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GLOBALISATION, DEMOCRACY AND PUBLIC PROSPERITY

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Summary

During the period from World War II to the 1960s, national governments accepted responsibility for the maintenance of full employment. State governments like the Playford government accepted responsibility for providing the infrastructure needed for economic growth and rising living standards. Building on this legacy, Don Dunstan was the finest example of a new generation of political leaders who set out to add quality to the quantitative progress of the postwar boom. Many of the achievements of the Dunstan era have endured through the subsequent decades. Nevertheless, in crucial respects, Australian society has moved backwards rather than forwards. Unemployment and inequality have increased, as has social insecurity in all its forms. Government has been under continuous pressure to cut taxes and scale back services. Privatisations such as the recent lease of ETSA are an important example of this process. Overall, we have seen the kind of loss of nerve captured in Michael Pusey's phrase ‘a nation-building state changes its mind’.

It has often been argued that such a retreat is the inevitable result of globalization, and that every aspect of our economic and social lives will be determined by impersonal global forces over which we as a community have no control. Claims of this kind have no basis in historical reality. Globalization as we have experienced it is the outcome of the neoliberal policies known in Australia as ‘economic rationalism’.

In this paper, I show how policies such as the privatisation of ETSA are based on a misunderstanding of the appropriate role of government and particularly a misunderstanding of the appropriate distribution of risk between governments, markets and ordinary people. I outline some elements of a modernised social-democratic response to the social and economic problems of the 21st century. Despite the setbacks

of the past twenty-five years, the social-democratic vision of democracy and public prosperity retains deep appeal for great numbers of ordinary people in Australia and around the world. Don Dunstan did a lot to translate that vision into reality. It is up to us to carry on his work.

Globalisation, democracy and public prosperity

It is a great honour and a great privilege to be invited here as the Inaugural Don Dunstan Visiting Professor. I grew up here in South Australia and Don Dunstan was my first political hero. He remains one of the few political leaders for whom I have unqualified admiration. I want tonight to celebrate Dunstan's achievements, but also, and primarily to respond to the view that, in an era of globalisation, the social-democratic ideas around which Dunstan shaped his vision of the world are obsolete and irrelevant.

When Don Dunstan first became Premier of South Australia in 1967, it was natural to see the history of the 20th century, and particularly the period since World War II as one of steady progress. In all the developed countries, incomes had risen steadily and were expected to keep on doing so. The biggest benefits had gone to ordinary workers and their families. Not only had the distribution of income become more equal, but unemployment had almost disappeared. Equality of opportunity had opened up even more dramatically. The expansion of educational provision meant that, for the first time, large numbers of children from working class backgrounds, rather than small numbers of 'scholarship boys' had the opportunity to secure the kind of education previously available only to the middle and upper classes. The role of inherited wealth was diminished both by inheritance taxes and by the dynamism of a strongly growing economy.

All of these things had happened, in the first instance, because governments set out to make them happen, and this, in turn, took place because a newly empowered democratic electorate demanded them. Using the tools of Keynesian economic policy, national governments accepted responsibility for the maintenance of full employment. State governments like the Playford government accepted responsibility for providing the infrastructure needed for economic growth and rising living standards. Governments had a fairly clear vision of their role and were prepared to take risks to fulfil that role. The collective sharing of risks meant that individuals and families faced much less risk than they had in the free-market economy of the period before World War II.

Building on this legacy, Don Dunstan was the finest example of a new generation of political leaders who set out to add quality to the quantitative progress of the post-war boom. In part this was reflected in improvements in the quality of services governments were already providing, such as health and education. But it also included attention to issues that had previously been regarded as secondary. There were a wide range of such issues, including civil liberties, the arts and the environment, but the most important related to the need to accept women as full members of society rather than as dependents of male ‘breadwinners’, the role assumed to be appropriate during the 1950s.

It is not my purpose here to review the achievements of the Dunstan era, some of which are discussed in *Politics and Passion,* an edited volume of Don's essays which will soon be published by Bookends. Nevertheless, I still recall the opening up of public and social life that he brought about with the end of electoral gerrymanders and property franchises, consumer protection, encouragement of the film industry and improvements in the quality of education, among many other initiatives.

Many of the achievements of the Dunstan era have endured through the subsequent decades. Nevertheless, in crucial respects, society has moved backwards rather than forwards since the 1970s. Unemployment and inequality have increased, as has social insecurity in all its forms. Government has been under continuous pressure to cut taxes and scale back services. Overall, we have seen the kind of loss of nerve captured in Michael Pusey's phrase ‘a nation-building state changes its mind’. A crucial part of this loss of nerve has been the acceptance of the idea that governments should not take risks, and therefore that individual citizens will have to bear a lot more risk than they did in the past.

There have been a variety of explanations for the reversal of direction that has taken place since the 1970s. In the last few years, however, nearly all of the discussion has centred around the term ‘globalisation’. Globalisation is one of those ‘vogue’ words that suddenly become ubiquitous. They are used in all sorts of contexts by all sorts of people. They seem to promise understanding of the ills and hopes of the day, and yet no one seems to know precisely what they mean. In the 1960s, ‘alienation’ was such a word, while ‘systems’ and ‘structural’ had their vogue in the 1970s.

Undoubtedly the word of the 1990s is ‘globalisation’. It has been used to explain everything from the fashion for baseball caps worn backwards to the decline of the welfare state. It has been represented both as the culmination of human history and as a regression to the 19th century. But in all its forms, globalisation is a crippling and disabling concept. It implies that in future, every aspect of our economic and social lives will be determined by impersonal global forces over which we as a community have no control.

Today I want to discuss three of the stories that have been woven around the idea of globalisation, and to consider their implications for democracy and public prosperity. I want to challenge the idea that globalisation is an inevitable result of technological changes over which we have no control, and also the idea that there is no alternative to free-market neoliberalism—what is known in Australia as 'economic rationalism'. Instead I want to tell a social-democratic story about the challenges we face in the attempt to build a democratic society, and to preserve and extend the kind of public prosperity that was central to Don Dunstan's vision of the good society.

A 'Third Way' story

The first story is basically about technology. Globalisation is commonly claimed to be the inevitable result of technological changes and, in particular, the striking innovations in computing and telecommunications that have taken place since the 1970s. These developments, it is claimed, have made possible a massive growth in international financial flows, and the development of highly sophisticated international financial markets, which form the basis of a new global economy. In the context of this global economy, traditional social-democratic policies, tied to the concept of the nation–state are obsolete and unworkable.

Claims of this kind are often associated with a more general argument that these technologies are associated with the development of a flexible 'New Economy', characterised by rapid growth and the end of the 'boom–bust' business cycle. The New Economy is said to demand more flexible ways of working, appropriate for 'wired workers', and the end of an assumed norm of permanent full-time employment.

The technological explanation of globalisation is popular among former socialists and social democrats who now advocate free-market policies (Latham 1998; Tanner 1999). If the technological explanation is correct, the social-democratic policies of the long boom were appropriate for their time, but are now out-of-date. It is therefore possible to argue that, in embracing free-market policies, social-democratic political parties are not abandoning a tradition of interventionism and egalitarianism, but maintaining a tradition of supporting policy innovations appropriate to the day. This is said to require the adoption of a Third Way, transcending the debate between traditional social democrats and neoliberal supporters of free-market capitalism. The Clinton–Morris metaphor of 'triangulation' is often used in this context.

In practice, the policy content of the 'Third Way' is not very well defined. It differs from country to country in a way which suggests that advocacy of a Third Way is little more than a rhetorical cover for the old-fashioned political strategy of seeking the middle ground. The political strategy common to Blair and Clinton is one of an a middle path between the *status quo* and the radical free-market reform demanded by neoliberals. However, since the *status quo* in the United Kingdom is quite different from that in the United States, the set of policies actually implemented by Blair is different from that implemented by Clinton.

Despite the ambiguous nature of Third Way politics, a number of common themes can be discerned. These include a general preference for markets over public provision of services, acceptance of the increase in inequality that has taken place over the past two decades, and a political strategy based on the assumption that change is both inevitable and desirable, and should be embraced regardless of its direction.

First, the presumption that markets are invariably superior to governments in the provision of goods and services is accepted with limited qualifications. Advocates of the Third Way generally support comprehensive programs of commercialisation and corporatisation of public services, leading ultimately to privatisation. The main way in which supporters of the Third Way differ from neoliberals is in their support for education and, to a lesser extent, health services. Among advocates of the Third Way, support for free-market experiments and cuts in public expenditure on education are tempered by the desire to expand the total provision of education services. As in other aspects of the Third Way, the aim is to transcend the traditional dispute between advocates and opponents of cuts in public expenditure, but the outcome is more often an uneasy compromise.

Second, the egalitarianism of traditional social democracy is abandoned, to be replaced by a view which is clearly favourable to high-income earners, with arguments about the distribution of income and access to community services being replaced by discussion of 'safety nets' or the efficient provision of services to 'customers'. This shift is frequently expressed in terms of older debates about 'equality of opportunity' as opposed to 'equality of outcomes'. However, although the advocates of the Third Way are particularly friendly to the upwardly mobile, the hostility to inherited privilege that characterised earlier advocates of equality of opportunity has largely disappeared.

Finally, the rhetoric of the Third Way exploits the assumption, implicit in words like 'progressive' and 'reactionary' that history is a process of inexorable improvement and that support for the process of forward movement is inherently virtuous. Until the 1970s, the development of capitalist societies showed a long-term trend (though one that was frequently interrupted) towards greater equality and greater social control over the economy. Hence, the terms 'social democratic' and 'progressive' were broadly synonymous. Even though policy is now moving in the opposite direction, many advocates of the Third Way argue that the appropriate stance of one is one of 'going with the flow' of ideas and economic trends. Advocates of the Third Way have exploited the positive connotations of terms like 'progressive' to justify their acceptance of the trend towards 'free-market' policies and castigate their opponents as 'conservative' or 'reactionary'.

The inadequacy of technological accounts of globalisation

Despite its superficial appeal, the technological explanation of globalisation is inconsistent with the evidence. The technological innovation central to the argument, instantaneous communication between international financial markets, was introduced with the laying of the Atlantic submarine cable in 1866, which made it possible to transmit messages between Europe and America by telegraph using Morse code. By 1872, the Overland Telegraph connected the major Australian cities with England, and the world. An order to buy or sell assets worth billions of dollars can be transmitted just as effectively in a 15-word telegram as in a 15-minute telephone conversation. The globalised economy collapsed with the onset of World War I, and attempts to reconstruct it after the War were brought to an end by the Great Depression.

Similarly, there is nothing new about the kind of labour market that is claimed to be part of the 'New Economy'. The 19th century economy was one in which only a minority of workers had permanent full-time jobs of the kind that were the norm in the period after World War II. Flexible employment practices such as piecework, daily labour hire and multiple jobholding were commonplace. In all essentials, the new labour market of the 21st century looks very similar to that of the 19th.

In assessing the idea that technological change causes globalisation, it is also important to remember that improvements in transport and communications technology continued throughout the 20th century, even as flows of capital were subjected to increasingly stringent restrictions and governments intervened more and more in the market. The first telephone connection between Australia and Europe was made in 1930, when the international financial system was in a state of collapse. The 1950s, a period when Western countries routinely employed dual exchange rates and import quotas, saw the rise of the 'jet set'. The phrase 'the global village' was coined by Marshall McLuhan in the 1960s, when the Keynesian Welfare state, allegedly doomed by globalisation, was reaching the peak of its growth and self-confidence.

Most notably, the rise of globalisation has been accompanied by a slowdown in technological progress, rather than the acceleration implied by much of the rhetoric of globalisation. Although developments in computer technology are impressive, other areas of the economy have been technologically stagnant. The last few years of relatively strong growth have, at best, yielded a return to the performance of the 1950s and 1960s.

The inadequacy of Third Way policies

Turning to the policy content of the Third Way, the crucial issue is the assumed superiority of markets over governments. In general, Third Way advocates accept that interventionist policies were appropriate during the long boom, but claim that globalisation and technological change have rendered such policies obsolete.

The main evidence put forward in support of this assumption is the supposed superior economic performance of the English-speaking countries, which have embraced radical free-market reforms compared to the 'sclerotic' European social democracies. In particular, claims of 'miraculous' economic performance have been made with respect to the United Kingdom in the Thatcher period and again in the late 1990s, New Zealand in the late 1980s and Australia in the late 1990s.

In general, claims of miraculous economic performance rarely survive the cycle of 'boom and bust'. The supposed 'Thatcher miracle' was simply the recovery from the 1979–81 recession, inflated into a boom as result of unsustainable tax cuts, supposedly financed by the proceeds of privatisation. After its collapse in the late 1980s, it was referred to, more accurately, as the 'Lawson boom', after Thatcher's Chancellor of the Exchequer. The expansion of the 1990s appears somewhat more sustainable, but is still no more than a cyclical recovery. Despite the rhetoric of transformation, the United Kingdom remains near the bottom of the European league table in terms of income per capita, well behind the supposedly sclerotic French and Germans.

The situation in New Zealand is even worse. Over the fifteen years since the beginning of radical free-market reform in 1984, New Zealand's GDP per capita has grown at an annual rate of only 0.5 percent. Despite free access to Australian markets and free movement of both capital and labour, New Zealand has steadily fallen further behind Australia and the rest of the OECD. For the period since 1980 as a whole, economic performance in Australia and the United Kingdom has been broadly comparable to the OECD average. In terms of GDP per capita, the gap between the two countries and the leading group of European countries remained almost unchanged.

The short-term focus of much political debate, and the fact that the European countries entered a recession in the mid-1990s, at a time when Australia and the United Kingdom were recovering has led to a renewal of suggestions that the reforms have produced miraculous, or at least greatly improved, economic performance in Australia and the United Kingdom. However, once the difference in cyclical timing is taken into account, there is little evidence to support such assertions.

The second critical assumption underlying the 'Third Way' politics is that egalitarian policies based on redistributive taxation are no longer sustainable. In part, this assumption is based on acceptance of free-market economic views about the need for incentives. However, there is also a political assumption that the electorate is now dominated by what Latham calls 'downward envy'. That is, Latham assumes that voters who are (or regard themselves) as 'middle-income earners' are not particularly concerned about the high incomes of the better-off, but resent paying taxes to benefit those worse off than themselves.

There is, undoubtedly, some resentment among employed workers at paying taxes to support social security beneficiaries seen as undeserving, particularly including single parents and the young unemployed. However, hostility to the unemployed was much greater in the late 1970s, when a large proportion of the unemployed were teenagers who could easily be stigmatised as ‘dole bludgers’, than it is today when unemployment affects a much broader class of workers, and secure employment is almost a thing of the past.

The neoliberal story

Whereas the ‘Third Way’ story of globalisation ignores the global economy of the 19th century, the neoliberal story presents the 19th century as an economic golden age to which we are about to return. In fact, for neoliberal true believers, the entire 20th century may be seen as a mistake, a statist interruption of the natural development of the free market economy.

According to the neoliberal story, the 19th century economy based on free movement of goods, capital and labour produced strong economic growth and was generally beneficial. However, some groups, such as workers in industries threatened by competition from imports, generated a backlash against globalisation, which led to the widespread adoption of tariffs and restrictions on migration. The end of globalisation was completed by the suspension of free capital movements during and after World War I. According to this story, we are only now returning to the true path of a free-market economy.

In this story, globalisation per se is less important than the imperative of a return to free markets. Globalisation goes hand in hand with domestic free-market reform. So, for example, international financial deregulation increases the attractiveness of privatisation, which in turn enhances the need to adopt an economic policy program acceptable to international financial markets, embracing deregulation, a smaller public sector and further privatisation and contracting out of public services.

In his book, The Lexus and the Olive Tree, Friedman refers to this program as the ‘golden straightjacket’, implying that nations that accept this program will prosper, at the cost of sacrificing freedom to respond to the preferences of their electorates for more interventionist policies. As in other accounts of globalisation, Friedman does not make it clear whether these policies are necessary for prosperity because they are inherently desirable or because they are demanded by participants in international capital markets (the ‘Electronic Herd’ in Friedman’s terminology).

A crucial part of the neoliberal program has been acceptance of increasingly unequal economic outcomes, and a corresponding reduction in economic security. Globalisation and trade are part of this story but only part. What is crucial is the neoliberal assumption that individuals and households should embrace the risks and uncertainties of the market and manage those risks for themselves, rather than attempting to pool and spread risks through government action.

Neoliberal reform has contributed to increased inequality in many different ways. Most obviously, neoliberal reform of tax and welfare systems has resulted in less progressive tax systems and less generous social security systems, thereby increasing the inequality of the distribution of post-tax income.

The relatively modest increase in competition from imported goods and services has been accompanied by policies which increase the competition faced by workers whether or not the goods and services they produce are traded internationally. Increased reliance on outsourcing and competitive tendering has reduced the employment security of workers, even those employed by profitable enterprises or public sector organisations. This insecurity has been enhanced by the removal of constraints on the power of employers to hire and fire at will.

Neoliberal reforms have contributed to labour market inequality in two ways. First, they have, in general, favoured managers and highly-skilled workers and have removed interventions that protected the interests of less-skilled workers. Increasing wages for highly-skilled workers and reducing wages for less-skilled workers obviously leads to greater inequality. More generally, the weakening of unions and awards has affected less-skilled workers more severely than highly-skilled workers.

Less obviously, but perhaps equally importantly, the increase in employment insecurity associated with neoliberal reforms tends to increase the importance of the element of pure chance in income determination. White-collar workers formerly faced relatively well-defined career paths, with income rising steadily until retirement. In the more flexible labour market created by neoliberal reform, there are greater opportunities to rise to highly-paid positions in senior management, but also greater risks of dismissal or redundancy, leading to long-term unemployment or to the necessity of accepting relatively low-paid work.

An increase in income insecurity leads to an increase in the variance of incomes received by individuals in the same occupation, with similar education, experience and other observable characteristics. Such an increase in variance has clearly been observed in the United States and appears to be evident in Australia also.

The response of supporters of neoliberal reform and globalisation to evidence of increasing inequality is striking. In the past, it has been argued that all Australians would benefit, at least in the long run, from freer world trade and neoliberal reform. Although some workers in formerly protected industries might suffer short-term dislocation, it was argued, adjustment assistance could be used to smooth their path to new and better jobs. More recently however, supporters of globalisation have begun to accept and welcome increased inequality. We can see this contrast in the approaches of Howard and Costello to the problems of rural and regional Australia. Howard is still trying to assure everyone that they will be better off. By contrast, Costello has argued that rural and regional Australians should accept economic reality and take the lower wages they need to be competitive.

There is increasing emphasis on the need for ‘competitiveness’ to include competitiveness in wages as well as in technical efficiency. The consequence of increased inequality is now regarded with equanimity, as a necessary adjustment to the global economy. Acceptance of this reality is made easier by the fact that it implies substantially increased incomes for highly educated professionals such as economists, and increased returns to owners of capital, including the growing numbers of wealthy individuals with direct personal shareholdings in addition to superannuation investments.

A critique

The neoliberal story rests on the assumption that international capital markets are more or less perfectly efficient and that they provide an accurate evaluation of the quality or otherwise of economic management. Thus, for example, a decision by an international ratings agency such as Standard and Poors to upgrade the rating of a government’s debt from, say, AA to AAA is seen as confirmation that the government is doing a good job.

This assumption is mistaken for two reasons. First, even when they are doing their job properly, financial markets are concerned only with a very narrow part of the performance of the economy. For example, a bond rating reflects only those parts of economic performance that affect the interests of bondholders, namely, the likelihood of future inflation and the risk that governments may default on, or try to renegotiate, their debt. These are both important questions in assessing economic performance. But there are many more important issues, such as the level of unemployment, the rate of growth of productivity and the quality of public services, which concern financial markets either indirectly or not at all.

Second, it is increasingly evident that financial markets do not do their job very well. Since exchange rates were deregulated in the 1970s, there have been long periods when the exchange rates of the major OECD countries were way out of line with economic fundamentals, generating serious difficulties for economic management. Over the course of the 1990s, there were a steady run of international financial crises in which the ‘Electronic Herd’ first decided that some country was a good prospect for investment and then suddenly changed their minds and bolted for the doors. There is every likelihood that such a crisis will soon emerge in the United States.

The historical part of the story rests on a rosy view of the 19th century economy and its institutions, which is not supported by the available evidence. Although 19th century economic statistics are patchy and hard to compare with modern equivalents, it is clear that the 19th century economy displayed both a high average level of unemployment and a periodic cycle of boom and slump. Economic growth in the 19th century, although stronger than in any preceding period was much weaker than that of the social-democratic period after World War II.

The current appeal of the neoliberal story relies largely on a US-centric view of the world, in which the major political and economic questions are seen through the lens of the Cold War with the Soviet Union. The collapse of the Soviet Union is seen as demonstrating the superiority of American economic and political institutions. On the political front, American triumphalism after the Cold War was relatively short-lived. The ‘New World Order’ did not live up to expectations, and many Americans are clearly disillusioned with their political system. But economically, the performance of the United States since the end of the Cold War has been seen as confirmation of the superiority of the free market.

This claim depends critically on the assumption that the current US boom will continue or, at least, that it will be followed by a ‘soft landing’ and steady growth. However, there are a number of features of the current boom that make it appear unsustainable. First, the boom is largely driven by a speculative bubble in stock prices. Almost no-one now claims that the market values being accorded to Internet stocks are sustainable. Just as the classic share float of the 18th century ‘South Sea bubble’ was ‘an undertaking of great profit, but nobody to know what it is’, the Internet bubble has seen the successful launch of companies, which ‘have no substantial business activities, and no plans to undertake such activities in the foreseeable future’.

Second, because consumption has been fuelled by capital gains, US household savings are now negative. The counterpart to disappearing private savings has been the growth in the current account deficit, now approaching $US 400 billion per year. The need to borrow on this scale makes the US economy very vulnerable to a change in the sentiments of the ‘Electronic Herd’.

A third characteristic of unsustainable booms is a breakdown in financial and accounting standards. This is clearly evident in the United States, as firms increasingly use devices such as payment in stock options to boost their reported profits. In this and other respects, the economy appears to pulling itself up by its own bootstraps. The stock market can keep on rising only if profits keep rising, profits keep rising because of increasing use of stock options and the like, and stock options are a viable method of payment only if the stock market keeps rising.

It is impossible to predict the future with any certainty, but we can look at the past 20 years and observe that, for the period as a whole, the economic performance of the United States has not been nearly as strong as is often supposed. According to the International Labour Organisation, productivity growth since 1980 in the United States (measured in output per hour worked) has been weaker than in any of the major Asian or European economies. Output growth in the United States has been driven largely by a steady increase in hours of work (yet another reversion to the labour market characteristics of the 19th century). Paul Krugman's observation that ‘If the Soviet economy had a special strength, it was its ability to mobilize resources, not its ability to use them efficiently’, which he applied to the Asian ‘tiger economies‘, now appears relevant to the United States.

Both neoliberals and advocates of the 'Third Way' favour moves towards 'flexible' working conditions. However, whereas flexibility is presented as a liberating force, allowing employees to shape their working hours and conditions to fit in with their personal lives, the reality of the policy changes introduced in the name of flexibility is that employers can shape the lives of their employees to fit in with the demands of the workplace. Working hours have increased and become more unpredictable and irregular, employment security has declined and employer control over the private lives of employees has been enhanced. The results have included an increase in work-related stress and declining morale (Quiggin 1996.).

The social democratic approach has been adopted and extended in Europe over the last two decades. A notable example is the French legislation, now coming into force, imposing a maximum working week of 35 hours. Many Europeans receive six weeks of annual leave, compared to four weeks in Australia, and the US average of three weeks.

A social democratic story

The social democratic story of globalisation begins with the fact that we have had a genuinely successful global economy—that which operated between World War II and the economic crisis of the 1970s. The so-called globalisation that has taken place since then reflects the breakdown of that global economy in the early 1970s, and the limited success of attempts to rebuild it since then.

After 1945, the victorious Allies sought to establish a set of national and international institutions that would secure peace, ensure that the Depression did not return, and protect people from the chaos and insecurity associated with unregulated free markets. The economic and political institutions of the 1945 settlement were based on the view that the institutions of the past had failed. The object of the system of international economic cooperation was to control capital flows in a way which allowed for both fixed exchange rates and sufficient domestic freedom in economic policy to permit the maintenance of full employment.

The crucial institutional decisions were made at Bretton Woods (New Hampshire, United States) in 1944, and led to the establishment of two international institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). The IMF was to provide short-term assistance to countries experiencing balance-of-payments problems. The World Bank was to provide long-term finance for development projects. These institutions, it was hoped, would provide a framework for international capital flows, which captured the benefits available from international borrowing and lending without the instability associated with uncontrolled capital flows. The achievement of full employment was the basis of a much broader consensus. All parties agreed on the need for extensive systems of social welfare, and on the need for extensive government intervention, including, in most countries, public ownership of basic infrastructure (roads, electricity, telecommunications and so on) and public provision of human services (health, education and other community services). Although socialist parties formally advocated complete nationalisation of industry, in practice they accepted private ownership of primary industry, manufacturing and wholesale and retail trade.

The result was referred to as the ‘mixed economy’, and was put forward as a ‘third way ’ in the debate between the polar alternatives of laissez-faire and a Soviet-style command economy. The reconstruction of the international financial system was intended to complement the domestic mixed economy by preventing or ameliorating international financial crises. Unlike the ‘Third Way’ of today, the economic institutions of the mixed economy were much more than a half-way house between free markets and a command economy.

From 1945 to the late 1960s, the Bretton Woods system, in association with the use of Keynesian macroeconomic policies, functioned effectively in most developed countries. The period from 1945 to 1970 was unparalleled in the history of capitalism as one of full employment and rapid economic growth in the developed countries. A number of then-poor countries, such as Italy and Japan experienced rapid economic growth that enabled them to match the living standards of the developed countries. At the same time, and in sharp contrast to the era of neoliberal globalisation, the working class and the poor gained ground within the developed countries.

Despite the exceptional nature of this 'golden age', only limited research has been undertaken into the factors that made the 'golden age' possible and the reasons for its breakdown. Some consequences of the success of the mixed economy are evident however. In particular, the perceived ability of governments to manage the economy strengthened support for government intervention more generally and weakened the capacity of business to oppose such intervention.

The role of government expanded rapidly in the immediate post-war period as industries were nationalised, social security systems were put in place or expanded and public responsibility for education and health care was generally accepted. In most countries, the boundaries between the public and private sectors that characterised the mixed economy were in place by the early 1950s.

Although the role of government did not change much in qualitative terms between the 1950s and the 1970s, quantitative measures of the size of the public sector, such as the ratio of public expenditure to GDP, increased steadily. A number of factors contributed to the growth of the public sector.

The most important was the growth in the human services sector, encompassing such 'social infrastructure' services such as health, education, police and welfare services. The demand for human services tends to rise with income, and to increase as a proportion of total demand as income rises. At low levels of income a large share of expenditure must be devoted to necessary goods such as food, shelter and basic clothing, and services may be regarded as luxuries. In communities with the income levels of developed countries like Australia, the satisfaction of these basic needs requires only a small proportion of total income. It is therefore possible to move up Maslow's (1968) hierarchy of needs, and address needs for health, security, self-esteem and the esteem of others. In addressing these needs, which largely concern relationships between people, services are necessities, while physical goods are luxuries, largely associated with the desire for the esteem of others.

On the other hand, productivity growth in the human services sector has been limited. The growth of the services sector was first analysed in these terms by Baumol (1968), who argued that if labour productivity grew more slowly in the services sector than in other sectors such as manufacturing, and it was desired to maintain output in the services sector at least as a constant proportion of total output, it was necessary that resources should be progressively transferred towards the services sector.

However, it also reflected the onset of what O'Connor (1973) described as 'the fiscal crisis of the state'. Although the term 'crisis' seems inappropriate for what now appears to be a chronic problem, O'Connor's analysis remains relevant. In essence, the combination of growing demands for publicly-funded human services and increasing expenditure on welfare payments led to steady growth in public expenditure expressed as a share of national income. For most of the post-war boom, taxation revenue grew correspondingly, but by the 1970s it became increasingly difficult for governments to raise additional revenue.

The breakdown of the golden age intensified these difficulties in several ways. First, growth in unemployment automatically raised expenditure on transfer payments, including not only unemployment benefits, but also sickness benefits and old age pensions associated with the withdrawal of discouraged workers from the labour market. Second, the associated rise of neoliberalism increased ideological hostility to taxation. This was particularly evident in the 'tax revolts' of the late 1970s. Finally, the liberalisation of international financial markets led to greater mobility of capital. This, in turn, increased the difficulty of taxing capital income.

Rising rates of inflation put the Bretton Woods system under increasing strain. Sustained inflation undermined both the international role of the US dollar as a reserve currency pegged to gold and the Keynesian system of domestic economic management. The pressures arising from inflation were exacerbated by the relaxation of the tight restrictions on international capital movements that prevailed at the end of World War II. Exchange controls were relaxed in many countries. Moreover, acting from a variety of motives, governments acquiesced in the development of a 'Eurodollar' market, trading in $US-denominated financial instruments but operating in European centres outside the control of the US Federal Reserve. In the early 1970s, this led to the breakdown of the Bretton Woods system, symbolised by the abandonment of the convertibility of US dollar into gold in 1973.

From the early 1970s to the present, the political debate has been between those who want to defend and modernise the social-democratic welfare state and those who want to tear it down and return to the economic and social institutions of the 19th century. Although the advocates of the free market have made some big gains in that time, it is important not to give in to despair. Despite coming under consistent attacks and suffering financial stringency for more than two decades, the core institutions of the social-democratic welfare state, including the public education and health systems and the social security system, remain intact and continue to command strong public support.

Democracy and globalisation

It is often argued that, regardless of the merits of neoliberal policies, we have no choice to adopt them if we are to survive in a globalised economy. To put it more plainly, as far as economic policy is concerned, globalisation renders democracy obsolete.

This argument is ill-founded. Although it is important to take account of the way in which globalisation has changed our economic environment, it is also important to recognise that democratic societies have a wide range of options available to them. We can choose to go down the American road of a weak public sector, minimal social security and labour markets regulated in the interests of employers. Or we can choose to maintain and strengthen the social institutions built up by people like Don Dunstan.

In some cases, there may be a trade-off between maximising growth in national output and preserving a decent society. For example, the protection of family-friendly working conditions will mean shorter working hours and therefore less total production. In other cases, such as, for example, increased expenditure on education, we can achieve both better social outcomes and higher national income in the long term, at the cost of some reduction in short-term private consumption. But either way, these are choices that we as a society must make for ourselves, without relying on the alibi of globalisation.

Ample evidence of the scope for alternative economic and social policies is provided by a comparison between the United States and the European social democracies. Despite some flirtations with free-market reforms, these countries have maintained strong social welfare systems and high-quality public health and education. As has already been discussed, these countries need to deal with the reality that growing needs must be addressed with a limited revenue base. But the idea that they, or we, can be forced by capital markets to emulate the US model is nonsense.

To put the power of international financial markets in perspective, consider again the implications of a decision by the international rating agencies to upgrade or downgrade public debt. A substantial program of privatisation and debt reduction might yield a single upgrade, say from AA to AAA, which implies a reduction of about half a percentage point in the interest rate payable on debt. On a gross public debt of $7 billion, that's a saving of $35 million per year, barely enough to pay the commissions on a typical program of privatisation, let alone the multi-billion dollar losses associated with bungled privatisations like those of Telstra and the Commonwealth Bank.

The real danger posed by international financial markets is not that they can effectively enforce their political preferences on governments. Rather it is the risk of a panic flight of capital in response to a sudden change of sentiment. Unfortunately, in the, there is no easy way of preventing such changes in sentiment. While capital flight has sometimes taken place where governments have tried to fight capital markets (for example, the expansionist program of the Mitterand government) it has also happened when markets have suddenly soured on governments that have been icons of financial reform only a few months previously (Chile in 1980 and Mexico in 1996). The only solution is thorough reform of the international financial system, including controls on international capital flows and a restructuring of the Bretton Woods institution.

In the short term, the main danger is that of believing the hyperbolic rhetoric of globalisation. Democracy is not obsolete. The economic environment of uncontrolled international capital markets affects the range of choices that we as a society must make, but it does not alter the fact that we, and noone else, must make them.

Public prosperity

Don Dunstan rejected doctrinaire socialism when such a belief was fashionable. Even more strongly, he rejected the neoliberalism fashionable in the 1980s and 1990s. To achieve public prosperity we need an appropriate balance between the private and public sectors. A social-democratic approach is based on an appropriate understanding of the role of government.

Employment and unemployment

The sharpest conflict between the social-democratic approach and the neoliberalism of the Third Way arises in relation to employment and unemployment. Third Way advocates reject the use of Keynesian fiscal policies and accept the currently dominant view that the only sustainable route to lower unemployment is through reform of labour markets so that they resemble those of the United States. However, the low rate of unemployment currently seen in the United States is the result of monetary expansion rather than labour market reform. A number of European countries, notably the Netherlands, have achieved rates of unemployment below 5 per cent without an unsustainable boom and while maintaining a consensual approach to collective bargaining similar to the Prices and Incomes Accord that prevailed in Australia during the 1980s.

Although the simplistic Keynesianism of the 1950s and 1960s, based solely on the use of budget deficits and surpluses to manipulate aggregate demand, proved inadequate, the basic insight that governments must intervene to stabilise the aggregate output of the economy remains valid. An important element of a renewed Keynesian approach is the expansion of public sector employment along the lines suggested by Langmore and Quiggin (1994). Because human services such as health, education and community services are the most labour-intensive sectors of the economy, expansion of these sectors is crucial in achieving a sustainable return to full employment. Yet it is precisely these sectors where neoliberals propose the largest reductions in public expenditure.

Public expenditure and taxation

The neoliberal orthodoxy is based on the assumption that our economic and social problems arise mainly from the intrusion of government into areas best left to the free market. The reality, however, is the opposite. The range of social problems for which market solutions are inadequate is so great that the capacity of government to address them has been overstretched. Health care, education, the environment, public safety, physical infrastructure and social insurance are all areas where market outcomes are both inefficient and inequitable, and they are all growing in importance. Mass unemployment has placed further demands on the social security system.

However, the capacity of the tax system to raise revenue is limited. The mismatch between steadily growing demands for public expenditure and the limited capacity of governments to raise revenue, which emerged in the 1970s, was termed 'the fiscal crisis of the state' (O'Connor 1973). Except that the problem is clearly a chronic complaint rather than a 'crisis' leading to a radical resolution, this term is still apposite.

There are no easy answers to this problem, or rather, the easy answers have all proved to be wrong. In the early 1970s, the Whitlam government assumed that bracket creep (the automatic increase in average income tax rates generated by a progressive income tax system in an inflationary environment) would provide all the additional revenue needed to finance an ambitious program of public expenditure. However, workers were unwilling to accept erosion of their post-tax wages, so that reliance on bracket creep contributed to both the wage explosion of 1973-74 and the 'tax revolt' of the late 1970s.

If a renewed social democracy is to succeed, the issue of taxation cannot be dodged. As Don Dunstan pointed out in an interview published by *Australian Options* (September

1998, p 17) shortly before his death ‘the only way in which we can provide for [services] being funded is to tax in order to do it .... I used to be told by the Labor Party, you can't go to an election and say you are going to increase taxation. I said nonsense. There wasn't an election I went to where I didn't say I am going to increase some taxes, but it will be done on a just basis, here is why we are going to do it, and here is how we are going to spend the money. People will thank you for that if you are straight and honest with them. Australia is not one of the highest taxed places in the world, it is one of the lowest in the OECD’.

As Dunstan argued, the choice between lower taxes and improved public services must be debated openly. There is a good deal of evidence that, when faced with this choice, the majority of voters would prefer improvements in services (Papadakis and Shapiro 1992; Withers, Throsby and Johnson 1994) Similarly, a recent survey in the United Kingdom showed that 73 percent of respondents would support cancellation of a promised cut in all tax rates if the resulting revenue were used to pay for improvements in the National Health Service. Even more promising was the election, in 1999, of a Labour government in New Zealand, which campaigned on a promise to raise the top marginal rate of income tax from 30 percent to 39 percent.

Even with higher taxes, the revenue available to governments will never be sufficient to fund all of the programs that would usefully address failures of the market. An important cause of the crisis of social democracy in the 1970s was an unwillingness to accept the basic proposition that money can be allocated to one policy program only at the expense of alternative programs. (This was in part a legacy of the 1960s, when slogans like 'demand the impossible' dominated much left-wing thinking.)

To address the problem of chronically inadequate revenue it is necessary to set priorities regarding programs and between individuals. In evaluating any proposal for a new expenditure program, it is important to remember that the 'opportunity cost' of funding the program is a reduction in the money available for existing programs.

In setting priorities between individuals, the object should be to secure the maximum social benefit for a given expenditure. General concepts such as 'universalism' and 'residualism' are not particularly useful here. It is clearly impossible to provide all desirable services on a universal basis. On the other hand, the 'residual' or 'safety-net' approach, in which public services are confined to the 'truly needy' represents an inadequate response to pervasive market failure. In the Australian context, where most benefits are already targeted, the highest effective marginal tax rates usually apply to low-income families receiving means-tested benefits and the object of policy should be to minimise the occurrence of 'poverty traps'. (Poverty traps occur where the combined impact of marginal tax rates and benefit withdrawal produce an effective marginal tax rate close to, or even exceeding, 100 percent.)

Public ownership, privatisation and nationalisation

The swing to free-market policies was motivated in part by the availability of apparently easy answers to the fiscal problem. Privatisation was used by the Thatcher government in the United Kingdom and by the Hawke government in Australia as a substitute for raising taxes. The use of privatisation proceeds to finance current expenditure is simply a disguised form of deficit spending. The privatisation policies of Hawke and Thatcher caused lasting damage to the Australian and British fiscal systems.

The long-run fiscal effects of privatisation, assuming the proceeds are used to repay debt have been the subject of vigorous debate. In most cases where assets have been sold by public share offers, discounts have been offered for political reasons, so that assets are sold for less than the market price.

If private capital markets were perfectly efficient, privatisations by public float would generally reduce public sector net worth, while 'trade sales' would be neutral. However, capital markets are not perfectly efficient. In particular, because private investors in equity demand a large risk premium, the interest savings from selling public assets have, in most cases, been less than the stream of earnings handed over to private buyers.

In the case of ETSA, these issues dominated both the debate over the decision by the Playford government, with the support of the Labor Party, to nationalize the South Australian electricity industry and the debate over the decision by the Olsen government, assisted by Labor renegades, to privatise it. In his 1998 Whitlam lecture, Don Dunstan quoted the key finding of the Royal Commission set up by Playford to examine the performance of the privately-owned Adelaide Electric Supply Co.

Over the period of the last 24 years, the Company has paid in dividends and interest nearly 2 million pounds more than if the Treasury rate had been paid.

Future capital costs at Treasury rates would result in reduced capital costs and lower charges.

On the basis of this and other findings of inadequate performance, Playford nationalised the industry. For the following fifty years, the Electricity Trust supplied electricity efficiently, met a range of social objectives and yielded returns greater than or equal to the cost of capital to the Treasury.

The belief that ETSA should be sold arose from a number of factors. First, there was the simple fact that a large sum of public money is always attractive to politicians. Even though the orthodoxy is that proceeds from the sale of public assets should be used wholly and solely to reduce debt, politicians from Hawke to Howard haven't been able to resist dissipating some of the proceeds in electoral goodies. The most extreme example of this was Kerry Chikarovski's offer of a cash bribe. If the going gets tough, I expect we will see something similar in South Australia, but I hope that South Australian electors will be just as unimpressed as their New South Wales counterparts.

Second, and related to this are problems with the cash-based system of public accounts, which lead to the undervaluation of public enterprises. Among the numerous errors in the Sheridan report, which is still the government’s only public justification for the sale of ETSA, was the fact that only ETSA's dividends and not the earnings retained and reinvested in the enterprise were treated as having any value. Since the Olson government itself has often taken special dividends out of ETSA, the arbitrary nature of this should have been evident.

The crucial problems however, relate to misunderstandings of the role of government in relation to risk and regulation that have characterised the neoliberal assault on government. These misunderstandings were very much evident in the bungled financial deregulation that led to the collapse of the State Bank of SA. Prior to the advent of deregulation, the states were both owners of financial enterprises like the State Bank, and regulators and guarantors of a range of financial organisations, most importantly building societies, while the Reserve Bank regulated the major private banks. The advocates of deregulation told governments to take their hands and let the private sector get on with it. In the case of the state-owned banks, the previous policies of pursuing social objectives subject to the achievement of an appropriate rate of return were abandoned in favour of ‘entrepreneurial’ private sector management. In all of this, governments forgot that they had directly or indirectly guaranteed the debts of financial enterprises, whether they were publicly owned or merely publicly guaranteed.

The results were universally disastrous. Partly because it never completely abandoned prudential regulation and partly because of good luck, the Reserve Bank did not have to pay out the liabilities of a major private bank, though Westpac came close to failure. But state-regulated institutions collapsed with heavy losses. Although the State Bank of South Australia was by far the worst, there were very large private sector collapses such as that of the Pyramid group in Victoria.

It is ironic that advocates of the same neoliberal ideology that brought about the State Bank collapse (and in some cases, the very same people responsible for that collapse) have used it as a justification for further misuse of the state's public assets, in the form of the lease of ETSA. It has been claimed that public ownership of the electricity industry exposes the South Australian public to the risk of severe losses associated with participation in the highly competitive retail sector of the National Electricity Market, which permits large-scale speculation in forward sales and purchases of electricity.

Leaving aside the question of whether the National Electricity Market is going to work or not, this kind of argument sees a competitive tail wagging a monopoly dog. In the recent ETSA sale, the retail arm of ETSA fetched only $150 million. The distribution arm, which is a natural monopoly and not subject to any competition, fetched $3.4 billion. So the argument about commercial risk could have been addressed by divesting a tiny portion of ETSA's activities.

Finally, and perhaps most importantly, the advocates of privatisation have sought to overturn the crucial judgement of Playford's Royal Commission. Assuming that capital markets are perfect or nearly so, they infer that the high returns demanded by private investors like the Adelaide Electric Supply Co. must be an appropriate reward for risk-bearing. Unfortunately, for the supporters of this assumption, years of theoretical and empirical study of the so-called ‘equity premium puzzle’ have failed to show how an efficient capital market could in fact require such large returns. For those not blinded by ideology, the conclusion must be that private ownership of infrastructure is justified only if the private owners can achieve efficiency improvements sufficient to offset the higher rate of return on capital they demand. Evidence from Australian privatisation thus far suggests that this is rarely true.

There is, then, a strong case for public ownership of infrastructure such as electricity and water supply systems, roads and railways, both because these industries are natural monopolies, which require close regulation and because they can provide a stream of income to the public in excess of the cost of servicing debt needed to finance them. A renewed commitment to public ownership would be economically sensible, as well as being politically popular.

What kind of world ?

The advocates of neoliberal globalisation would have us believe that the only alternative to their free-market agenda is backward-looking economic and cultural isolationism, that we are facing 'One World, Ready or Not'. On the contrary, the real question is 'What Kind of World?'. We can accept a world in which speculative capital flows freely around the world, while governments and communities are confined behind national boundaries, a world in which international cooperation consists solely of things like the World Trade Organisation and the Multilateral Agreement on Investment, in which governments agree not do anything that would hinder the free movement of capital. Or we can accept the challenge of renewing the social-democratic model that gave decades of prosperity and security to countries like Australia, and of extending democracy and public prosperity more widely throughout the world.

Don Dunstan combined a cosmopolitan global awareness with a passionate commitment to democracy and to the need for democratic governments to intervene to protect the interests of ordinary people. In responding to the forces that would impose on the world an American-style economic and social monoculture of economic inequality and insecurity, we must work at local, national and international levels. Despite the setbacks of the past twenty-five years, the social-democratic vision of democracy and public prosperity retains deep appeal for great numbers of ordinary people in Australia and around the world. Don Dunstan did a lot to translate that vision into reality. It is up to us to carry on his work.

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