

**Foenander Public Lecture 2007**

Centre for Human Resources Management

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**Closing the gap?  
The role of wage, welfare and industry policy in  
promoting social inclusion**

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## Introduction

The year 2005 has been seen as a watershed in Australian social policy. Soon after Federation, it is said, a distinctive system of ‘social protection by other means’ (SPM) emerged in Australia which has become widely invoked in the comparative literature as the ‘wage earners’ welfare state’. Its foundation lay in the system of judicial minimum wage determination which persisted—if in diminishing forms—from 1907 to 2005. In that year the Howard Government passed industrial relations reforms known as the WorkChoices legislation which are widely thought to reflect a view that wage minima should be determined more by what the market can afford than by welfare criteria. For some commentators, this is seen as social policy vandalism, opening the way to a US-style flood of working poor. Others see this as an inevitable consequence of globalisation; and propose that Australia along with other SPM countries must reckon with creating new European-style welfare state systems of ‘flexicurity’ which can combine a deregulated market economy with a welfare state regulated form of social compensation (Mishra 2004). In this lecture, I propose that this perception of a social policy crisis created by WorkChoices is fundamentally mistaken and based on a narrow reading of the ‘Australian way’ of doing social policy. A revisioned history will point the way to a quite different and readily attainable social policy framework which can indeed ‘close the gap’ and promote a socially inclusive Australia.

Orwell de Ruyter Foenander was an outstanding pioneer of industrial relations scholarship in Australia; and I note from the University of Melbourne recitals governing this lecture series that the Foenander Lecture in his honour is meant to be delivered by ‘a person distinguished in the field of industrial relations’. Then why someone from the field of social policy? The answer, of course, traces to this special relationship which has existed between welfare and wage policy in Australia. Until the last decade, the kind of social and economic policy assumptions which shaped industrial relations and social policy as disciplines had been rather settled, allowing a convenient division of labour within which they might acknowledge each other from a distance but there had been little reason to dialogue.

As Ramia and Wailes (2006) have noted, we social policy scholars may have ritually invoked the concept of wage earners’ welfare but we never actually knew anything about how wage decisions were made within the industrial relations system; and I suspect the reverse was also true. Over that decade, however we have witnessed a breakdown of those shared assumptions and the creation of a policy and legal vacuum in relation to the respective roles of wage and welfare policies in Australia. While I make no claim to proficiency in the IR literature, it is clear that some of our concerns are very similar. Thus Gahan (2003) describes the ‘intellectual challenges to the pro-regulatory stance of labour law as protectionism’ which have led to the ‘displacement of intellectual perspectives which traditionally informed the direction and evolution of labour law’; a displacement explored in impressive breadth and depth in a recent compendium of contemporary Australian labour law scholarship, *Labour law and labour market regulation*, edited by Chris Arup (2006) and colleagues. It is this challenge of finding a new pro-regulatory stance that is post-protectionist which, I believe, establishes the terms of reference for a much needed extension of this dialogue between the two disciplines.

Foenander introduced his collection of essays, *Towards industrial peace in Australia*, published in 1937, with the observation of Sir Charles Dilke that Australian workers had always demanded 'a life of comfort and well-earned partial leisure against a life of mere existence' (p.3). The essays betray a certain national pride in the achievements of a Conciliation and Arbitration system which, writes Foenander, emerged from the extremely fierce industrial warfare of the 1890s to establish a lasting province for law and order in an age of international industrialisation characterised by class strife. He emphasises the novelty of the attempt: it was a 'step into the unknown' with no-one really knowing how social purpose was to be reconciled with economic reality. After three decades of operation including the test of the Great Depression, Foenander concluded that the system was a proven success. Whatever the dissatisfactions of some, he wrote, the Court:

has always kept the public interest in view ... It has preached the dignity of labour and condemned the theory that labour is a commodity to be bought and sold. With Goethe it has tried to show by its actions that if we treat men as if they were what they ought to be, we bring them as far as they are capable of being brought; but if, on the contrary, we treat them as being what they are, we make them worse. (p.255)

Industrial relations today, of course, operates in the shadow not of the Conciliation and Arbitration system but of WorkChoices which, according to Foenander's University of Melbourne successor, Joe Isaac (2007), represents a radical departure in scope and philosophy. According to Isaac in this lecture series last year, WorkChoices is unworthy of the name 'reform'. Not only has it little justification in economics, but it 'goes against the ethos of a fair society', has the potential to be 'socially divisive' and opens up 'the prospects for a return to the master and servant mentality of the nineteenth century'. A displacement of traditional assumptions indeed! What I find most interesting in these circumstances is the fact that contemporary Australian IR thinking is a thriving intellectual enterprise. The debate around WorkChoices is in fact encompassed by a much wider ferment regarding the role of labour law in contemporary economy and society. It is to these wider developments rather than issues specific to WorkChoices that I wish to address my remarks.

There are three features of the new IR agenda which will shape my ensuing observations from Australian social policy. First, as Mitchell and Arup (2006) explain, labour law has seen a switch of emphasis from what is termed 'protectionism' to efficiency. The former is said to have expressed twentieth-century welfare goals concerned with securing worker rights in an employee-employer relationship conceived as fundamentally unequal. Internationally, they say, this goal of worker protection has been overtaken in the last decade and a half by deregulatory approaches emphasising economic efficiency and competitiveness. The main division of opinion, as the LSE scholar Hugh Collins (2001) has summarised, is now between those who see competitiveness best achieved through simple deregulation of the labour market and those who see:

that the achievement of competitiveness requires extensive government intervention both to provide public goods, such as an educated and skilled workforce, and to steer businesses towards the most efficient relations of production. (p.18)

The second feature of the new labour law has been the widening of interest in its regulatory field: as Mitchell and Arup (2006) say, from the ‘workplace’ to the broader ‘world of work’. This emphasis links issues of efficiency at work to the requirement for workers to have appropriate education, training, housing and work-life balance. Deakin and Wilkinson (2005) have shown how this area is pregnant with opportunities to refocus social rights and labour law in ways which fit the twenty-first century. The third aspect of the new labour law relates to the sites of regulation. The curtailed powers of the Australian Industrial Relations Commission under WorkChoices, Arup (2006) proposes, will not mean the end of regulation but rather its dispersal among other regulators such as specialist tribunals, industry ombudsmen, occupational health and safety regulators, human rights and equal opportunities authorities and so on. It will not be impossible but it will be difficult, he concludes, to pursue a coordinated social policy agenda.

These three themes—protectionism replaced by competition, the linking of the market to its social foundations, and the challenge of coordinated governance—also comprise what I would see as leading edges of contemporary Australian social policy development. I will introduce these in two ways. First I will critique what remains the dominant historical framing of our current challenges in terms of the collapse of ‘protectionism’ variously expressed in terms of the demise of the ‘wage earners welfare state’, or the collapse of what Paul Kelly (1995) imagined as five pillars of an ‘Australian Settlement’. Here my purpose is to reclaim the productivist values of the ‘Australian way’ showing how this has typically been seen as supported not undermined by social regulation. Then I will turn to the present to outline the kind of social policy framework which can allow us to develop a new welfare regime which is both economically efficient and socially fair and reasonable.

### **From the ‘Australian settlement to the ‘Australian way’**

In social policy it is vital to get our sense of history right if we are to see the present and future options clearly. This truism has been reaffirmed recently by Bonoli (2003) in a comparative study of social policy exercised through labour markets. After showing how the inclusion of labour market policies alongside the usual focus on tax and transfer systems leads to some very different conclusions regarding the effectiveness of welfare states, Bonoli concludes by reaffirming the importance of the ‘initial steps’ taken in the formation of national regimes. ‘Path dependency’ remains a critical factor in the ongoing evolution of national social policy, even though it is subject to much subsequent ‘path layering’. The ‘initial steps’ in Australia are still widely understood in terms of ‘protectionism’, an understanding which has long outlived its usefulness.

Only last year Peter Saunders (2006) published his reflection on the social policy implications of WorkChoices. He describes the passage of the legislation as a ‘pivotal moment’ and a ‘point of departure’ for a social policy tradition dating back a century; and is clearly fearful of the consequences. Saunders frames the tradition in terms of the ‘wage earner welfare state’ interpretation developed by Francis Castles over two decades ago. As Ramia and Wailes (2006) have also recently summarised, in this view wage protection, tariff protection, and the immigration barrier of the White Australia policy ‘functioned like interlocking shock absorbers designed to defend and stabilise the existing structure of economic opportunities and rewards’ against

external economic shocks. With tariff and immigration protection long gone, Saunders now sees WorkChoices ready to sweep aside a remaining minimum wage cornerstone of protection and justice for the disadvantaged. Castles (2001), of course, had farewelled the Australian welfare state some years before: the McClure report, he thought, would 'complete the process of tearing down the edifice of Australia's distinctive model of social provision'.

Not everybody has accepted this 'protectionist' perspective. Importantly, Rob Watts (1997) argued that it placed a disproportionate emphasis on the role of the wage system; a view understandable given that a previous standard version of the history by Mendelsohn (1979) had made only brief reference to the Harvester Judgment, describing it as a 'brave' initiative but one tarnished and compromised by time. More recently we have seen Michael Keating (2004) disagreeing with the doomsayers. He believes, by contrast, the system of wage regulation actually had little effect on welfare historically because wage outcomes basically followed market forces. Tellingly, Industrial Relations researchers are also questioning the account. O'Donnell and Arup (2001) have pointed out that the predominance of intermittent and fluctuating work in the period before the 1940s precluded the operation of the clear work/welfare boundary posited by the wage earners' welfare model. More generally, Hancock and Richardson (2005) have written of Castles' 'conceit' of a 'wage earners' welfare state' as 'ingenious' but 'almost entirely inferential':

Examples of policy makers explicitly attributing the structure and content of social services to the adequacy of wage levels are, to our knowledge, non-existent. (p.150)

Whether wage regulation nullified political pressures that might otherwise have emerged for a bigger social security system is', they argue, 'unknowable'.

Almost a decade ago, Smyth and Cass (1998) proposed an alternative interpretation in terms of an 'Australian way' of doing social policy, in which protectionism was not a distinctive feature at all. It drew attention to an historical bias towards regulating in a way which would promote employment and growth while seeking egalitarian outcomes. This productivist rather than protectionist account offers a far more historically accurate picture of the 'initial steps' in Australian social policy and with that a far more fertile and positive basis to engage with the challenge of re-layering that pathway for the present times.

### **Initial steps: the social investment state**

Elsewhere I have argued that the distinctive feature of Australian social policy at the time of federation was not 'protectionism' but 'social investment' (see Smyth 2004; 2005). While it is true that Australia initially chose tariffs over free trade, the point is that this was not distinctive. No less an authority than the historian of the British Empire, W K Hancock, reminds us that the North Americans, continental Europeans and all the self-governing members of the Empire rejected the British push for free trade in this period. Following more the ideas of Friedrich List than Adam Smith, these countries adopted tariff protection as a way of building up their own industrial base. They did not wish to remain mere suppliers of food and raw materials to the manufacturing centres of Britain. Australia could have remained a vast sheep station

with a landed aristocracy, a smaller population and a low wage service class. Instead, it chose to use its land-based wealth to steer its economic development towards the new industrial sector and so develop a more diverse, higher-wage economy which would also be attractive to immigrants and build a larger population base. The Listian model was not anti free market, but pointed out those inequalities of market power which made it sensible for nations to move progressively towards free trade as their ability to compete allowed.

It was not the tariff that was distinctive, but rather the extent of government spending on infrastructure. Growing out of so-called colonial socialism, Australia until the 1930s had the largest public economic sector in the world. Investment in the future was understood to be as much social as it was roads, ports and railways. Since the 1870s Australia had—along with the United States and New Zealand—led the world in spending on education. Mendelsohn (1979) describes the outstanding social policy achievement in this period as the consolidation of free public primary education and the beginning of state secondary and technical education. He calls the attainment of close to universal literacy an ‘early triumph’. It was also a time of significant intervention in slum clearance, the early years and public health. Governments’ task was conceived in terms of equipping individuals to participate effectively in the market.

Importantly, this ‘social investment state’ was as much the product of the business sector as it was of the labour movement (Smyth 2005). An industry policy which took the high-wage manufacturing path would require a better educated workforce while offering the prize of higher wages. Good social policy would also be good for business. Here economic self interest meshed with the ideals of the ‘new liberalism’ which inspired the employer groups who, in tandem with labour efforts to ‘civilise capitalism’, were responsible for much of the social legislation of the period. According to these ideals, as Marian Sawer (2003) has reminded us, the aim of policy was to equip each individual with the material and cultural means needed for self-development. The idea of a living wage grew out of this sense of a ‘fair go’. Adequately rewarded workers would become self-trusting individuals free from dependence on charity or the state. Australia would be a welfare society, not a welfare state.

While the ‘living wage’ which Justice Higgins handed down in 1907 through the Harvester Judgment was of a piece with this wider social investment framework, it appears to have played a smaller role in practice than Castles’ account might suggest (Hancock 1998). It was meant to be ‘fair and reasonable’ and enough to satisfy ‘the normal needs of the average employee regarded as a human being living in a civilized community’. However the process of determining needs was fraught. Higgins noted the absence in law of any criteria to determine what was ‘fair and reasonable’. His estimate of family size as ‘about five’ indicates the extent to which the needs basis of the living wage lacked a coherent definition to enable its measurement. This was to be a source of further confusion in the years that followed.

Moreover, only a small number of Australian workers were actually covered by the federal award. It was not until the 1920s that it could be said that federal and state tribunals were applying living wage principles consistently (Macintyre 2004); and, as noted above, the lack of standard working arrangements further attenuated its

influence until the 1940s (O'Donnell & Arup 2001). Moreover, as the Piddington Royal Commission in 1920 revealed, the basic wage had not kept pace with prices and was in fact around fifty per cent below what it should have been. There was no way the economy could afford the difference and workers received a small extra allowance instead (Hancock 1998). Piddington's analysis highlighted what had been a key problem from the outset: failure to discriminate for family size. A single male received the same wage as the family of 'about five'. He proposed that the basic wage be calculated on the basis of a couple without children and the government provide an endowment for each child—an idea that came to fruition in 1940.

The tenuous hold of the living wage principles on wage setting practice was exposed in the early 1930s with the Great Depression. In 1934, following a planned deflation of the economy, Australian wages were reduced by ten per cent. Wage setting henceforth was driven by the capacity of industry to pay rather than by calculation of family needs. Nevertheless, researchers agree that the Harvester principle did continue to exert an influence. While there is little evidence that arbitration raised real wages in the long term beyond increases in output, or that it increased labour's share of the national product, the practice of indexing the basic wage did set a floor under the labour market having it real effect on the 'wages of the weak' (Macintyre 2004; Gahan & Hearn-Mackinnon 2005).

What did stimulate higher wages, according to Hancock and Richardson (2004), was the success of tariff policy in decreasing Australia's dependence on agricultural and pastoral industries. This occurred through the stimulation of the emerging manufacturing sector and in a way that enabled Australia to expand its small population base. Tariffs, according to the Brigden Report of 1929, not only encouraged infant industries but also, by raising the prices of local products, brought a flow of income from landholders to those who worked in other sectors. The employment growth with higher wages allowed for the 'maintenance of a larger population than could have been expected at the same standard of living without the protective tariff', according to Brigden. Hancock and Richardson comment that wage regulation was a minor feature of the strategy: wages were high but this was largely due to overall average income being high.

From these commentaries it would appear that from Federation to World War Two, the concept of the living wage had a far more modest influence on wage setting than the legend of the 'wage earners' welfare state' would suggest. The family wage concept appears to have had only a marginal influence on wage setting practice and was largely set aside when it conflicted with the principle of the capacity of industry to pay. Nor is it accurate to think of its role in terms of 'protectionism', in the sense of merely shielding people from risks created by market forces. The principle informing intervention in the initial steps of the Australian way was far more positive and robust. It was about investing in people so that they could master risk. Making work pay through wage regulation was intended to trust individuals and families to manage their own affairs rather than have them supervised by charities or the state. Using tariffs as part of an industry development strategy followed widespread international practice and was designed to redirect some of the land-based export wealth into the nascent manufacturing sector. This would lead to a higher-wage economy with a broader, more diverse structure of opportunities available to its citizens. What was most distinctive about Australia was in fact the scale of public investment. In this

regard Australia developed a manufacturing sector and a population increase on a scale it would not otherwise have achieved. Emblematic of its social policy was the 'early triumph' in education.

## **Overlaying the social investment state**

There were three significant transformations to this Australian way which it is necessary to note if we are to fully appreciate the challenges involved in the relayering of the social investment approach to today. Space allows only the briefest summary of the appearance of what I have called the 'economic state', the 'welfare state', and the Accord. Together they show, in particular, how diminished the role of wage setting had become in social policy terms by the time of WorkChoices.

The term 'economic state' refers to social policy in the Keynesian period from the mid 1940s to the 1970s (see Smyth & Wearing 2002). Once again the central emphasis of policy was investment: in this case on the need for it to be socialised up to the point necessary to ensure full employment. Internationally this was not remarkable, but what did become an issue was Australia's heightened use of tariff protection at a time when the international economy was moving towards a more open market model. Neighbors like Singapore and Japan became exemplars of strategic industry and training policy as they geared their economies successfully towards export-oriented manufacturing. In Australia, according to Capling (2001), governments at this time did not believe that this was a responsibility of the public sector. Reliance on agriculture and minerals actually increased, with tariffs becoming a way of avoiding rather than mastering risk. As Saul Eslake (2007) noted recently, this was a time of lost opportunities, as Australia's average per capita income slipped from fifth highest among the developed countries in 1950 to 10<sup>th</sup> in 1973 and 18<sup>th</sup> in 1989.

The second layering came with the 'welfare state' in the 1960s and 70s. As R G Brown wrote in 1973, by that time what he called the 'Chifley assumption'—that is, that full employment with decent wages would remove the need for a welfare state—had broken down. A steady expansion of social investment in education, health and social services generally in the postwar period led governments to introduce social planning on a parity with economic planning. However, mirroring the lost opportunities in the economic sphere, Australian social policy also lagged behind international trends. According to Mendelsohn (1979), public expenditure on education, for example, slipped distinctly below the OECD average in 1971–2.

The long boom and emergence of a welfare state profoundly changed the relationship between wage and welfare policy in Australia (Hancock 1998). Wages rose dramatically in Australia, so much so that the old 'living wage' functioned less and less as a floor against poverty for the ordinary worker. Basic wage awards operated alongside awards for skill which became increasingly significant in workers' pay. Wage setting became unrelated to measures of adequacy for the needs of families and was driven by industry capacity to pay. Eventually, in 1966, the basic wage was replaced by the 'total wage' and a new 'minimum wage' created for those who had not benefited as much from the fruits of the boom.



The new minimum wage failed as a social protection device. Whereas all unionists had had an interest in maintaining the value of the basic wage, few depended on the new minimum. Few received it and the Tribunals refused to link it to any understanding of needs which might have been used as a point of leverage in arbitration. As Barbara (2001, p.160) writes:

the Tribunal's substitution of the basic wage with the minimum wage effectively ended the tradition within the Australian wage determination process of providing for a universal 'needs' based foundation wage to be supplemented by margins for skill.

A second postwar development which changed the welfare component of wage setting was the entry of women into the paid workforce. This created pressure to formally remove the now anomalous 'family wage' component from wage determinations. The Harvester Judgment had been premised on a male bread winner model and women had received only fifty-four per cent of the male basic wage up until World War 2, when the female wage was reset at seventy-five per cent. The new minimum wage was not extended to women until 1974, when the abolition of the family component was finally declared. In its decision the Commission pointed to the diversity of family composition and declared itself lacking in the necessary information to discriminate between the needs of families (Hancock 1998). Importantly the Commission declared that it was an 'industrial arbitration tribunal, not a social welfare agency. We believe that the care of the family needs is principally a task for governments'. For these reasons, it said, the 'family component should be discarded from the minimum wage concept' (p.53). The minimum wage itself, according to Barbara (2001) became irrelevant in the national wage cases of the 1980s.

The third layering came with the first integrated approach to wage, tax and welfare policies under the mechanism known as the Accords during the Hawke-Keating period Rowse (2004). Here the government and the ACTU agreed to trade-offs between 'social wage' increases—including items like compulsory superannuation and public health insurance—and take-home pay. Initially, with around eighty per cent of workers covered by awards, these agreements became the basis for Tribunal wage setting decisions. Barbara (2001, p.233) concludes that the Accords process:

effectively shifted the institutional locus of social protection provision away from the Tribunal towards social policy institutions proper. The necessity of the Tribunal as a source of social protection within the broader framework had been undermined.

This universalist, integrated wage-welfare policy approach was shortlived, being overtaken by the free market orientation of public policy generally in this period. This orientation did not discriminate between forms of social intervention, whether in trade, macroeconomic, industry, regional or social policy. In popular debate all were characterised in terms of 'protectionism' of which the old tariff became the whipping boy (Kelly 1994). The welfare state froze into what seemed to some like a state of permanent austerity (Pierson 2001). In 1993, enterprise bargaining was introduced, with award wage setting focused on a residual safety net of awards rather than award coverage for all. Safety net reviews replaced national wage cases and over time became relevant to only about twenty per cent of workers. This residualism was reflected in a revived emphasis on wage minima, with the Commission instructed in

1996 'to have regard for the needs of the lowly paid when making their decisions'. The Commission did not attempt to identify and quantify needs and the cost of meeting them; but in keeping with much of its history simply linked safety net wages to the lowest rates in other awards.

These three layerings of the 'Australian way' show that, long before WorkChoices, Australians had moved away from the assumptions of the Harvester Judgment and the Chifley period. Australia's wage setting tribunals had begun as early as the 1960s to vacate the field of social entitlements to the newly emerging welfare state. For a period in the 1980s, governments sought to develop an integrated wage and welfare system, before the rise of economic liberalism sparked a reaction against all forms of 'protectionism'. This reaction did not discriminate between the various forms of social regulation which had shaped the Australian way.

### **Reframing the Australian way today**

If you recall the views of Castles and Saunders noted above, then you would be forgiven for thinking that WorkChoices represents the last nail in the coffin of social investment and social regulation in Australia, the final triumph of what Collins referred to as the simple deregulation model. However, as our new century has progressed it has become increasingly apparent that while the role of wage tribunals has shrunk, social expenditures generally have continued to expand. Initially at odds with the rhetorical framing of national social policy in terms of 'ending welfare dependency', this development has become fuelled by the challenge of redressing skills shortages in an increasingly ageing society. This is now evolving into a new economic and social policy agenda for the nation, organised around the twin goals of investing in human capital and promoting social inclusion.

That climate of permanent austerity which engulfed Australian social policy has turned out to be one of the myths of globalisation. Thus Castles' (2004) review of twenty-one OECD countries from 1980 to 1998 revealed a story of dramatic growth in social expenditures across virtually all those surveyed. In Australia, per capita real social expenditure rose from US\$9,144 to US\$15,538 in that period, a growth that has not abated under the Howard government. When we recall that twenty-five years ago low-income households received little by way of direct income support, it is instructive to realise that today low-income families with children and receiving rental support derive around half their disposable income from government transfers. Especially with the growth of family tax benefits, almost one-third of all Australian adults receive some form of income support (Bell and Quiggin 2006). While some lament this growth of what they see as 'big government', more and more commentators are applauding the fact that our tax transfer system has both protected those on the lowest incomes and restrained further growth in inequality (Eslake 2007). Moreover, alongside these social concerns around poverty and inequality, the new social policy agenda is developing around the potential economic returns of smart 'social investment'.

This shift in economic thinking has been associated internationally with the economics of the third way. It has reopened a space for 'social investment' which had been closed by the simple deregulation school's reaction against the so called 'tax and spend' policies of the postwar period (see Driver & Martell 2006; Whyman 2006;

Burkitt 2006). Now in the UK, according to Dolowitz (2004), the focus of government policy has shifted from cost cutting and fiscal stabilisation. The new emphasis is on addressing the tendency for underinvestment in human capital accumulation and technological advancement created by the short-term horizons of individual market actors. From this perspective, the operation of New Labour's Comprehensive Spending Review with its 'golden rule (borrowing over cycle must be for investment financing only) and commitment to sustainable investment (maintain a stable debt-to-GDP ratio over the cycle and at a prudent and sensible level) is about refocusing social policy on what Dolowitz calls the dictates of endogenous growth. Aiginger (2004, 2005) comes to a similar conclusion in his review of economic policy in countries such as Denmark, Finland and Sweden. He finds an emerging social investment model which complements appropriate macroeconomic policy adjustments with attention to the key drivers of investment in innovation regimes, through industry policy, education and research. Of particular interest for social policy in these endogenous growth policy models is what Aghion and Williamson (1998) argue to be the limits on growth created through poor human capital development and social cohesion problems.

This new focus on what governments can do to develop human capital and focus business on adapting to the knowledge economy has recently emerged as the leading edge of Australian economic policy. Driven in part by labour shortages and an ageing society (the growth rate of the working age population will fall by around three-quarters over the next forty years compared with the previous forty), economic policy must now be framed around that triple-crowned objective famously expressed by Treasury Secretary, Henry (2007), in terms of the three '3Ps—population, participation and productivity'. The most important manifestation of the new approach came with the 2006 announcement by the Council of Australian Governments of a 'new national reform agenda' embracing the development of Australia's human capital. The new agenda had been set out in the proposals of the Victorian Premier (2005) entitled *A third wave of national reform*. It referred to the first wave as the opening up the economy in the 1980s, while the second was the microeconomic reform associated especially with the National Competition Policy established in 1995. While reaffirming the open market-oriented framework thus created, the report insists that participation and productivity had now emerged as the critical drivers of future prosperity. 'The most effective way', it said:

to boost productivity and participation is to develop our human capital. Improving health, learning and work outcomes is how we build a healthy, skilled and motivated society, and a high income economy that is among the world's best' (p.8).

To date, the human capital agenda has been constructed as about economic prosperity rather than social reform. In the Third Wave report, there is a brief but singular reference to the social foundation of human capital when it mentions Sen's theory of capabilities as a way of understanding the human capital approach. 'This approach', says the report,

considers not only incomes, but also health and education outcomes ... A human capital approach therefore supports not only economic outcomes, but also the public interest more broadly' (p.30).

Clearly improvements in human capital are not going to come without reform of its social dimension.

Ways to tackle this social dimension have in fact been shaping up in a second, separately developing, policy agenda associated with the goal of promoting social inclusion. Derived from the policy work of New Labour in the UK, this has been particularly apparent in Australia through the work of state and territory governments on issues of community engagement and neighborhood renewal. More recently both the Treasurer and the Deputy Leader of the Opposition have spoken of their social vision in terms of 'social inclusion'.

In the UK, Tony Blair established a Social Exclusion Unit reporting directly to Cabinet and with the remit of focusing a whole of government effort around a coordinated social policy agenda. The policy framework had been largely picked up from Europe: in 1999 the EU established a process whereby all member states have to report on progress against social inclusion objectives along with economic objectives relating to growth and employment (Jones & Smyth 1999). The term 'social inclusion' denotes an approach to tackling disadvantage which was not just about providing income support but about what was expressed in terms of 'joined up solutions' to 'joined up problems'. It involved:

- a shift from monetary-based poverty lines to multidimensional analyses
- a focus on the particular social/economic dynamics affecting different spaces and population groups
- reintroduction of social cohesion as policy objective with emphases on trust, social capital, community/neighbourhood strengthening
- encouragement of 'active society' rather than passive welfare
- a more people-centred, personalised welfare governance.

There is of course a mountain of literature on this topic, but a central critique among social policy researchers was that the social inclusion approach was fundamentally at odds with an economic policy based on simple deregulation or neoliberal principles (see Smyth 2007). Now, I would argue, with the parallel development within economic policy of the importance of social investment in human capital, there is the opportunity for a new integration of economic and social policy which has eluded us for over three decades.

How this integration might proceed can be illustrated from the case of policy for people in their early years. Esping-Andersen (2005) writes of the way in which citizens' life chances are powerfully over-determined by their social origins. Focusing on the long-term educational importance of cognitive skills which are for the most part developed prior to formal learning, he argues that it is necessary to have, alongside a well-designed school system, an absence of child poverty through the guarantee of adequate income to families with children, as well as the provision of universal, high-quality child-care. In the knowledge economy, he writes, we simply cannot afford social exclusion.

In this vein, the Brotherhood of St Laurence, the Melbourne Institute of Applied Economic and Social Research and the Cape York Institute have each proposed in recent years that governments adopt a similar calculus of the human capital and well-

being prerequisites for each citizen to participate successfully through each of the key transitions of the life cycle. Here the work of Sen has been critical in recoupling the goals of better individual outcomes with the public interest. His approach, as Salais (2003) argues, allows us to reframe social policy in terms of a social investment in productive factors. As Browne, Deakin and Wilkinson (2004) have argued, institutionalising social rights this way frames them not as replacing or stifling market mechanisms but rather providing a basis for market-steering which results in better and fairer market transactions' (p.212).

The strength of this emerging framework is its fit with the Australian way outlined above. Like the Federation period, it emphasises the free market as the source of wealth, but it sees the necessity for some regulation to steer the economy towards the high-income path. From the social policy angle, it satisfies the aspiration that regulation for efficiency should also be fair: efficiency and fairness are realigned as complementary not opposed objectives. It also takes account of the subsequent layerings over the Australian welfare regime. First, positive intervention through a welfare state is not an optional extra. The Harvester vision of a welfare society did fail and the kinds of social objectives required for social inclusion today cannot possibly be achieved without a substantial reinvigoration of our structures of social policy governance. Second, our history warns us that long booms can be times of lost opportunity and we cannot afford to allow our economic and social infrastructure to fall behind, as happened in the 1950s and 60s. All of which returns us to our third dialogue point, namely the challenge of a coordinated social policy agenda in a post deregulatory governance environment.

### **From WorkChoices to the Australian way**

If this revised view of Australian social policy does nothing else, hopefully it will dispense with what has been a rather myopic and nostalgic overestimation of the role of the Harvester Judgment in Australian social policy. Certainly wage regulation policy has been a significant policy lever affecting the well-being of Australians, but at times a relatively insignificant one compared with industry, trade, social service, macroeconomic and other policies. But today, if we truly are moving beyond the simple deregulation period then the human capital and social inclusion agenda offers us a fresh opportunity for a coherent reintegration of wage and welfare policy in Australia's social policy regime.

Some will find my optimism unfounded as they point to the impacts of WorkChoices on lower income earners. While it has not been my purpose to debate the merits and demerits of that system, it is important to note with Richard Freeman that it reflects very much the high tide of deregulatory policy. To recall the kind of thinking around the relationship of the minimum wage to unemployment reflected in the creation of the Fair Pay Commission, it is sufficient to note the remark of the then Governor of the Reserve Bank, Ian Macfarlane (1997), that income inequality was the price that had to be paid to reduce unemployment; or the resignation of Bob Gregory (2005) when he proposed that the wages of the disadvantaged had to fall and by a considerable margin to create jobs for them. For many it seemed, indeed, that there was no alternative to the choice between promoting a 'working poor' and abandoning people to passive welfare dependency. The Fair Pay Commission's own deliberations on how to balance the need for getting people into employment with maintenance of a

safety net also reveals a rather narrow preoccupation with income poverty lines and establishing points where income support might act as a disincentive to take on low-paid work (AFPC 2006). While that kind of residualist thinking is still very much with us, the notion of a working poor, let alone passive welfare dependency, will never sit well within the Australian way.

How then might we govern the transition to the human capital and social inclusion model? The Australian labour literature is replete with examples from Europe of welfare state models offering new ways of combining high employment with labour market flexibility and welfare security. As Brian Howe (2007) indicates, there is much for us to learn from there. At the same time a vital lesson from our past is that we have evolved a different system, one that is a hybrid of the welfare society and the welfare state. Our preference has been for building up the public infrastructure to allow individuals to exercise real freedom, but not constraining everyone within a universal welfare state. Today this suggests we proceed with caution, especially where the interests of the low-paid are concerned. The minimum wage in particular remains a key source of welfare, a role which it would be unwise and unfair to reduce without showing clearly what would take its place. Of course, a successful high-income strategy through the human capital agenda would make this less and less of an issue.

The human capital and social inclusion model will demand a very different safety net: not just modest income support but a clearly articulated set of entitlements that each citizen will need for full economic and social participation. In the manner of the European Union's social inclusion governance practice, guidelines would have to be established combined with specific timetables for achieving the goals set in short medium and long term. Where appropriate, quantitative and qualitative indicators would be established which were benchmarked against the best in the world; and there would be a need for periodic monitoring, evaluation and review (see Room 2004). To provide the kind of concerted governance these new policy objectives will demand, a new agency—perhaps modeled on the Social Exclusion Unit in the UK—would be needed. However with the proposed integration of social inclusion and the human capital agenda the composition of the unit or council would need to reflect its primarily economic purpose. Business groups as much as welfare, employee and key economic agencies of government would need to drive it.

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