley governments, the Hawke government used the military arm of the state to defeat unions that challenged its industrial relations policies. While the Hawke-Keating governments may have accepted the dominance

of the market, they were still willing to use the apparatus of the state to restrain union militancy and achieve economic reform.

In the UK New Labour's argument about the importance of an enabling state, and about a new relationship between the state and the market, is a legitimate response to a set of real issues that has long bedeviled the Left. The enabling state is a response to the dulling impact of universalism in welfare provision: a way of triggering self-improvement rather than perceived free-riding; one answer at least to the question of how best to empower individuals in a society scarred by inherited inequalities and self-sustaining cycles of deprivation while at the same time adding to the quality and quantity of `social capital' available to us all. The new thinking on how to articulate private and public provision does address the vulnerability of old-style public bureaucracies to the ideological (and electoral) assault of the Right. If public services are not efficiently provided, and are not consumer-sensitive, then they undermine the credibility of those arguing the case for the management or replacement of markets. They open the door to Thatcherism.

So New Labour is moving the UK towards a new kind of state. The issue is whether, in innovating in this way, New Labour is going too far. In Australia and the UK the great fear of those who see the market arriving as a central presence *within* the public sector is that its arrival will be corrosive of the positive principles (of universality of access and equality of provision) that hitherto has distinguished social democratic welfare provision from market-based insurance systems. Markets are mechanisms that drive by incentives. They reward the successful. They create inequality as a by-product of their dynamism. The great fear on the Left is that the enabling state will reinforce that pattern of inequality; or that if it does not – if its practitioners see the need to head off inequality by greater labour market participation by welfare recipients – that the enabling state will become incrementally more authoritarian over time. The great fear, that is, is that in holding a middle ground between European and American models of growth generation and welfare provision, New Labor/Labour will actually (to change the metaphor) release the cuckoo of commodification and 'consumerization' into the nest of social democracy: a cuckoo that in the end will empty the nest of the very institutions and values it was introduced to sustain.[48]

If we return to Figure 1, the power relationships at play here are visible for all to see. Figure 1 maps political distance and actor involvement. It places the state – however theorized – at the centre of a set of concentric circles which, as they expand, take the political agenda away from the direct control of politicians and into areas of social and economic life in which state personnel have to interact with centres of private power and with sets of embedded private institutions and processes. Both parties faced such a set of circles. In the UK the Labour Party could, and did, rearrange the furniture on the immediately adjacent political circle: because in the end all it was moving around were fellow politicians. In fact the only political resettlement it could not dictate was that in Northern Ireland, where the active parties involved were much more socially-embedded and mutually antagonistic than elsewhere in the UK's political class. Both parties were active too on the next circle – the social one – able directly to reformulate the rights and responsibilities of state welfare clients, though less equipped to restructure the welfare rights – widely defined – of well entrenched middle classes less dependent on state handouts. Further out still,

both parties found an economic circle in which the business community was heavily neo-liberal and the labour unions already weakened and defensive.

There is a real sense in which the pattern of innovation in state practice, and of effectiveness in policy achievement, goes together on this map. Effectiveness is difficult to judge and isolate, of course, since the forces shaping outcomes are complex, inter-related and difficult to isolate.[49] But in general both parties have found policy change easiest where resistance has been least: in the economy, where the business community supported their deregulatory tendencies and the Left had no coherent alternative to offer in its stead. Where resistance has been strongest – in both party and electoral terms – has been in the area of social provision. Old values die hard there. There were also variations. In the UK it was easiest of all in the area of the Constitution, where no one outside the political class really cares[50]; but remained difficult in Australia given the cumbersome nature of the formal requirements for constitutional reform.

Both parties like to think of themselves as different from Old Labor / Labour – and in their understandings of the state they increasingly are. But in their propensity to use power to discipline the working class, they are very much still operating in an older Labour tradition. For now, as in the past, as we climb the class structure, the degree and presence of the state as an agent of control, as well as one of empowerment, visibly diminishes. The differential class impact of Labour's programmes in both countries is being obscured by the apparently class-neutral language of shared responsibilities. In the classic social democratic fashion, any notion of structural contradictions has been written out of the New Labor / Labour script. In the dynamic new thinking of these 'modernised' labour parties, there is no space for the view that the empowerment of some must mean the weakening of others. Yet in an unequal society, sharing and parity are not the same thing.

Endnotes

*   This paper has been peer-reviewed for *Labour History* by two anonymous referees.
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47. See, for example, D.Beetham, *Democracy Under Blair*, Methuen/Politicos, London, 2004.
48. C. Leys, *Market-Driven Politics*, Verso, London, 2001; C. Newman, *Citizen-Customers: New Labour's Marketplace Democracy*, Catalyst, London, 2003.
49. Coates, 'The State as "Lubricator"', pp. 18-30.
50. To the point indeed that, in 2004, the north-eastern electorate actually and decisively rejected John Prescott's offer of a regional assembly.