Introduction

This is a book about the impact of globalisation on Australia, particularly its political and economic systems.

In his seminal work on the subject, geographer Peter Dicken says of globalisation that ‘the tendency towards an increasingly highly interconnected and interdependent global economy will intensify. The fortunes of nations, regions, cities, neighbourhoods, families and individuals will continue to be strongly influenced by their position in the global network. In a rapidly shrinking and interconnected world there is no hiding place’.¹ During the last twenty years this tendency has had its impact on Australia, producing profound changes in public policy and the organisation of national life. Other works have examined the effect on the national economic structure,² and some attention is paid to this issue here. But the primary focus of this book is public policy, debates about it, and the effect of their outcomes on the national economic and social structure.

Various methodological approaches might be taken to explain these phenomena. Elsewhere explanations have been offered couched in terms of the dominance of international capital, the end of the Soviet system producing the global dominance of market relations, the ideological triumph of neo-classical economic doctrines or, more simply, the pragmatic shift to the Right by the Australian Labor Party. The approach this work adopts is systemic and historical. In the international system of 200 sovereign states each has its own characteristics which determine the manner in which it has reacted to the post–Cold War world of globalisation. In order to explain that process the dynamics of the system and the manner in which each state has become party to it require exposition. The first two chapters undertake that task.

In Chapter 1 the history of the modern state system is examined with
reference to its origins in Europe and its dispersal throughout the world, mainly through the process of colonisation. This competitive political society spread with it a world economy initially in the form of discrete imperial orders. The collapse of the last of these, Soviet Russia, in 1991 heralded the triumph of an increasingly integrated global capitalist economy organised politically into around 200 sovereign states.

The second chapter argues that in this post–Cold War world interstate competition is increasingly economic in form, though strategic dimensions of course survive. The emerging assertive zone in this global community is the Asia-Pacific region, which is growing economically more quickly than elsewhere, industrialising and creating the equivalent of four European Unions in the process.

The Australian model of economic development – statist and colonial – is examined in Chapter 3. It is shown that the highly successful dirigiste dual economy formed at federation in 1901 could not survive the onset of globalisation in the 1970s. This produced a profound reorganisation of national policy debates about appropriate responses to intensified international capital movements, financial markets and trade in goods and services.

During the 1980s the national political élite reached a broad consensus that Australia would need to open or internationalise its economy in order to meet the unavoidable challenge of globalisation. As described in Chapter 4, this eventually produced economic rationalist policies of deregulation and privatisation with a view to making Australia more competitive. The national state did not become irrelevant or less sovereign, but the focus of its strategy did change.

The relationship between business and government has always been close in Australia, as in other capitalist countries. At a time of radical change, however, that relationship becomes even more important, as described in Chapter 5. And since Labor, with certain anti-business traditions, was in office this partnership became more contentious.

Chapter 6 describes how the Labor government refashioned the Australian state to enforce a more efficient economy, while maintaining its electoral coalition. This was not always easy as Labor policy was often overturned to achieve this outcome.

As outlined in Chapter 7, the impact of globalisation on the Australian economy has been profound. Some of this change has been produced by innovations in business practices and some by the pressure of government policy. Much of it has also been unwelcome.

This reorganisation has also had geographic dimensions as some regions of the country have boomed and others declined. This has, in turn, affected the demographic and political structures, as described in Chapter 8.
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As the Asia-Pacific region has increased its economic weight in the international system during the period of globalisation, so has its significance for Australian diplomacy increased. In Chapter 9 the reorientation of Australian foreign relations towards Asia in particular is described. Note is also made of the greater significance attached to economic relations.

Chapter 10 assesses the effect of these changes in Australian public life. It contends that while significant progress has been made towards a successfully globalised economy, that target has not yet been achieved. The country continues its long slide into debt, and of the alternative governments the incumbent has been so far unable to arrest the process and the Opposition unable to achieve power.

There is a tendency in the literature on globalisation – particularly that written in developed English-speaking countries – to decry the process. It is undoubtedly producing dislocations in those societies. But it is also generating the most profound advances in material living standards ever witnessed throughout East Asia. Whether that is progress depends on your point of view.
CHAPTER 1

The International System and the End of the Cold War

The changes that have occurred in Australian economic, social and political life during the last twenty years cannot be understood without reference to the international system, for Australia is not a world apart. That system was evolving before European settlement of Australia, and both created and then moulded the contours of life in the new settler-d­emocracy that emerged from the convict settlement. People, capital, technology, products, institutions and ideas were imported to the new communities which formed on the seaboard of the continent to spill inland and transform an ancient environment and civilisation. In the process these imports were changed and then augmented by new waves, always changing and bringing new baggage and demands. Periodically the settlers would resist this dynamic, but rarely to much avail. The trick has always been to adapt this relationship to Australia’s advantage.

The Sovereign State System

The modern international system has exhibited two principal characteristics since its evolution from Western Europe in the sixteenth century: conflict and co-operation between sovereign states; and the uneven but remorseless expansion of the world economy. Both processes are properly the subject of discrete scholarly disciplines – international relations and economic history – with an extensive body of foundational literature.

Sovereign states evolved in Europe during the sixteenth century from the hierarchy of spiritual and temporal authority known as feudal Christendom. They asserted their right to sovereignty against the universal Church and the Holy Roman Emperor and often proclaimed this authority as deriving from the Divine Right of Kings. This new political entity, the state, was in fact enabled by the evolution of military, transport
and communications technologies which permitted the creation of unified political and economic structures within territories the size of England or France. Free labour and the evolving commitment to private property laid the basis for market economies organised on a national scale. They mobilised against one another to contest territory and resources, mobilisations which brought into play power of an almost unprecedented proportion and certainly unmatched extension. These new states competed ferociously among one another in commerce and war, a process which ensured the continuous development of improved techniques for trade and battle and their rapid geographic dispersal. The history of this international system can be written, therefore, as either the chronicle of rivalry between states arbitraged by war, or the evolution of an international commerce disrupted periodically by conflict.

One influential recent study of the history of the interstate system has been Paul Kennedy’s The Rise and Fall of Great Powers. Kennedy charts the history and extension of the interstate system as a process of ascension and decline of Great Powers seeking dominance or hegemony within it. He provides a moving picture of the changing power distribution within the system which begins with an Austro-Spanish axis of Habsburg powers fighting a coalition of Protestant powers plus France from 1519 to 1659. This gave way to a looser alliance system but one marked by the continuing attempts of France, the continent’s largest power, to establish its hegemony. Under Napoleon it briefly succeeded before defeat in 1815 at the hands of a combination led by Britain and Russia. During the next seventy years Britain was able to achieve a loose domination of the system, particularly in the extra-European sphere, based on industrial and naval pre-eminence. By that time other powers led by Germany challenged Britain, and the resulting multi-power configuration broke into two alliance systems to fight the First World War. This proved indecisive; roughly the same set of powers realigned to fight the Second World War. This provided a more lasting settlement of two Great Powers dividing the system into two competing blocs, a bipolar system which lasted until the Soviet empire collapsed in 1991, leaving one Great Power, the United States.

The strength of Kennedy’s account lies in its capacity to analyse and summarise those factors and processes which led to the rise and then decline of each ascendent Great Power in the history of the system. He sees war as the final arbiter of power and therefore military might and its application as the immediate determinant. But he also sees that in the longer perspective economic power has determined the status of states in the system because it provides the underpinning of geostrategy. This is in turn determined by a complex of factors including the physical environment, the population’s size and skill, the capacity to harness new
technologies, a social structure open to change and enhanced efficiency, and a political system of sensitivity and dexterity. The interstate system has been in a continuing process of change, innovation and competition, and those states that have lagged behind have sometimes been made the poorer for it by war or by commerce.

This competition within the system has, unlike the imperial economies of Rome or China, driven the inexorable expansion of its economy both geographically and economically. This, too, has been the subject of considerable literature and controversy. The Fernand Braudel Centre, initiated by Immanuel Wallerstein, pioneered the concept of a capitalist world economy or modern world system originating in Europe in the sixteenth century. In this analysis the market economies emerging in Europe at that time extended the world market through formal and informal empire and through commerce. By the twentieth century only one world market existed and it was free-market or capitalist in construction – supposedly feudal or state socialist economies by that period being merely inefficient subsystems of the larger whole.

The European world economy emerged during the ‘long’ sixteenth century (1450–1640), a phase of European agricultural revolution, colonial expansion, population increase and a generalised rise in prices deriving from the conquest of the Americas and western Africa. The interstate system survived the Habsburgs’ attempt to create a world empire. The second phase (1650–1730) marked a geographic consolidation of the system but an internal transformation as the early phases of urban industrialisation got under way in England and France. The core of the system then witnessed (1730–1815) a final attempt by France to resist English industrial-based power, culminating in Napoleon’s defeat. Stage three saw the second great expansion of the world system during the nineteenth century to encompass the whole of the globe with improved technology, fire-power and particularly maritime transportation. All other independent regional systems, notably those in Asia, were eliminated in the process. Stage four followed the First World War and represented a conflict between a challenging ‘state socialist’ power – the Soviet Union – and the Western capitalist powers led eventually by the United States of America.

The status of states in this system changed from time to time, but Wallerstein depicts them as falling into one of three categories: core, periphery and semi-periphery. A core state is that which incorporates the latest technologies of organisation, production and war, a strong state apparatus and a capacity to extend its power. Most Great Powers are core states. Peripheral states are generally poor, with low levels of technology and weak state apparatuses incapable of resisting domination. Colonies were usually peripheral states whose subordination was enforced by the
imperial power. A semi-peripheral state is one that has not firmly entered either category but has the capacity to become one or the other by appropriate action. States are continually altering their status in the system and can improve or worsen their status in competition and cooperation with other states. This is true for periods of peace as well as war.

This interstate system is ferociously competitive, both between states and between individuals and institutions within them. Societies that did not adapt, like the Spanish or the Ottoman Empires, were likely to disintegrate and decline, although some, like Sweden, could revive and renew their status at the core. Other societies could be forced to peripheral status by their unwillingness or inability to embrace new technologies or techniques, like imperial China in the nineteenth century. Others in a similar situation could, like Japan after the Meiji Restoration, by ingenuity and innovation achieve core status fairly rapidly. Clearly the path to improved or reduced status was not the same for every state, but, also clearly, without adaptation, competition and appropriate government policy, decline in status was likely. This was the engine of change. Where this competitive state system did not prevail and was replaced by an imperial system, the incentive for change and progress was greatly weakened.

It is commonly accepted that one of the reasons for rapid growth in Europe and relative stagnation in China during the sixteenth to twentieth centuries was the conservative nature of the Chinese imperial regime, which often prohibited and certainly inhibited change. Some theorists have adapted a similar argument to the Roman Empire. A state in the modern world system must compete successfully in order to prosper. It is not possible to opt out of the process. If a state’s military capacity is not continually upgraded to the standard of the general system it invites disaster at the next conflict. If a state’s economic institutions are not innovating in technique, technology and product, they will be relegated to the periphery by interstate commerce. A declaration of neutrality will not necessarily save a state from the first fate, nor will a trade barrier of heroic proportions save it from the second. Just as the pace of technological change has steadily increased, so the time required to fall behind the pace of the system’s standard has shortened, as has, conversely, the time required to go from periphery to core. It took the United States 140 years from independent former colony to core state (1780–1920); Japan took sixty years (1879–1939); and Korea may achieve it in forty-five (1954–99). China could move from outcast to world primacy in a generation (1978–2002).

As this system has encompassed the globe, each nation-state has been forced to compete within it. Unsuccessful nations have been frequently subjugated by conquest. But commercial conquest can also produce
disastrous results. In the past this has taken the form of economic colonisation by core states. In the contemporary world market this can be replicated by a declining currency, asset sales to foreigners, low productivity, inefficient economic institutions and impoverishment of the population. Nations may go backwards in the system as readily as forwards. During the twentieth century the Argentine has slipped down the status and wealth league because of an inability to diversify from its beef-exporting production base by appropriate investment strategies. Britain declined from its post-war pre-eminence largely because of a failure to structurally adapt its economy to a post-imperial form. Britain’s former colonies similarly had to restructure themselves in a post-colonial environment. The South African white class/nation took a strategic route unacceptable to the late twentieth-century world. Others, notably in East Asia, have been able to take better advantage of the changing international system and have grown rapidly in power and wealth. Other states again have tried to escape the dictates of the system by opting out of it.

Opposing the Interstate System

Many social theorists have found this system repugnant for the competition it engenders, the conflict it produces, and the suffering it creates for those who lose in the process. Its strongest and most influential critic was Karl Marx, who had two brilliant ideas. In his political writings, notably in the Political Manifesto of the Communist Party and the Eighteenth Brumaire of Louis Napoleon, he argued that each society is governed by a class dictatorship organised through the state. He believed that the core capitalist states of his lifetime, particularly Britain and France, were ruled by the bourgeoisie or capitalist class and that the different parties or politicians merely represented different sections of that class. When these states went to war or conquered or acquired new colonies, they did so in pursuit of more profits for these capitalists. And in turn the sufferings, low wages and poor living conditions of the proletariat or working class were caused by the inexorable pursuit of profits before people’s welfare. The only resolution for these problems was the seizure of the capitalists’ property and communal ownership of the means of production under a state run by the workers: the ‘dictatorship of the proletariat’.

Marx’s other brilliant idea was propounded in his economic writings, particularly the three volumes of Capital and other notebooks comprising a history of economic thought known as Theories of Surplus Value. He argued that the feudal landlord extracted economic value from his agrarian tenants by getting them to work for him for some of their work time or by contributing some product. He posited that the capitalist factory owner did the same by getting workers to produce more value
than their costs, or wages, with the capitalist receiving the remainder as ‘surplus value’ or profit. Marx pursued this idea with great intensity: since goods exchange at their value in the market and value is determined by the goods’ embodied labour time, expressed as its cost of production, labour will be sold at its value or cost of production. But since the output of labour can be augmented by capital, its output can greatly exceed its value and produce surplus value. Again, Marx believed, the only way to abolish this system of creating surplus value and exploitation was to abolish capital or private property and create communism.

Although Marx was not clear what a post-capitalist society would look like, he was clear that it would necessarily come about through unavoidable contradictions in capitalism producing conflict between workers and capitalists, eventually resulting in the overthrow of the latter. One such problem was the tendency for the rate of profit to decline. Another was the likelihood of war between capitalist states, over the spoils of imperialism among other things. But all the same he admired this temporary system of production for its accumulation of capital, technological innovation, scientific enquiry and capacity to raise human living standards. He therefore held that no mode of production would end until it had exhausted its potential for progress. Yet only capitalism’s demise could lead to a peaceful world system. Some of these ideas became powerful components of nineteenth-century political thought and deed and a key component of the twentieth-century socialist movement. They spread to Australia with European settlements.5

As Europe industrialised, so its new working class formed separate industrial and political organisations, as trade unions and then socialist parties. These European political parties, as in Australia, mostly sought to win the vote and use it to elect reforming governments to improve the condition of the working class at work, home and leisure. Marx’s ideas were well known among the intelligentsia but not very strictly adhered to outside small sects or minority factions of some major parties. Yet by a series of unlikely circumstances, including military defeat, an obscure group of Marxists led by Lenin and other emigrés were to seize power in Russia in 1917. They set about trying to withdraw from the capitalist interstate system.

**Soviet Withdrawal**

The Soviet revolutionary regime, far from withdrawing from the interstate system, created the last great European empire by forced industrialisation, savage surplus value creation, militarising its proletarian dictatorship, and territorial expansion. In its early years there were some efforts by the Soviet regime to avoid behaving like a conventional state in
the international system, but in the 1920s the Soviets undertook the construction of a state apparatus and the military suppression of internal and secessionist revolts. They also created the Third International of revolutionary parties, to which the newly formed Communist Party of Australia was admitted. By the late 1920s they had made the Communist International into an agency of the Soviet state.6

By the early 1930s the Soviets had become a totalitarian one-party state differentiated politically from the fascist regimes of the period principally by its commitment to public or state ownership of property and its zeal for heavy industry reflected in its Five Year Plans. By forcibly moving people into city complexes, enclosing the land into state farms and importing foreign technology for heavy industry, the Soviets achieved rapid industrialisation, though probably at a pace no quicker than was achieved by late developers elsewhere, especially in East Asia.7 The Soviet state also devoted considerable resources to military expenditure, a policy consistent with the geopolitical traditions of its Tsarist predecessors, whose geography it had inherited, and the militarist ideology of Marxism-Leninism. The economic regime which the Soviets created, however, was new. During the 1920s there was considerable controversy among the Soviet leadership about appropriate economic policy.8 There ensued what we now call the Soviet Industrialisation Debates. These were effectively won by the Left which by the early 1930s was led by Stalin. From that time the Soviet state embarked on state socialism.

For sixty years the Soviet regime provided the only serious alternative to capitalism as a means both for industrialising a backward society and for running a modern state. It was to prove a failure. The first Five Year Plan (1921–26) was based on extreme repression and compulsion and was accompanied by a series of purges in the state apparatus that stretched by the late 1930s to the upper echelons of the Communist Party and the Soviet military command.9 The design of the economy derived in some measure from the complicated formulations in volume 2 of Capital, where Marx analysed what he described as the ‘circulation of capital’. Soviet state planners, centralised in Moscow and known as Gosplan, set output targets for all state-owned enterprises which their managers were expected to meet. They also developed models of economic plans for all sectors to interrelate to produce national output under their direction. The results were enforced state ownership of agriculture (collectivisation) and the construction of a basic infrastructure for heavy industry including the large-scale manufacture of weapons. Growth of economic output was impressive, though most of the technology was imported despite the otherwise autarkic nature of the regime. Whether growth was quicker than it would have been without the Soviet revolution and its attendant political cost is an issue still under debate. This state form