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## The Experience of Economic Reform

What matters is the expectations of the middle class. Disappointed middle class expectations cause revolutions, and the middle class is now being told that their old expectations are out of date. Fewer of them are going to be able to own their own homes. They are going to live in a very different world where inequality rises and where real wages fall for most of them. The era of annual wage increases is over; they cannot expect rising standards of living over their lifetimes or for their children.

Lester Thurow<sup>1</sup>

Anyone who turned forty with the new millennium will have spent all their adulthood living through what we so blithely call ‘economic reform’. Everyone knows what it is. Deregulation, privatisation, labour market reform, user pays, tax reform, cutting government spending, more competition, tax reform (the GST), and – the latest instalment – welfare reform. Watch this space, we are assured there will be more!

Yes, but have *you* benefited from it? Have I, but not you, benefited from it? How? In what way? Has it been good for the nation? Did we have to have it in the first place? Were there alternatives? Was reform an economic necessity or a political choice, or both? If both, then in what combination? Blind Freddie can guess that, once opened, these questions will be hotly contested. They are in the Academy. But what do middle Australians think? For good or ill the stability and permanence of all that has been done *for* us and *with* us, or *to* us, may well depend on how the people have received it, on how it has been woven into the fabric of their daily life. What impact – this is the central question to which this book is addressed – has it had on their experience?

Some things are generally agreed. Economic reform came upon us from the top down, with the radical aim of transforming the whole society and its institutions. On every side of politics it is agreed too that we are living now under what Richard Sennett calls a ‘new capitalism’.<sup>2</sup> The central purpose has been to make us less dependent on states and governments and more dependent on economies, markets, prices, money, and more directly upon ourselves. As uncertain individuals, we are forced, now as the risk managers of our own lives, to make new economic and social choices in a changed

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structural environment. Everyone knows that economic reform has made the rich richer. Some say that it has made the poor poorer and hollowed out the middle. But these are contested judgements that depend greatly on definitions, timespans and yardsticks for measurement. This is one among several good reasons for studying the impact of economic reform in terms of how the people understand their own relation to the economy, to their own society, and to the political class that is supposed to regulate the relation between the two. Another is that they care and look for answers about what is happening to middle Australia. Almost two-thirds (64 per cent) of them say they are angry or unhappy about what is happening to middle Australia.

We shall find them looking for answers in their own conversations with friends, family and workmates; in response to the media; in casting their votes; and in adjusting their own coping strategies to what they think is happening. In Chapter 2 we discover that our 400 randomly selected Middle Australia Project survey respondents seem to have a pretty good idea about what has happened to their own incomes over time. Moreover, we find them making remarkably accurate judgements about who have been the winners and losers from economic reform. They know that big business has been the only big winner. They have not dissociated economic reform and the supposedly neutral medium of money and exchange from the power of corporations. Already we find them making normative moral and social judgements about the widening gap between rich and poor. In the wake of ten years of economic boom, Australians seem to know intuitively, at least, that this has been the only boom in living memory where the broad mass of the population gets nothing or as little as possible. In looking more deeply into where the shoe pinches, we soon discover (Chapter 3) that middle Australia worries about jobs, jobs, jobs. For nearly everyone work is a social protein, a buttress for identity and not a tradeable commodity.

As work presses ever more deeply into the fine grain of life itself, it is no surprise to find our middle Australians, the working women especially, worrying about the impacts of work on their families (Chapter 4). As relationships are shaped in the fluid mental spaces between jobs, beds, cots and the sink, we hear people talking much about stress. Economic reform has made intimacy and a whole range of needs and obligations to others contingent in an unexpected way. Stress and troubled practical moralities move to centre stage. As Camus once said, the entire human race suffers from the 'division between the self and the rest of the world'.<sup>3</sup> When people feel themselves forced to retreat into the private sphere, their bonds with strangers and with other citizens are put into question. As the focus of the book shifts to other institutions (Chapter 5), we see economic uncertainty

implicated in their concerns about the ‘breakdown of community’, crime, and the impact and truthfulness of the media. Together with disquiet and anger at what is happening to middle Australia, these concerns spill over into the murky waters of politics (Chapter 6) and into the politics of economic reform in particular.

With the story of economic reform told through the experience of our respondents, the conclusion to the book puts my own judgements into open question so that the reader can decide for herself on a suitable framework for evaluation of what has happened to us. Could we have enjoyed the fruits of high modernity without *radical* economic reform? Does middle Australia – and should we? – think of economic reform as wind and rain, as a quasi-natural consequence of ‘globalisation’? In the wake of nearly a quarter of a century of reform, what is to be said about trust and political agency? To what extent, if at all, has politics degenerated into the evil art of persuading others to accept states of affairs that are not in their best interest?

### Middle Australia: Why Does It Matter?

As we shall see in a moment, middle Australia means the broad urban middle class, and indeed just about all of us who live between the rich and the poor. Yes, ‘between’. Middle Australia matters because a broad flourishing, diverse and well-educated middle class is probably the best available predictor of long-term prosperity, stability and social peace. In describing Australia as one of the most ‘contentedly middle class societies in the world’, art critic Robert Hughes used the past tense.<sup>4</sup> In the years following World War II, before reform took hold, the generally right-wing *Economist* magazine thought that Australia was ‘the sunniest democracy in the world’, as Donald Horne’s *Lucky Country* made an irony of our unthinking complacency. Middle Australia today matters because its expectations are built on the certainty that everyone would have ‘a fair go’, that upward social mobility for the poor was always possible – or even normal – and that a nation-building state would moderate the distribution of income, responsibly lead national economic development, and temper the demands of corporations.<sup>5</sup> Likewise for the other primary goods of personal economic security, freedom, right and entitlement. Even in the United States we know that ‘historically it was not the market but the state that created the broad middle class.’<sup>6</sup> Now in Australia and in the name of economic reform, we could be unmaking it.

Middle Australia is as much an outlook as a demographic category. As such, it holds the background assumptions that people use to interpret

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what has happened to them. It provides them with the referents they use to make sense of the obstacles and challenges, the joys and the disappointments that we must all face, together and individually, in our struggle to do the best we can for ourselves and others. In this field of thought and emotion, nothing stays the same for long. Economic reform is internalised as the pressure to keep up and adapt with the times. In the ongoing struggle for the hearts and minds of a nation, the experience of middle Australia matters because we cannot know when tolerances have been exceeded until after the elastic has snapped. The integrity of the nation, its cohesion, and its prospects in an uncertain future depend on the capacity of ordinary people to discriminate between opportunity and danger.

Middle Australia itself is now the object of a radical experiment. In the past it was the vulnerable poor who were most exposed to the vagaries of the economy. Now, as the market is made to penetrate ever deeper into the lives of ordinary people, the deliberately expanded risks of a new capitalism take hold on the job security, savings, retirement incomes, and family stability of the broad middle class. As we shall see, middle Australians know that they are becoming ever more dependent on structures over which they have ever less effective control. As economic reform has come upon them from the top down, they understand that the biographies and coping strategies of ordinary people become increasingly contingent on a process of economic restructuring that has been driven by corporations. Society itself, along with its broad middle, is externalised for big business as nothing more or less than an environment that is treated, along with minerals and natural resources and the capital and labour markets, as one among many resources for production and profit-making in a competitive global economy. Economic reform was always designed as a radical re-engineering of a whole nation society, which would 'give capital a chance' by reshaping regulatory and other institutions to allow corporations both to harvest the benefits and to externalise the costs of risk-taking. Business, and big business in particular, takes risks and produces dangers that are 'externalised by economics, individualised by the legal system, legitimated by the sciences' – and by the media – and 'made to appear harmless by politics'.<sup>7</sup>

Democracy matters. And under conditions of rapid change it depends more than ever on the tolerances of the broad middle. In a changing context most middle Australians are being asked, not just by their employers, to give more for less. Economic reform has some perverse effects. It may have raised the threshold of justification in the very process of trying to reduce it. As people find themselves on the receiving end of insistent demands that they must reduce their expectations of governments, employers and

corporations and, at the same time, work harder, more flexibly and more cleverly, they inevitably begin to ask, 'What's in it for me?', 'What's in it for us?' Without clear answers, legitimacy, and with it cooperation and trust, are put into question. These pressures exacerbate already latent conflicts of interest and agency. In this new situation the reformers lead ever more aggressively from the front foot, with a libertarian and minimalist idea of democracy that treats the law and democratic institutions only as formal constraints on economic exchanges and frustrations to business practice. On the other hand, for most middle Australians democracy still carries a stronger, substantive and promissory meaning: more than ever in uncertain times we expect our representative to represent our interests. In such conditions it is rational to trust what has worked well in the past. For Australia, this is a strong reliance on the modern, unromantic, utilitarian, pragmatic – but effective – institutions of (Benthamite)<sup>8</sup> representative government and statutory authority. The gap between these two notions of democracy widens. All we know is that the elites at the top have decided to put their interests first, and that the people at the bottom have no voice. The outcome and the consequences will therefore depend on how the tensions are resolved in middle Australia.

Happiness matters and, yes, middle Australia wants to be happy. If the markets are up, how come middle Australia is down?<sup>9</sup> In Australia, economic reform has been imposed on the people in the face of international comparative evidence showing that economic engineering reduces happiness and causes depression. In advanced countries like Australia with already highly developed markets, economic development conceived and imposed as 'more market' erodes quality of life. It increases poverty and thus misery, and it forces people more deeply into an inherently frustrating scramble for what the economists call 'positional goods' (better cars, better houses, better holidays etc.).<sup>10</sup> Increased personal dependence on markets undermines achievement and compromises personal equanimity and good judgement. Materialistic people are more unhappy than others with more socially effective personalities.<sup>11</sup> Fighting off the false demands of intensified markets makes for a happier journey. Similar findings show that the commodification of everything, and the widening imposition of money as a common denominator of value, pollute and undermine other more fundamental social resources for personal happiness, such as tension-free leisure, autonomy, effective personal communication, domestic felicity, good health, inter-generational relationships, meaningful work and friendships.<sup>12</sup>

In responding to a forced requirement to define themselves more as self-seeking strategic economic actors with competing economic interests,

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middle Australians carry the costs of thinning social connections with others. In the establishment and maintenance of normal interactions, ever more time and energy must be given to watchful vigilance. As others are more normally assumed to have competing goals and conflicting interests, cooperation and collective action are undermined. Economic relationships become more costly before they even begin to turn a profit, because transaction costs increase.<sup>13</sup> Time horizons shorten as memory of the past becomes irrelevant to the present. As prediction fails in the face of an opaque wall of unfathomable contingency, the future becomes too risky to sustain calm and confident action. As these same forces impact on the institutional structure, the costs are borne in the daily lives of middle Australians. These several pressures inhibit the most socially useful long-term economic investments (in complex high-tech manufacturing, for example), and they favour financial speculation, short-term economic expediency, buccaneers, exploitative work practices and early profit-taking. Adaptation, even forced adaptation, changes the thresholds of acceptance in what is, at least arguably, a downward spiral. In seeking to grasp the changing balance of social costs and benefits, we need to look more attentively to the experience of the people themselves, and to middle Australia in particular. This is the only way to tell whether new norms and standards are taking hold or failing.

It is to the inflections of voiced experience that one must look for the social meaning of the massive structural changes that economic reform has unleashed on Australia. Economic engineering has mostly produced, or otherwise abetted, a seismic shift in the distribution of income, power and resources. There are seven notable dimensions to this redistribution.

<i>From</i>	<i>To</i>
the public sector	the private sector
the bottom 70 per cent of wage and salary earners	the top 10 per cent corporations
wage and salary earners	big business
small business	the city
the 'bush'	producers
consumers	the market
households	

We see a clear shift in the distribution of income from wage and salary earners to corporations. It shows up in the national accounts as a fall in the wages and salaries share of national income and a rise in gross operating surplus or profit share (see Appendix C, Table C.4). For corporations, this

represents the benefits of greater labour productivity. But in the absence of effective redistribution (through taxes and other channels) for wage and salary earners and their dependants, it means more work for (relatively) less pay. Everyone is agreed that there has been a clear increase of national income going to those in the top decile of the income range. This partly explains why those in the top bracket tend to ask, ‘What’s all the fuss about?’ For them incomes have continued to grow smoothly over a period of nearly fifty years from the end of World War II. They do not see that for others, everything has changed. Even the government’s Productivity Commission agrees that there has been some hollowing out of the middle, but once again this depends on definitions and metrics.<sup>14</sup> Despite high levels of unemployment, incomes of the bottom 20 per cent have probably been maintained, or even slightly enhanced, by targeted social security transfers. The massive reduction in the proportion of the population working for government clearly marks the huge shift in power and resources from the public to the private sector. The goods and services tax (GST) represents another shift of income from consumers and wage and salary earners to producers – their savings were cut in one stroke, as more of the tax burden was shifted from inputs on corporations to the rest of the population. There has been another shift, at least in relative operating cost and power, from small business to big business. And, as families and households buy more goods and services, there is a further transfer from the informal household economy to the market.

### **Economic Reform: Where Did It Come From?**

Economic reform is a child of the Cold War. It is no surprise that the national public policies of small to middle-sized nations like Australia should be shaped by the movements of world history. Dominant trends are normally mediated through international institutions, most recently by international economic organisations like the World Bank, the International Monetary Fund, the Organisation for Economic Cooperation and Development, World Economic Forum and the World Trade Organisation. In the mid-1970s Cold War stand-off between ‘the West and the rest’, elite opinion in the developed Western nations came to the judgement that these nations were drifting dangerously into ‘ungovernability’. Private enterprise capitalist democracy seemed to be in trouble. In the age-old tensions between accumulation and legitimation, both seemed to be failing together on two fronts. Corporate sector profits and the profit share of national income had been falling steadily from the end of World War II to the late

Cambridge University Press

0521651212 - The Experience of Middle Australia: The Dark Side of Economic Reform

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Excerpt

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1970s (in the United States from just under 8 per cent to just under 5 per cent),<sup>15</sup> and Keynesian economic policies were producing too many perverse effects. The view from the top was that the great postwar boom was threatening the very stability of democratic governance by generating too much contestation, and too many ‘irresponsible demands’ for higher wages and living standards and for *more* consumption and *more* publicly provided services. Australia too seemed to be reeling: first from the oil price shock of 1973–74; from worsening terms of trade in the mid-1970s; and then gradually into the 1980s from the double affliction of high unemployment and high inflation (as measured by the so-called ‘misery index’).

In response to these problems came the New Right with its neo-liberal, or more accurately, libertarian free market policy. In 1975 libertarian and neo-conservative politics were first packaged as a *political* program for the reform of whole nation societies in *The Crisis of Democracy: A Report on the Governability of Democracies to the Trilateral Commission*.<sup>16</sup> The diagnosis was clear: ‘an excess of democracy means a deficit in governability’.<sup>17</sup> The ‘ungovernability of our societies is a cultural failure’. Democracy is failing because governments are weighed down with an ‘overload’ of contradictory and ‘irresponsible’ demands. These were ‘the disruptive effects of continuous growth’ and of the excessive and ‘incompatible’ claims of citizens. The cure? Less, and more austere, government. And much more stern discipline from the markets. The new policy dispensation had clear priorities. Strong political leaders must take charge of public policy and bring bureaucracy to heel. They must bring the critical media into line and under corporate control. The trade unions and organised labour would be exposed to market discipline. Public debate must be managed more effectively, from the top down. The restructuring of higher education would need to mortify the ‘disruptive value intellectuals’ and give more scope to ‘action’ education, promoted as a business and for business. Various, by recommendation and implication, the new leaders must impose fiscal discipline, slash government spending, eliminate budget deficits and widen the reach of corporations in every area of society.

Among the Anglophone countries this program was known as neo-liberal reform, structural adjustment, free market economics, laissez-faire or supply-side economic reform (all the terms mean the same). It was first deployed in a soft form by Labor in 1975 and thereafter in the late 1970s by the Liberal governments of Malcolm Fraser (see Appendix A). Thereafter, economic rationalism, as we call it here, was taken up in a harder form by the governments of Margaret Thatcher, Ronald Reagan, New Zealand Labour; then by the successive Australian governments of Robert Hawke



and Paul Keating; and thereafter, to the turn of the century, by Howard Coalition governments. One measure of how far this process had gone in Australia comes with the assurance of a senior ex-Treasury official that 'during the Hawke and Keating years Treasury got the whole of its agenda up; more of it than they did in the whole postwar period'.<sup>18</sup> The reform prescription has now become a global orthodoxy for economic 'development' and an obligatory form of economic correctness. With twenty years of refinement, it is now an evolving and highly sophisticated program for the re-engineering of nation societies. But the degree and manner of its adoption vary enormously, and it is resisted and mediated differently with hugely varying political and economic effects in different nations.

In Australia we copy others in pretending that economic reform offers a 'one best way' to which there is 'no alternative'. Yet the Anglo-American libertarian model of free market capitalism is by no means the most successful among at least five different forms of 'developed' capitalism in the world today. An admittedly disputable classification would put, in first place, German and Dutch partnership capitalism – also known as corporatist capitalism but *not* to be confused with corporations! – as the most successful model. The Scandinavian model would come second. Then, variously and in no particular order of success, would follow: the Mediterranean model of Portugal, Spain, Greece and, arguably, Italy; the unique Japanese model; and the invidiously labelled crony capitalism of the Asian Tigers – so named until they fell into a pit with the Asian meltdown of 1997.

There is a dark side to the Anglo-American model that has been applied in such an aggressive form here in Australia – and even more so in New Zealand.<sup>19</sup> In every country, reform is faced with the same basic elements of markets, states, families and, arguably, civil society. What matters most are the limiting claims that each is allowed to set on the others. Our own economic rationalist prescription proceeds from the extreme assumption that economies, markets, money and prices can always, at least in principle, deliver better outcomes than states, governments, and the law. And, further, that the market provides the only practical means for setting values on anything.<sup>20</sup> On the dark side, the danger is that the model and its strategies accept no inherent limits: nothing is off-limits to the strategy of securing the *maximum possible penetration of the market mechanism*.<sup>21</sup> Civil society becomes a 'stubbornly resisting sludge' through which one must somehow drive the economy. Deliberative politics, participatory democracy and independent criticism are cast, *a priori*, as frustration to economic efficiency. And government itself is recast as the enemy of governance. The strategy stands honest reason on its head by remaking politics as the cunning art of

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reducing expectations, of putting government beyond the reach of the governed, of undermining the trust of citizens and, in short, of destroying all forms of opposition to corporations at source and before they can ever be effectively mobilised into action. Internal balance is impossible. Both in its conception and implementation, economic reform of this kind is violence to open democratic society.

### Who Are the Reformers?

Who initiates and manages the new capitalism in Australia?

The answers to these questions cannot be reduced to class any more than they can to simple notions of wealth and power. Moreover, most people know that there never was a unified ruling class. It is the architecture, control and management of the new capitalism that matters.

From the early 1980s major public policy has been authored by cabinet ministers and top public servants working together as one. Early in his career as Treasurer, Paul Keating once proclaimed that he asked Treasury what needed to be done, because reform, he said, would only come about through a massive combined effort of both political leaders and top 'econocrats'. The forerunner to this study demonstrated that the drivers of economic rationalism in Canberra have been top ministers and Senior Executive Service economists. In practice, this means the offices and departments of the Prime Minister, the Treasurer and the Minister of Finance – together with two or three other senior cabinet ministers – and a handful of elite and narrowly trained neo-classical economists, most of them steeped in American econometrics and with experience in Washington, the OECD, the WTO, the World Bank or the IMF. Together they have destroyed the capacity of a once excellent and highly professional public service, one of the best in the world, to deliver independent advice and policy in the public interest and without fear or favour. From the mid-1980s the substantive policy areas of education, health, trade, communications, industry and the like were all subjected to the same process of internal colonisation and restructuring. At the Senior Executive Service level a highly sophisticated form of ideological selection quickly led to the replacement of experienced officials having real policy know-how with a new elite of narrow neo-classical economists, business-oriented economists, accountants, and people with degrees or experience in business administration and corporate management. For the most part, the new breed are extremely bright model-makers and strategic analysts, with a trained incapacity to think intelligently about society or the common interest. They are united by a