

AFTER LABOURISM: THE NEOLIBERAL TURN BY LABOR PARTIES AND THE RESPONSE BY TRADE UNIONS

by

Jason Schulman
Department of Political Science
Lehman College

Neoliberalism and the Transformation of Social Democratic Parties

The global financial crisis and recession of 2008-9 appears to have sounded the death knell of the political dominance of neoliberal doctrine. If the long-prevailing common wisdom was that unfettered markets ensure efficiency and prosperity, the crisis at the very least reminded the world of the Keynesian wisdom that financial deregulation inevitably leads to speculative bubbles and bursts because financial markets are based on uncertain information about future economic performance.¹ As a result, even politicians of the right have abandoned their fealty to free markets; France's Nicholas Sarkozy and Germany's Angela Merkel have called for a regulated "moral capitalism."² However, though the crisis has occurred predominantly under right-wing governments, as of this writing it seems unlikely that the parties of the mainstream left will benefit. In Western Europe, the social democratic parties are themselves associated with neoliberal economics and have not built a credible continent-wide force—or even a candidate in opposition to the conservative President of the European Commission, José Manuel Barroso. The social democrats are not seen as having a credible counter-program to that of the right-wing parties.³ In New Zealand, also, the governing Labour Party was defeated by the center-right National Party in November 2008 after nearly nine years in office; the New Zealand economy went into recession earlier that year and the party lost support in its most loyal working-class districts.⁴ In Australia, however, the Australian Labor Party (ALP) is securely in power on the federal level and is led by a Prime Minister who has declared himself to be explicitly against

¹ Joseph M. Schwartz, "Democracy Against the Free Market: The Enron Crisis and the Politics of Global Deregulation," *Connecticut Law Review* Vol. 35 No. 3 (Spring 2003): 1098, referencing John Maynard Keynes, *The General Theory of Employment, Interest And Money* (Cambridge: Macmillan Cambridge University Press, 1936).

² Lizzy Davies, "Sarkozy and Merkel tell US that Europe will lead way towards 'moral' capitalism," *The Guardian* (Jan. 8, 2009), <<http://www.guardian.co.uk/business/2009/jan/08/europe-financial-regulation>>.

³ "In not staking on Europe, not knowing how to make itself the advocate for a Continental Public Power, and not even defending labour, the left parties have shot themselves in the foot." Bernard Guetta, "La défaite annoncée de la gauche européenne," *France Inter* (May 11, 2009), <<http://sites.radiofrance.fr/franceinter/chro/geopolitique/index.-php?id=79418>>.

⁴ From South Auckland: "The election turnout in Mangere was down 3614 from the 2005 figure (which was 3945 up from 2002). Similar results occurred in Manurewa and Manukau East, with the turnout dropping back to the 2002 levels. It was the turnout drop that cost Labour votes. The National vote hardly increased at all in Mangere (3984 in 2005 to 4120 in 2008—up a mere 226)." Len Richards, *NewSoc*, Dec. 15, 2008, <<http://newsoc.blogspot.com/2008/12/sfwu-in-south-auckland-election-08.html>>.

neoliberalism and “the theories of Hayek and von Mises,” while supporting “[t]he idea of social solidarity, reflected in the collective provision of social goods.”⁵

This is not the first time that the experience of the ALP during an economic crisis has differed from that of its center-left counterparts elsewhere. Over the last thirty years, virtually all social democratic parties have presided over some degree of market deregulation, commercialization and privatization of the public sector, and at least the piecemeal implementation of welfare-state retrenchment. One might expect working class-based parties, even ones with fairly autocratic internal lives, to be largely immune from an intellectual, ideological embrace of neoliberal doctrine.⁶ Yet social democratic parties have hardly inoculated themselves and have often led by advocates of the free market, deregulation and privatization. Social democratic parties have generally made no concerted effort to find alternatives to neoliberalism—their role in government in recent decades has been, at best, to slightly dull the sharpest edges of the market. This has been true both for the continental European social democratic parties and the union-based labor parties of Britain, Australia, and New Zealand. In the case of the New Zealand Labour government of 1984-1990 and the British Labour government since 1997, the shift at the macroeconomic level involved a stridently radical refutation of traditional left policies. A similar shift also occurred in Australia under Labor governments between 1983 and 1996, but it was less radical and was accompanied by some renovation of the welfare state. The question is: why were social democratic governments able to move so dramatically to the right in terms of their macroeconomic policies, and what made the Australian Labor governments less radically neoliberal than their equivalents elsewhere?

Explanations for the embrace of pro-market policies by left parties have pointed to various factors, most commonly the globalization of production and finance, the shrinking of the blue-collar working class, and the rise of so-called postmaterialist politics. The dominant theme in the literature is the transformation of these parties under the pressure of the global capitalist economy. I argue that such accounts are insufficient because they do not take into account the diminishing of the influence of the unions within the very parties that are supposed to be their political representatives, which itself is a result of is the lack of a strategy by the union movement to ensure that the party leadership must listen to them and take their interests into account when formulating policies. This may be due to a longstanding lack of interest by the unions in engaging in politics (New Zealand) or a passivity by the unions which resulted from many years of anti-union Conservative rule (Britain). In the case of Australia between 1983 and 1996 the unions were sufficiently united, disciplined and strategically minded to ensure that a Labor Party government would integrate them into the making of policy—even before the ALP took office. I conclude that the degree to which neoliberal labor party leaderships are able to marginalize the unions depends on whether or not the unions—through their federation—have a coherent strategy to ensure that their interests are taken seriously. This requires that the unions be politically active within their historic parties and that they be both politicized and strategically coherent *before* the labor party takes office.

⁵ Kevin Rudd, “The Global Financial Crisis,” *The Monthly* No. 42 (Feb. 2009), <<http://www.themonthly.com.au/node/1421>>.

⁶ In the 1980s the influence of the Hayekian, “rationalist” Chicago School of economics was pervasive within the New Zealand Treasury. It permeated crucial elements of the Labour Party, Finance Minister Roger Douglas in particular. Len Richards, “Class Struggle and Traveling Theory: From the Chile Experience to the New Zealand Experiment,” *New Zealand Sociology* Vol. 18 No. 2 (2003): 126-7.

This explanation is intended as an application of the theory of working-class power resources, which claims that variations in organizational assets such as unions and left-wing political parties account for cross-country disparities in distributional outcomes.⁷ To prove this argument, I will first compare the economic and industrial-relations policies of the three labor party governments mentioned above. I will then compare how the union movements in Britain, New Zealand and Australia attempted to influence the neoliberal governments of their respective labor parties, i.e., the strategies they employed. I will then argue for the relevance of my work as regards to the theory of working class power resources. My case studies are of labor party governments rather than social-democratic governments generally because of the particular common aspects of labor parties—they are parties that were created to be the political expression of the interests of trade unions and in which the unions had influence over party policy. The ranks of the unions affiliated to labor parties were (indirect) members of the parties, alongside the dues-paying members of labor party branches (as they are known in New Zealand and Australia) or constituency parties (the British equivalent). Further, the labor governments under examination all functioned in versions of the single-member-district, first-past-the-post “Westminster” parliamentary electoral system.⁸ Under such electoral systems, labor parties were guaranteed a virtual monopoly on working-class political representation, while other social democratic parties could not be so assured.

1. Comparison of Labor Government Policies

a. Economic Policy

All three Labor governments under review made a turn towards macroeconomic policies which involved adaptation towards market forces and a rejection of indicative economic planning. In the case of British New Labour, policies inherited from the prior Conservative government were simply not reversed. Tony Blair and his co-thinkers unequivocally endorsed the idea that the only way for a country to flourish under globalized capitalism is to guarantee monetary and fiscal stability and to ensure that its infrastructure and “flexible labour markets”—low wages, low social costs, weak trade unions, and a lack of legal constraints on firing surplus workers—are attractive to investors.⁹ Within the Labour Party, they successfully depicted alternatives to this agenda as inefficient and part of “old Labour,” i.e. an electoral liability. Notably, the “Blairites” portrayed neoliberal economics as the most effective means with which to realize traditional Labour aims such as welfare provision, employment, and economic growth, even as they sought to free themselves from the remains of the old Labour Establishment and realign themselves with capitalist forces.¹⁰ Where New Labour acted as a policy innovator was in adopting such initiatives as public-private partnerships and private finance initiatives (PFI/PFI) in transport, the prison service, education, and healthcare, and in granting operational independence to the monetary policy committee of the Bank of England.

⁷ John Stephens, *The Transition from Capitalism to Socialism* (London: MacMillan Press, 1979); Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); Gøsta Esping-Andersen, *Politics against Markets: The Social Democratic Path to Power* (Princeton: Princeton University Press, 1985).

⁸ New Zealand subsequently adopted mixed member proportional representation in 1993.

⁹ Paul Anderson and Nyta Mann, *Safety First: The Making of New Labour* (London: Granta Books, 1997), pp. 183-4.

¹⁰ Sara C. Motta and David J. Bailey, “Neither pragmatic adaptation nor misguided accommodation: Modernisation as domination in the Chilean and British Left,” *Capital & Class* No. 92 (Summer 2007): 118-9; Peter Kennedy, “Labourism and Social Democracy Post-1945,” *Critique* No. 35 (Apr. 2004): 94.

In New Zealand, the 1984-90 Labour government of Prime Minister David Lange and Treasurer Roger Douglas executed a drastic and sudden neoliberal program. The tax system was simplified, with marginal taxes and progressive tax programs reduced. State-owned assets and public enterprises were commercialized and corporatized. Controls on capital movements were abolished. The financial sector was deregulated; a value-added tax was introduced; the dollar was floated; and monetary policy was focused solely on keeping inflation levels low by containing wages, a result of the independence of the central bank.¹¹ Those in the Labour government who designed this program—finance minister Roger Douglas and the Treasury—did not merely argue that economic crisis made it necessary, but that the values of classical liberalism and laissez-faire required the disembedding of the economy from society through an autonomous, self-regulating system of markets.¹² After Labour's re-election in 1987, Douglas pushed an even more far-reaching economic program to privatize many state-owned assets, introduce market principles into social policy, and implement a flat-rate income tax. Lange opposed the flat-tax proposal but the tax system was still flattened from three to two steps.¹³

The Australian Labor government of Bob Hawke was elected in 1983 on a program of fiscal expansion, one that was far less vague in its details than the NZLP's initial program. But international economic pressures soon overtook the ALP's initial neo-Keynesian optimism. The government floated the Australian dollar and deregulated the financial system with the hope that this would encourage productive investment. In the run-up to the November 1984 election, Labor pledged that it would not increase public expenditure, taxes, or the deficit as percentages of GDP; in mid-1986, a rapidly falling dollar led Treasurer Paul Keating to declare that Australia was in danger of becoming a "banana republic."¹⁴ This sense of emergency allowed the Labor government to accelerate economic restructuring to ensure the competitiveness of Australian exports. Trade was deregulated through tariff cuts and both bilateral and multilateral free trade agreements were entered into. It rewrote tax laws, thereby exacerbating income inequality despite the introduction of a capital gains tax, and by 1988 it began to support privatization of state property on a case by case basis.¹⁵ After Keating became prime minister in December 1992, economic policy increasingly embraced market forces, and privatization of state enterprises was pursued further despite electoral promises to the contrary. Decisions on industry policy reflected

¹¹ Poul Erik Skov Christensen, *The Experiment in New Zealand: The Consequences and Experiences of the Reforms in New Zealand* (Economic Council of the Danish Labour Movement, June, 2001), p. 9; Mark Bray and Pat Walsh, "Different Paths to Neo-Liberalism? Comparing Australia and New Zealand," *Industrial Relations* Vol. 37 No. 3 (July 1998): 368.

¹² Vivien A. Schmidt, "The Role of Values and Discourse in Welfare State Reform: the Politics of Successful Adjustment," paper prepared for delivery at the Council for European Studies Conference (Chicago, Mar. 30–April 2, 2000), p. 14.

¹³ Francis Castles, Rolf Gerritsen, and Jack Vowles, "Introduction: Setting the Scene for Economic and Political Change," in Francis Castles, Rolf Gerritsen, and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Auckland: Auckland University Press, 1996), pp. 16-7.

¹⁴ Cliff Walsh, "The National Economy and Management Strategies," Brian Galligan and Gwynneth Singleton, eds., *Business and Government Under Labor* (Melbourne: Longman Cheshire, 1991), p. 40.

¹⁵ Castles, Gerritsen and Vowles, p. 15; John Wiseman, "A Kinder Road to Hell? Labor and the Politics of Progressive Competitiveness in Australia," Leo Panitch, ed., *Socialist Register 1996* (New York: Monthly Review Press, 1996), pp. 98-9; Greg Patmore and David Coates, "Labour Parties and the State in Australia and the UK," *Labour History* No. 88 (May 2005): 132.

a near-total reliance on reductions in tariff protection and market forces to make Australian business globally competitive.¹⁶

Though the Australian Labor governments were characterized by consultation with the union movement while the British and New Zealand Labour governments had no interest in incorporating unions into policy decision-making, the differences in macroeconomic policies between the regimes are not especially great. In all cases, privatization, financial deregulation, and the adoption of market-efficiency based criteria for the performance of state enterprises were embraced by labor governments, though the degrees of privatization differed, with New Zealand having implemented the greatest amount of privatization.¹⁷ However, the Australian experience differs from the others both in terms of its gradualism and in that the tax system was made more progressive in certain instances via the introduction of capital gains and fringe benefits taxes, measures which ran against the regressive trend of 1980s OECD tax reform.¹⁸ It also differs in that certain reforms which met with substantial opposition by unions and welfare groups were withdrawn. Most notably, a goods and services tax (VAT) proposed by Labour governments in both Australia and New Zealand in the 1980s was abandoned in the former country and imposed in the latter country despite lack of popular support.¹⁹

b. Union-Party Relationships and Industrial Relations Policies

Until 1991—when the conservative National government in New Zealand implemented the Employment Contracts Act (ECA)—New Zealand and Australia shared similar industrial relations regulation and labor market outcomes. Many unions were organized on a craft basis; wages and conditions were regulated through legally enforceable rulings (known as “awards”) made by industrial tribunals; individual enterprises were often characterized by multiple rulings, the presence of multiple unions, and clear job delineation; the possibility existed for over-award payments and enterprise agreements that differed from existing rulings; wage relativities were important and fairly stable; and the government operated a public job placement service.²⁰ Such conditions did not exist in Britain and attempts by the British Trade Union Congress (TUC) in the 1980s to introduce the idea of state intervention in wage determination to the Labour Party fell on deaf ears. Tony Blair was unambiguous in 1995 when he said that the next Labour government would not attempt to emulate the ALP government’s corporatist Accord, and that

¹⁶ Mark Bray and Pat Walsh, “Different Paths to Neo-Liberalism? Comparing Australia and New Zealand,” *Industrial Relations* Vol. 37 No. 3 (July 1998): 372-3.

¹⁷ Privatized firms in New Zealand under Labour include state trading departments, telecommunications, the ministry of (public) works, interests in gasoline/petroleum, banks, airlines, electricity generation, seaports and airports. These privatizations “were accompanied by reforms to open markets, remove price and exchange rate distortions, and encourage the development of the private sector through free entry.” Sunita Kikeri, John Nellis, Mary Shirley, “Policy Views from the Country Economics Department” (World Bank, July 1992), <<http://www.worldbank.org/html/prddr/outreach/or3.htm>>.

¹⁸ Brian Easton and Rolf Gerritsen, “Economic Reform: Parallels and Divergences,” Castles, Gerritsen and Vowles, eds., p. 39; Francis G. Castles, “Needs-Based Strategies of Social Protection in Australia and New Zealand,” Gøsta Esping-Andersen, ed. *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage Publications, 1998), p. 105.

¹⁹ Schmidt, p. 18.

²⁰ Brosnan, Burgess, and Rea, pp. 1-2.

there would be no further attempts at a “Social Contract” between the unions and the party as there were in the 1960s and 1970s.²¹

It was clear by the time of the 1997 election in Britain that the relationship between the Labour Party and the union movement had fundamentally changed. Blair promised the unions only “fairness, not favours,” i.e., no privileged position in determining governmental policy. Though New Labour promised to support a statutory right to trade union recognition and to end Britain’s opt-out from the European Union’s Social Chapter, it also refused to revoke most of the very restrictive labor laws imposed during the Thatcher years. What little regulation of the labor market it allowed for generally took the form of individual legal rights, enforceable through labor courts and state agencies rather than collective rights designed to strengthen trade unions which would then take on the role of regulating social relations through collective bargaining. Notably, in contrast to previous Labour governments, unions had very little formal or institutional access to the Blair government.²² The unions’ share of party funding also fell from 90 percent in 1994 to 40 percent in 1998. Correspondingly, unions donated 35 per cent of Labour’s 2001 election campaign spending—half of what they contributed to the 1992 campaign.²³ Blair also backed a sweeping overhaul of party funding to further curb the remaining influence of the unions on the Labour Party, which would have required union members to agree to annual donations to the party through their unions and subject the total donation made by each union to a cap.²⁴

Particularly in its attempt to introduce private finance initiatives and public-private partnerships, the Blair government found itself in conflict with public sector unions. Strict public-sector spending limits made new spending dependent upon selling off national assets or raising money from the private sector, resulting in the shrinking of the relatively protected state sector and thereby affecting public sector unions’ ability to maintain recognition and full representational rights and their ability to engage in industrial action. Blair was eager to emphasize his commitment to efficiency and effectiveness within a public sector he portrayed as resistant to change; his government’s Comprehensive Spending Review (CSR), conducted in the summer of 1998, set spending plans for the next three years and was intended to expand performance-related pay in the public sector, as teachers and health care professionals were told that real pay increases would be dependent upon productivity improvements.²⁵ Overall, in its industrial relations policy, the Blair government consolidated the legacy of Thatcherism, rather than departing from it.

The fourth Labour government in New Zealand was ambiguous in its labor market policy, even if its overall stance towards industrial relations was driven by the idea that strong trade unions were partially to blame for the crisis of the New Zealand economy. In 1984 the

²¹ Scott, pp. 235-6.

²² Chris Howell, “From New Labour to No Labour? The Industrial Relations Project of the Blair Government,” *New Political Science* Vol. 22 No. 2 (2000): 210, 222.

²³ Motta and Bailey: 125-6.

²⁴ Will Woodward, “Blair supports plan to weaken unions’ grip on party, MPs told,” *The Guardian* (Dec. 12, 2006), <<http://politics.guardian.co.uk/unions/story/0,,1970176,00.html>>.

²⁵ Howell: 213; Motta and Bailey: 126. Howell notes that for Blair “the primary task of industrial relations institutions (collective bargaining as well as legislation) is not to correct an imbalance of power in the workplace, but to create a context in which the productivity and creativity of workers is properly harnessed for the good of the firm.” Howell: 223.

government abolished compulsory arbitration of interest disputes, which had been the heart of the industrial relations system since 1894. This let employers in weakly organized industries to refuse to settle a national ruling that proscribed conditions of employment and, on its expiration, to revert to individual contracts or house arrangements.²⁶ The Labour Relations Act of 1987 made an even more significant step in undermining the framework of national rulings. Though it restored compulsory unionism, it also prohibited unions from seeking access to enterprise bargaining (second-tier agreements) while still maintaining award coverage for the affected workers. Though relatively few unions deserted the award system, this stipulation promoted a process of union and award fragmentation as stronger groups of workers were encouraged to opt out of rulings, leaving their defense in the hands of weaker unions and non-union workers; it promoted the devolution of collective bargaining down to the enterprise level.²⁷ In conditions of considerable unemployment and economic recession, some employer groups were able to use the Labour Relations Act to their advantage. Between 1983-4 and 1989-90, real wages fell by A\$1032.21 on an annual basis, barely offset by an increase in the social wage of A\$57.07.²⁸ The State Sector Act of 1988 undermined public-sector unions, as it became easier for state organizations to hire and fire (although redundancy conditions remained generous relative to private sector norms) and the previous boundary in working conditions and incentive structures between the public and private sectors was broken down.²⁹

The Labour government's economic policies had a decidedly anti-union effect. A rise in the exchange rate reduced the return in New Zealand dollars for most export industries in 1986-7, which put those industries' unions under great pressure as enterprises closed, unemployment rose, and the right wing of the business community became much more aggressively anti-union. They were not willing to allow wages to keep up with inflation; they demanded concessions in return; and they challenged established conditions such as bonus payment for weekend and night work.³⁰ But Labour's *industrial* policies proved to be far less pro-business than employer organizations expected. Despite the Labour Relations Act, and despite the decline in real wages, the traditional bargaining system remained untouched in most respects—until the National Party was elected in 1990 and began to radically alter the labor relations regime via the Employment Contracts Act.

In contrast, the Australian Labor governments between 1983 and 1996 sought consultation and negotiation with the unions in the Australian Council of Trade Unions (ACTU), and as a result the liberalizing reforms sought by the ALP leadership were implemented over a much longer period of time, with care taken to temper their socioeconomic impact and to debate their merits with the ACTU in order to assure consensus.³¹ The first version of the Accord was

²⁶ Brosnan, Burgess and Rea, p. 10.

²⁷ Tom Bramble with Sarah Heal, "Trade Unions," Chris Rudd and Brian Roper, eds., *The Political Economy of New Zealand* (Oxford: Oxford University Press, 1997), p. 131; Paul G. Buchanan and Kate Nicholls, *Labour Politics in Small Open Democracies: Australia, Chile, Ireland, New Zealand and Uruguay* (New York: Palgrave, 2003), p. 100.

²⁸ Peter Ewer, Ian Hampson, Chris Lloyd, John Rainford, Stephen Rix, Meg Smith, *Politics and the Accord* (Leichhardt: Pluto Press, 1991), p. 32.

²⁹ Ian Duncan, "Public Enterprises," Brian Silverstone, Alan Bollard, Ralph Lattimore, eds., *A Study of Economic Reform: The Case of New Zealand* (Amsterdam: Elsevier Science B.V., 1996), p. 399; Bramble and Heal, op. cit.

³⁰ Bruce Jesson, *Fragments of Labour: The Story Behind the Labour Government* (Auckland: Penguin Books, 1989), p. 95.

³¹ Schmidt, p. 17.

actually negotiated before Labor was elected and was renegotiated several times throughout both the Hawke (1983-91) and Keating (1991-96) Labor governments. Initially, the Accord brought a new incomes policy in which wages were strictly regulated under a new form of wage indexation, administered between 1983 and 1986 by the federal Conciliation and Arbitration Commission. This system was nearly wholly centralized, effective in controlling wage increases, and strongly supported by the ACTU. Though some decentralization to industry and workplace levels occurred between 1987 and 1990, this was closely “managed” within a national framework by the arbitration tribunals.³² Real wage decline fell primarily on public sector workers, but this was deemed acceptable by most of the labor movement because it also generated above-average growth and a significant decline in open unemployment—Australia generated jobs at about twice the OECD average until the 1990 recession.³³

By the late 1980s the mix of substantive policy outcomes coming out of the Labor government moved gradually away from corporatism toward neoliberalism. The ALP became insistent on decentralizing bargaining towards the enterprise level, particularly once Keating took over from Hawke as prime minister. Over time, the increased importance of enterprise bargaining paralleled developments in New Zealand, as did the role of unions; in 1993 the government made it possible for employers to negotiate enterprise agreements directly with employees and have them certified without union involvement.³⁴ However, the arbitration court still imposed minimum wages and conditions on enterprise bargains. And while nonunionized firms could sign an enterprise agreement, doing so exposed them to the possibility of union intervention. Union pressure led to complications in the legal procedures for certification of nonunion enterprise agreements, thus blunting their practical effect. By 1995 individual contracts remained uncommon—only 9 percent of Australian employees in workplaces of more than 20 employees worked under them.³⁵

Overall, of the three cases it is the British New Labour government which stands out as the most aggressively anti-union in its industrial relations policies. It inherited, without significant alteration, the most stringent labor laws in Western Europe, and attempted to construct an industrial relations policy which envisioned “a dwindling role for collective representation and action; in its place, individuals will have certain minimal rights at work, consistent with labor market flexibility, and the encouragement of a skilled, cooperative, and adaptable workforce.”³⁶ The dominant forces in the New Zealand Labour government had much the same desires—to make the industrial relations system more “flexible”—but failed to implement pro-market policies of “significant stringency.”³⁷ Much the same can be said of industrial relations in Australia under the Labor governments of Hawke and Keating; the difference is that changes to the system were implemented over a longer period of time, a result of the process of negotiation between the government and the union movement. If the New

³² Mark Bray and Pat Walsh, “Different Paths to Neo-Liberalism? Comparing Australia and New Zealand,” *Industrial Relations* Vol. 37 No. 3 (July 1998): 367-8.

³³ Herman Schwartz, “Social Democracy Going Down vs. Social Democracy Down Under? Institutions, Internationalized Capital, and Indebted States,” *Comparative Politics* Vol. 30 No. 3 (Apr. 1998): 268.

³⁴ *Ibid.*: 374-5.

³⁵ Herman Schwartz, “Internationalization and Two Welfare States: Australia and New Zealand,” Fritz Scharpf and Vivian Schmidt, eds., *Welfare and Work in the Open Economy, Vol. II: Diverse Responses to Common Challenges* (Oxford: Oxford University Press, 2000), p. 114; Bray and Walsh: 375.

³⁶ Howell: 228.

³⁷ Brosnan, Burgess and Rea, p. 11.

Zealand Labour Party only ever conceded anything of importance to the unions within their “core domain”—the industrial relations system itself—the ALP’s strategy of cooperation with the union movement ensured that the Labor government was bound to consultation in policy formation, which affected policy outcomes in a significant way at least during the Hawke years.³⁸ For a time, via the Accord, Australian unions were able to affect not only industrial relations policy, but economic and social policy, as the “social wage” was used to offset wage reductions and to move income support out of the industrial relations system and into the social welfare budget.³⁹

2. Union Strategies in Relation to Neoliberal Labor Governments

Both the British and New Zealand trade union federations acted passively in response to the neoliberal policies implemented by their historic parties. The New Zealand Federation of Labour (FOL) had long enjoyed the benefits of New Zealand’s arbitration system—state protection and compulsory unionism—as well as a welfare state and a healthy economy that had remained essentially unchanged under governments of both the left and right. The result was that for many years the FOL did little to involve itself in Labour Party matters, as there appeared to be no need. It was only after the onset of economic crisis and the National government of Robert Muldoon antagonized the unions that they again made politics a priority. Though the unions worked hard to elect the Labour Party in 1984, their plan for a corporatist arrangement was dismissed by the party leadership. In their eyes the FOL was insufficiently centralized, and the union movement as a whole too divided between the FOL and the public-sector Combined State Unions (CSU) to make effective corporatism possible. Despite the belief propounded by Roger Douglas and the Treasury that strong unions were in part responsible for New Zealand’s economic woes, the unions did little to publicly oppose market liberalization, instead acting as a loyal opposition to the government. This loyalty was primarily based on the government’s continued support for compulsory unionism, but little else was gained by the unions’ stance.

In 1987 the FOL and CSU merged into the New Zealand Council of Trade Unions (NZCTU) and advocated “strategic unionism,” agreeing to exercise real wage restraint and discourage industrial action and political protest in exchange for greater union participation in the development of economic, social and industrial relations policies by the government. But as the NZCTU still had little power over its affiliates, the Labour government did not take its proposals seriously. In fact, not all the NZCTU’s individual unions supported strategic unionism, and moreover genuine corporatism had been ruled out by the government’s wholesale embrace of radical neoliberal economic policy. The NZCTU lacked real influence in the NZLP beyond the realm of industrial relations, yet its persistent loyalty to the government left it unable to openly criticize policies of privatization and deregulation. Years of noninvolvement in NZLP affairs combined with a predominantly middle-class individual party membership and a largely middle-class leadership committed to “Rogernomics” were responsible for the unions’ impotence in affecting how Labour governed.

British unions did not enjoy the benefits of compulsory unionism and never became depoliticized in the manner of the New Zealand union movement. However, they too became strategically adrift in the face of a Labour government which was, if anything, even more hostile

³⁸ Bray and Walsh: 380.

³⁹ Brosnan, Burgess and Rea, p. 13.

to union power than was the fourth NZLP government. British unions' passivity towards the Blair government was the result of 18 disastrous years under the Conservatives, during which the movement lost 40 percent of its members. By the early 1990s the leaders of the Trade Union Congress (TUC) were so desperate they were willing to accept that the anti-union legislation of the 1980s would not be reversed. Throughout New Labour's first term the union leadership supported the government essentially without criticism, in the vain hope that it would reward their loyalty with pro-union legislation.

By the middle of the second Blair government the TUC had become more vocal in its frustration, particularly over private financing initiatives (PFI) in transport, education, the prison service and the national health service, public sector spending limits, and privatization, all of which promised wage retrenchment, job insecurity and/or job cuts, and the creation of a two-tier labor force.⁴⁰ Strikes in 2002 and 2003 by council workers, teachers' unions, London Underground unions and the firefighters' union seemed to indicate that the labor movement had moved towards a stance of challenging the Blair agenda both inside and outside the Labour Party. But the great chance given to the unions by Blair's unpopularity over the Iraq War was not taken; they made no attempt to find parliamentary allies to force his resignation. Even though Blair himself was not all that stood between New Labour policies and union preferences, had the TUC taken the initiative to help force him from office, it would have sent a clear message to the party leadership that the unions were serious about challenging their neoliberal agenda. But even after Blair announced his resignation in May 2007, the major unions did not try to find Labour MPs competent to stand for leader and deputy leader who would be supportive of the labor movement. Ultimately, given the absence of a centralized wage bargaining apparatus or the possibility of an Australian Accord-style agreement, there was no other option for the union movement to achieve its goals than consistent militancy both within the Labour Party and in industrial relations; yet despite temporary militancy in opposition to public-sector restructuring and privatization, the British union movement proved just as passive and strategically uncertain as the New Zealand movement.

The Australian union movement, however, was clear in its strategic orientation towards its Labor Party prior to its election in 1983. Never having had compulsory unionism to support them regardless of the party in government, Australian unions never became depoliticized as did the New Zealand unions and they were not so demoralized by years of anti-union right-wing government that they were willing to accept whatever policies that a Labor government might implement. Also unlike New Zealand unions, Australian unions in the 1970s broadened their concerns beyond wages and work conditions; they took up a "strategic unionism" that concerned itself with economic and social policy, particularly with industry development policy. The ACTU had become a strong "peak" organization which could credibly sustain strategic unionism and participate in corporatist policymaking, while the ALP remained sufficiently close to the unions, both in terms of personnel and policy, to see advantages in corporatist cooperation.⁴¹

⁴⁰ David Coates, *Prolonged Labour: The Slow Birth of the New Labour Nation* (Basingstoke: Palgrave, 2005), p. 93.

⁴¹ Mark Bray and David Neilson, "Industrial Relations Reform and the Relative Autonomy of the State," Castles, Gerritsen and Vowles, eds., p. 85. Rawson notes that "During the 1970s and 1980s, the Australian trade union movement became one of the most consolidated in the world, by bringing manual and non-manual unions within the same federation . . . This is an example of adjustment which strengthens rather than destroys the core rationale of the

Admittedly, the ACTU was ultimately not able to prevent the Hawke and Keating governments from instituting programs of deregulation, corporatization and privatization. In comparison to the strategies undertaken by union federations under the 1980s NZLP government or British New Labour, however, it is clear that Australian unions were able at least to slow the “relentless process” of labor market deregulation because of the Labor government’s commitment to the Accord, despite how diminished that commitment became.⁴² The ACTU would not have been able to accomplish this had it not radically consolidated itself in such a way that it was able to maintain its influence within the ALP. Both British and New Zealand union federations failed to do this with respect to their labor parties. Because of the ACTU’s influence, the ALP of 1983-1996—despite the counter-influence of a pro-neoliberal federal bureaucracy and employer organizations—remained more of a genuine labor party than did the 1980s NZLP or Blair’s New Labour.

3. Class Politics and Working-Class Power Resources

The “left” version of the “neoliberal paradigm” pioneered by the 1980s NZLP government has been largely consolidated. With social democratic parties removing all traces of their self-images and perception as specifically class parties, their electoral fortunes are increasingly tied to the professional-managerial strata rather than the increasingly disaffected working class. With the working class no longer the “privileged sociological marker of social-democratic electorates,” such electorates “are now constructed on the basis of a profoundly inter-classist format, by far the most inter-classist in the whole history of social democracy.”⁴³ The sub-tradition of social democracy known as *laborism*—the tradition of the union-affiliated labor parties, characterized by a focus on higher wages, wealth redistribution through social policies, a refusal of both highly-defined ideology or theory and long term strategy, with a core blue-collar membership base—has effectively died.⁴⁴

That the laborist parties would attempt to reinvent themselves as liberal parties in all but name, however, was by no means inevitable; it was a conscious choice. With that choice comes what Howell dubs a “unitarist” industrial relations project: one that recognizes “no distinction between the interests of labor and capital, no inherent sources of conflict between them, and thus no need for labor to have power to counterbalance that of the employer.”⁴⁵ That project was explicit in both the New Zealand and British cases; in the Australian case, given the formal compact between the ALP and the unions, it could not be so simply pursued. A labor government which finds it necessary to govern through an arrangement *with* the unions will be forced to implement neoliberal policies more gradually, and with a greater concern for the “social wage,” than one which tries to govern directly *against* the unions. It is, in fact, *only* the persistence of this union link which mitigates the dominance of non-union professionals within labor-party and social-democratic apparatuses and permits the category of “class” to exist within mainstream

labour movement, including the ALP.” Dan Rawson, “How Labour Governs: Labor in Vain?” Galligan and Singleton, eds., p. 198.

⁴² Bray and Neilson, p. 87.

⁴³ Gerassimos Moschonas, *In the Name of Social Democracy: The Great Transformation, 1945 to the Present* (London: Verso, 2002), pp. 353-4.

⁴⁴ Max Ogden, *The ALP, Social Democracy, and a New Relationship with Unions* (Melbourne: Australian Fabian Society, 2007), <<http://www.fabian.org.au/954.asp>>.

⁴⁵ Howell: 228.

political discourse.⁴⁶ Union movements do this simply by virtue of being movements specifically of workers, organized separately from their employers and managers. Because of this, it is possible to apply *working-class power-resources theory* to the question of how the strength of the unions within their historic parties affects the parties' policies.

The working-class power-resources perspective claims that it is primarily strong unions and left parties which account for the growth of social programs which limit the economic vulnerability of wage-earners and increase worker solidarity. The relevance of this outlook has been repeatedly challenged. Pierson, for example, states that the power of the union movement and social-democratic parties has greatly diminished in many advanced capitalist societies, but there is very little proof that this decline has fundamentally impacted welfare states:

Cutbacks in social programs have been far more moderate than the sharp drop in labor strength in many countries might lead one to expect, and there appears to be little correlation between declines in left power resources and magnitude of retrenchment . . . Cutbacks, if recognized, are likely to incense voters, and political competitors stand ready to exploit such opportunities . . . the unpopularity of program cutbacks . . . will give politicians pause even where unions and left parties are weak.⁴⁷

It is indeed difficult for left parties to implement radical social-program cutbacks. The 1980s NZLP government did not cut welfare programs or benefit levels even as it engaged in wide-ranging privatization, corporatization, and financial deregulation. Though the Blair government in Britain did not reverse the welfare-state retrenchment that occurred under Conservative governance, it did not seek further rollback (as opposed to restructuring). And while spending on social welfare transfers progressively declined under the Australian Labor governments between 1983 and 1996, new programs in education, health, social security, and housing were introduced.⁴⁸ Yet the parties most associated with the *expansion* of the welfare state largely no longer have any interest in their traditional goals—a relatively equitable distribution of wealth, full employment, and the strengthening of the labor movement. When left parties no longer espouse Keynesian policies and indicative economic planning, and when what economic interventionism they do promote is consciously deregulatory, how safe can the welfare state be expected to be in their hands? Pierson writes of welfare-state defenders and recipients of its programs “exacting punishment at the polls”⁴⁹ against parties enacting cutbacks. But if all major parties—of the left and right—attempt to roll back or radically restructure the welfare state, how can voters “exact punishment”? This is a particular problem in states with Westminster-style electoral systems—such as Britain, Australia, and New Zealand before 1993—where alternative left parties face great barriers to electoral success.

⁴⁶ Moschonas, p. 225.

⁴⁷ Paul Pierson, “The New Politics of the Welfare State,” *World Politics* 48 (1996): 150-1.

⁴⁸ Mathews and Grewal note “an increase in basic health funding, from 0.74 per cent in 1982–83 to 0.94 per cent in 1992–93 as a consequence of the Government’s Medicare program, and partly to a proliferation of recurrent programs in social security and welfare, housing and community services, culture and recreation, and legal aid. During the mid-1980s, employment programs were also important. The number of recurrent programs increased from 45 in 1982–83 to 72 in 1992–93 . . . Schools funding was roughly maintained, from 0.69 per cent to 0.71 per cent of GDP . . . while housing funding increased from 0.20 per cent to 0.24 per cent.” Russell Mathews and Bhajan Grewal, *Fiscal Federalism in Australia: From Whitlam to Keating* (Melbourne: Centre for Strategic Economic Studies, Victoria University, 1995), p. 27.

⁴⁹ *Ibid*: 151.

The relevance of the working class power resources theory becomes more apparent when it is applied to left parties themselves. With the diminution of the “privileged representative link between social democracy and working class/popular strata,”⁵⁰ the parties’ view of market forces changes. The more a labor party is less directly a political expression of organized labor, the easier it is for the party leadership to quickly and radically imposes neoliberal policies. That is, the policy shift is a result of the *diminishing power resources* that unions have within their historic parties. These changes do not represent merely a pragmatic adaptation to the world economy, or a (misguided) accommodation to ascendant neoliberal values, norms and practices, but an abandonment of the parties’ status as representatives of the political and economic interests of workers. They no longer challenge any of the hierarchies that constitute capitalism. When British Labour echoes American New Democrats by espousing “welfare-to-work” programs which presume that *social* problems are the result of *individual* failure, it is apparent that the party of Clement Atlee is not merely compromising in the face of difficult conditions; that party is now a different entity.⁵¹

Certain assumptions of the power-resources perspective must now be modified, however, in light of the transformation of mainstream left parties. It was once obvious that when social democratic parties were in office, they routinely made trade union organization easier.⁵² This can no longer be presumed. Public sector unions in particular have been a favorite target for neoliberal left governments; the fourth New Zealand Labour government made an overt attempt to undermine them by eliminating job tenure and reducing other long-established employment conditions in the public sector, while British New Labour found itself in struggle—and in an open war of words—with public-sector employees over the government’s attempt to introduce private finance initiatives and public-private partnerships. Tony Blair repeatedly made it clear that the days “when a large trade union would pass a policy and then it was assumed Labour would follow suit” were “over”⁵³; New Labour clearly found its institutional relationship with the unions an embarrassment, and British unions were reduced to a “barely tolerated pressure group” within the party.⁵⁴ Even the ALP government of Paul Keating (1991-96)—crucially, with the unions’ consent, though the unions were able to win legislative concessions—gradually deregulated the labor market, with the 1993 Industrial Relations Reform Act giving employers the power to negotiate enterprise agreements directly with employees and have them certified without unions being involved. With the ebbing of trade-union influence, left parties cease to be effective forces for even the moderate promotion of equality and working-class influence. They become incorporated as active agents in the reproduction and hegemony of neoliberal capitalism.⁵⁵

Conclusion

From these cases we can come to the conclusion that if union movements cannot cohere around consistent political and economic strategies, and if they do not attempt to limit the autonomy of labor parties when they take office, then it ultimately will not matter if a governing party is a

⁵⁰ Moschonas, p. 291.

⁵¹ Motta and Bailey: 107, 109, 121.

⁵² Stephens, *The Transition from Capitalism to Socialism*, p. 99.

⁵³ Motta and Bailey: 126.

⁵⁴ Howell, *op. cit.*

⁵⁵ Moschonas, *op. cit.*; Motta and Bailey: 109.

labor party; given the pressures of the global capitalist economy, that party will instigate neoliberal economic policies, and even labor market deregulation, quickly and decisively—especially when the nation is undergoing an economic crisis. The party leadership may even seek to sever the link between the unions and the party in order to more easily implement a neoliberal agenda—and the unions will effectively be disenfranchised. If this occurs, then *the organization of politics in terms of class* will have reached an end, unless new parties emerge which are explicitly organized along class lines and capable of gaining mass votes and mass membership.⁵⁶

To the extent that the 1983-1996 Australian Labor governments diverged from the neoliberal “script,” it is because the central organization of the Australian Council of Trade Unions made the labor movement appear as a credible force to the ALP leadership—one that had to be negotiated with and not simply defeated or ignored. As a result, rather than be overtly antagonistic to the unions in the manner of the fourth New Zealand Labour government or Tony Blair’s New Labour government in Britain, the ALP leadership opted to incorporate the union leadership into policy-making. The ACTU used its privileged position in the ALP party structure to slow down the process of deregulatory state interventionism.

Since then, the power relations within the ALP have changed. Where the unions once provided 80 per cent of ALP funds, in the 2000s, only between 9 and 15 per cent of its reported total income has come from the unions. The ALP is now increasingly dependent on funds from the state, big business, and its own investments; business contributed at least 23 percent of Labor’s funds in 2001-02. Before becoming Prime Minister, Kevin Rudd complained that unions had too much influence in the party, and his industrial relations policy is the most right-wing in ALP history.⁵⁷ But in the face of falling union membership and the erosion of workplace organization, the ACTU muted its criticisms and supported Rudd’s election.⁵⁸ If, in the midst of the current economic crisis, the Rudd who declared himself “an economic conservative” who “believe[s] in budget surpluses...the independence of the Reserve Bank...in its inflation targeting regime”⁵⁹ wins out over the Rudd who attack “market fundamentalism,”⁶⁰ political scientists would do well to look at the strategic choices of Australian unions.

⁵⁶ As Przeworski has correctly noted, there is nothing inherent in capitalism or in the logic of history which makes the emergence of classes as collective subjects inevitable. Class only becomes relatively salient as a determinant of voting behavior as the result of strategies pursued by leftist political parties. Class politics, strictly defined, only exists when class is an issue raised by political parties; specifically, parties which organize workers—the only class which is a potential proponent of the image of a society divided into class—as a class. In the absence of working-class political parties, the class image of society does not exist within a country’s (mainstream) political discourse. Adam Przeworski, *Capitalism and Social Democracy* (Chicago: University of Chicago Press, 1985), pp. 99-102

⁵⁷ Phillip Coorey and Peter Hartcher, “Unions won’t rule us: Rudd,” *The Sydney Morning Herald* (Apr. 27, 2007), <<http://www.smh.com.au/news/national/unions-wont-rule-us-rudd/2007/04/26/1177459878735.html>>.

⁵⁸ Rick Kuhn and Tom Bramble, “The Changing Face of Labor,” *Australianpolitics.com* (June 7, 2007), <<http://australianpolitics.com/words/2007/archives/00000157.shtml>>.

⁵⁹ Alison Rehn, “Nation needs a change, says Kevin Rudd,” *The Daily Telegraph* (Oct. 15, 2007), <<http://www.news.com.au/dailytelegraph/story/0,22049,22584381-5001021,00.html>>.

⁶⁰ Rudd, op. cit.