

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

by

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Abstract

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Explanations for the embrace of pro-market policies by social democratic parties over the last thirty years have pointed to various factors, most commonly the globalization of production and finance, the shrinking of the blue-collar working class, and the rise of so-called postmaterialist politics. The dominant theme in the literature is the transformation of these parties under the pressure of the global capitalist economy, which forces social democratic governments to implement benefit cuts, deregulate markets, and commercialize and privatize the public sector. Such accounts are insufficient because they do not take three important factors into account. The first factor is the change in the class composition of the leadership and individual membership of social democratic parties, even in labor parties with trade union affiliations (New Zealand, Britain, Australia). These parties are increasingly dominated by the salariat—a stratum of intermediate executives and technicians, professionals and engineers, all of whom enjoy a high degree of economic security, job autonomy, and education. The second factor is the diminishing of the influence of the unions within the very parties that are supposed to be

their political representatives. The third factor is the lack of a strategy by the unions to ensure that the party leadership must listen to them and take their interests into account when formulating policies. This may be due to a longstanding lack of interest by the unions in engaging in politics (New Zealand) or a passivity by the unions which resulted from many years of anti-union Conservative rule (Britain). In the case of Australia under Labor Party governance (1983-1996) the unions were sufficiently united, disciplined and strategically minded to ensure that a Labor Party government would integrate them into the making of policy. The evidence suggests that the centralized organization of union federations makes the union movement appear as a credible force to labor party leaderships, and that to be able to moderate how quickly and how drastically labor party governments can enact neoliberal policies the unions must be politically active within their historic parties and offer a coherent economic program years before the parties take office.

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Chapter One: Introduction

The Transformation of Social Democratic Parties

The author Gerassimos Moschonas has argued that although the social democratic and labor parties of Europe were founded with the intention of transforming capitalism, their success in doing so pales in comparison to how capitalism has transformed social democracy.¹ This is indeed the case, and not merely for the European social democratic parties but for their Australasian counterparts. It is rarely a surprise when parties of the right enthusiastically embrace neoliberal, market-oriented economic policies. But for parties of the left to do so, not merely as concessions in the face of objective economic conditions but at the ideological, programmatic level, indicates that a dramatic change has taken place within social democracy in general—indeed, a change in social democracy’s very “essence.” The question is why this has occurred.

Over the last twenty-five years, virtually all social democratic parties have presided over some degree of market deregulation, commercialization and privatization of the public sector, and at least the piecemeal implementation of welfare-state retrenchment. One might expect working class parties, even ones with fairly autocratic internal lives, to be largely immune from an intellectual, ideological embrace of neoliberal doctrine. Workers and union leaders tend not to demand that austerity measures be imposed upon themselves. Yet social democratic parties have hardly inoculated themselves and are increasingly led by advocates of the free market, deregulation and privatization. Social democratic parties have generally made no

¹ Gerassimos Moschonas, *In the Name of Social Democracy: The Great Transformation, 1945 to the Present* (London: Verso, 2002).

concerted effort to find alternatives to neoliberalism—their role in government in recent decades has been, at best, to slightly dull the sharpest edges of the market. This has been true both for the continental European social democratic parties and the union-based labor parties of Britain, Australia, and New Zealand. In the case of the New Zealand Labour government of 1984-1990 and the British Labour government since 1997, the shift at the macroeconomic level has involved a radical refutation of traditional left policies. A similar shift also occurred in Australia under Labor governments between 1983 and 1996, but it was less radical and was accompanied by some renovation of the welfare state. Various explanations for this dramatic change have been offered.

Explanations

1. Globalization

The dominant explanation for the end of national Keynesianism and welfare state retrenchment, whether under a party of the right or left, comes from the comparative political economy literature, which commonly argues that the globalized capitalist economy is universally forcing economic convergence. The culprit is the internationalization of goods-producing capital and rising public debt, which affects many countries but made small, export-oriented states—such as New Zealand in the early 1980s—particularly vulnerable.² The “wage-earner” model of the welfare state, based in protectionism and common to both New Zealand and Australia, could no longer stand the pressures of a changing international economy.³

² Herman Schwartz, “Social Democracy Going Down or Down Under: Institutions, Internationalized Capital and Indebted States,” *Comparative Politics* 30:3 (April 1998).

³ Paul Pierson, “Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies,” Paul Pierson, ed., *The New Politics of the Welfare State* (Oxford: Oxford University Press, 2001), p. 432.

Yet the diverging records of the New Zealand and Australian labor parties, among other parties of the left worldwide, shows that globalization does not dictate a uniform response. Differing state and union structures—in the case of Australia, a more effective collective bargaining arena and a more centralized labor movement—made the establishment of corporatist structures, the expansion of the social wage, and the redistribution of an expanded employment base possible. Changes were negotiated and more gradual than in New Zealand.⁴ In the Scandinavian countries, with their centralized bargaining arrangements, as well, it was possible for social-democratic governments to resist significant rollbacks until the advent of a severe employment crisis, and even then it has been difficult to roll back entitlements drastically.⁵

It is hardly the position of this author that globalization is irrelevant. But as Pierson says, “Simple versions of the globalization story flatten national differences. If globalization creates a set of overriding imperatives, national characteristics decline in significance.”⁶ Moreover, national *politics* declines in significance. To follow such logic is to miss the real dynamics at work—the dynamics of class politics inside each country, and even inside each country’s main left-wing party, and how these affect national responses to the global economy.

⁴ Herman Schwartz, “Internationalization and Two Liberal Welfare States: Australia and New Zealand,” Fritz Scharpf and Vivian Schmidt, eds., *Welfare and Work in the Open Economy, Volume 2: Diverse Responses to Common Challenges* (Oxford: Oxford University Press, 2000), p. 69.

⁵ John Stephens, “The Scandinavian Welfare States: Achievements, Crisis, and Prospects,” Gøsta Esping-Andersen, ed. *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage Publications, 1998), p. 55.

⁶ Paul Pierson, “Post-Industrial Pressures on the Mature Welfare States,” Pierson, ed., p. 99. Pierson further states that “Welfare state conflict is often portrayed as a clash between those wedded to the status quo and those eager to dismantle basic social protections. In countries where aggressive advocates of neoliberalism have been in power, such as New Zealand...this has not been too inaccurate a portrayal.” Ibid, p. 102.

2. The Shrinking Proletariat

The shift of social democratic parties to the right is often explained with reference to the shrinking of the traditional, industrial working class. Perhaps the most important theorist to discuss what the lack of a majority industrial working class means for social democracy is Adam Przeworski. Przeworski asserts that the working class has always been a minority in society. The working class consists of “manual workers employed in mining, manufacturing, construction, transport, and sometimes agriculture,” and at no point has this section of the population ever surpassed 50 percent in any country.⁷ This definition is certainly narrower than the traditional Marxist definition of the working class or proletariat, which consists of *all* of those who must sell their labor power in order to survive and obtain an income for themselves and their families. Such an extended definition incorporates white-collar, salaried employees as well as blue-collar laborers. Yet white-collar workers, Przeworski notes, “neither act as proletarians nor think like proletarians.”⁸ Salaried employees have not identified as working class, and hence have frustrated Marxist predictions.⁹ Craftsmen, small merchants, and peasants did not become productive manual workers and hence did not become easily “captured” by social-democratic appeals. Instead they were “transformed into a variety of groups the status of

⁷ Adam Przeworski and John Sprague, *Paper Stones: A History of Electoral Socialism* (Chicago: University of Chicago Press, 1986), p. 34.

⁸ Adam Przeworski, *Capitalism and Social Democracy* (Chicago: University of Chicago Press, 1985), p. 56.

⁹ “Marx’s prediction...that the displaced members of the old middle classes would either become proletarians or join the army of the unemployed did not materialize. The old middle classes, particularly the small agricultural proprietors, have become less numerous in industrialized countries, but their sons and daughters were much more likely to find employment in an office or a store than a factory. Moreover, while the proportion of the adult population engaged in any activity outside the household has fallen drastically in the course of capitalist development, those excluded from participation in gainful activities did not become a reserve proletariat. Extended compulsory education, forced retirement, large standing armies, effective barriers to participation by women—all had the effect of reducing entry into the ranks of the proletariat. As a result...the proletariat has continued to be a minority of the population.” Przeworski and Sprague, p. 40.

which is theoretically ambiguous . . . nonmanual workers, *ouvriers intellectuels*, service workers, technicians, ‘the new middle classes.’”¹⁰

Przeworski argues that, to win elections, social democrats were forced to appeal beyond their core base of industrial workers to potential middle class allies. As a result, from a movement to do away with capitalism entirely, social democracy changed into a party committed to nothing more radical than political democracy and “the pursuit of efficiency, employment, and equality—a second best and the best that was possible.”¹¹ The lack of a proletarian majority made such a shift objectively necessary, lest social democracy be permanently excluded from political power. Moreover, the share of the electorate that consists of industrial workers has continued to shrink since 1960, so rapidly that “we now speak of ‘deindustrialization’.”¹² As a result, in order to govern, social democratic parties must appeal to “middle class values” and stress social issues to the exclusion of class.¹³ The implication is that the economic programs of social democratic parties must move to the right and become more pro-market.

It is true the industrial working class has never constituted a majority of the population in any advanced capitalist society. It is also true that all social democratic parties have been forced to respond to deindustrialization and the corresponding drop in the blue-collar workforce. Much of this new work—in food and catering, health, and business and information services—has been “beyond the established reach of the labor movement and its cultures and institutions.”¹⁴ The impact of post-Fordism—

¹⁰ Przeworski, p. 62.

¹¹ Ibid, p. 240.

¹² Przeworski and Sprague, p. 184.

¹³ Dean Jaensch, *The Politics of Australia* (South Melbourne: MacMillan Education, 1992), p. 225.

¹⁴ Geoff Eley, *Forging Democracy: The History of the Left in Europe, 1850-2000* (New York: Oxford University Press, 2002), p. 386.

characterized by flexible working patterns, new management techniques, and the decline of primary industries—has led to a loss in the collective strength of workers via the weakening of their unions.¹⁵ (In Britain, deindustrialization was a deliberate strategy of Margaret Thatcher’s conservative government—a means by which to break the unions.¹⁶) By the early 1980s the New Zealand Labour Party found its core working-class vote to be concentrated in urban districts, particularly in low-income areas; in the more multi-class suburban and hinterland districts, the National Party held the advantage.¹⁷ According to the logic of the shrinking-working-class argument, the ever-smaller number of real workers in New Zealand is the primary reason for Labour’s shift to the right. In order to retain office, Labour had to enact market-friendly policies in order to ensure the vote of affluent business and professional people in marginal districts that would otherwise go to the newly-formed, free-market New Zealand Party.¹⁸ The Australian Labor Party and New Labour in Britain have simply acted according to the same logic.

However, there is no evidence that the shrinking of the industrial working class correlates with the electoral history of the left. The real problem that many social democratic parties have had has been one of the loss of the allegiance of their traditional core constituency, not the shrinking of that core constituency.¹⁹ Moreover, the minority status of industrial workers does not automatically require social democratic parties to turn against their traditional policies. There has long been a constituency for social democracy among salaried employees, who benefit substantially from welfare state

¹⁵ John J. Rodger, *From A Welfare State to a Welfare Society: The Changing Context of Social Policy in a Postmodern Era* (London: Palgrave MacMillan, 2000), pp. 27, 69-70.

¹⁶ Eley, op. cit.

¹⁷ Jack H. Nagel, “Social Choice in a Pluralitarian Democracy: the Politics of Market Liberalization in New Zealand,” *British Journal of Political Science* Vol. 28 No. 2 (Apr. 1998): 230.

¹⁸ Ibid.

¹⁹ Donald Sassoon, *One Hundred Years of Socialism: The West European Left in the Twentieth Century* (New York: The New Press, 1996), p. 654.

policies, particularly if they are universally available.²⁰ In Sweden, there has long been strong white-collar worker support for the welfare state; indeed, in the middle of the twentieth century, the traditional working class allied with the emerging white-collar sectors to form a coalition in support of the welfare state. With white-collar support, the Swedish Social Democratic Party remained committed to expanding and improving welfare state services throughout the 1980s and early 1990s.²¹ Seeking the white-collar vote, then, does not automatically equate with moving rightwards on economic policy.

It is notable that in New Zealand the Labour Party's policies in power did not reflect the program that it ran on in 1984. That program gave the impression that a new Labour government would be as economically-interventionist as the right-wing National government that preceded it. There was no visible indication that Labour was planning on implementing radical neoliberal policies far to the right of the National program; there was no public programmatic shift of the sort that is ostensibly necessary in order to attract the middle class vote. Moreover, the shrinking-working-class argument does not explain why labor and social-democratic parties have made appeals not only to the middle strata but to big business. For example, the support of business was an important element in New Zealand Labour's election in 1984. The party leadership had carried out considerable lobbying of business, much as Tony Blair's New Labour would later do. In 1985-86, it went so far as to appoint ideologically right-wing businessmen to the boards

²⁰ Jack Vowles and Ian McAllister, "Electoral Foundations and Electoral Consequences: From Convergence to Divergence," Francis Castles, Rolf Gerritsen, and Jack Vowles, *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Auckland: Auckland University Press, 1996), p. 201.

²¹ Kimberly Earles, "The Gendered Effects of the Reregulation of the Swedish Welfare State," *Socialism and Democracy* Vol. 20 No. 4 (2007), <<http://www.sdonline.org/35/thegenderedeffects2.htm>>.

of State-Owned Enterprises, the Bank of New Zealand and the Reserve Bank.²² The Australian Labor Party also courted the business community in the run-up to the 1983 election, though its administration of retrenchment was quite restrained in comparison to that of its New Zealand counterpart. It is not at all clear why a shrinking industrial proletariat makes this sort of appeal to capitalists—themselves a far smaller minority of the population—objectively necessary.

I argue that it is not the falling number of blue-collar workers in the electorate which explains the wholehearted embrace of market forces by left parties. While Przeworski and those who follow his reasoning may be correct to stress the importance of changes in social composition, they err in stressing the changing composition of the *electorate* over that of *the parties themselves*. The changing class composition of left party leadership and membership is far more directly connected to those parties' great programmatic shifts than any sociological changes in their electorates.

3. The Culture Shift and Decline of the Relevance of Class

Some scholars have explained the shifting politics of social democratic parties as a result of the increasing importance of non-economic, or not directly economic, issues. In New Zealand, for example, by the late 1960s, economic concerns became increasingly displaced by foreign policy (the Vietnam War in particular), environmentalism (reflected by the creation of the Values Party in 1970), Maori rights, feminism, and gay and lesbian rights. Such issues fit into the postmaterialist paradigm that has supposedly supplanted the old, predominantly class-centered mass politics, as posited by Inglehart. At high

²² Bruce Jesson, *Fragments of Labour: The Story Behind the Labour Government* (Auckland: Penguin Books, 1989), p. 82.

levels of economic development, public support for traditional leftist economic policies diminishes, and political conflict based on social class is replaced by cleavages based on non-material values.²³ With the abandonment of class politics, presumably, comes the end of the growth of the welfare state and even its retrenchment, not to mention market deregulation and pro-market reform of the public sector.

In the case of New Zealand it is true that the bipartisan “liberal social democratic consensus” was broken in the late 1960s by “a series of highly emotional non-economic issues.”²⁴ And while some of the more radical participants in these movements joined the Values Party—the world’s first green party—or remained in direct-action pressure groups, the more mainstream and ambitious activists joined the Labour Party, thereby leading to a change in the party’s class composition. Some Labour members from this generation who later opposed the government’s neoliberal program said nothing against that program because they wanted to avoid damaging Prime Minister David Lange’s campaign against nuclear power.²⁵ The new politics thus took precedence over the old politics. And it is also true that New Labour in Britain has appealed to what might be call the postmaterialist constituency: an examination of Labour Party manifestos in the 1990s shows a declining percentage of references to social class and an increasing percentage of references to postmaterialist issues. For example, by 1997, there were 44

²³ Ronald Inglehart, *Culture Shift in Advanced Industrial Society* (Princeton: Princeton University Press, 1990), pp. 253, 259.

²⁴ Nagel: 227.

²⁵ Serge Halimi, “New Zealand: From Welfare State to Market Society: Test Tube Miracle of Total Capitalism,” *Le Monde Diplomatique* (April 1997), <<http://www.casi.org.nz/politiceconomy/wstoms.html>>.

references to environmental protection in the Labour Party's Election Manifesto, but none to socialism.²⁶

But other research defies the thesis of a generalized decline in class-based voting in the advanced industrial world, putting much of the post-materialist paradigm into question. Bean argues that, given a sufficient sample size and regional coverage, one can determine that "there has been a decline in class voting in New Zealand since the 1960s," but he acknowledges that "social class remained the socio-political cleavage, albeit in a milder form, into the 1980s."²⁷ For New Zealand in particular, in his multi-country study of 1994, Lijphart sees only the socioeconomic class cleavage operating in New Zealand; Barker and McLeay found that voters still overwhelmingly chose political parties based principally on socioeconomic issues in the 1996 and 1999 elections; and Boston, Levine, McLeay, and Roberts also believe that Labour and National "still derive their distinctiveness primarily from socio-economic and related issues"; and just over half of the respondents to Brechtel and Kaiser's survey of experts in 1997 classified New Zealand politics as unidimensional, with the survey as a whole giving the left-right dimension a ranking of four out of five (i.e., high) on a scale of relevance.²⁸ Evans argues that only in Scandinavia, Norway in particular, is there "consistent and robust evidence of declining class-vote relations . . . generic theories of the decline of class voting and class

²⁶ Martin Lloyd Thomas, "Postmodernisation and the Formation of a Postmodern Political Disposition" (Sheffield: Sheffield University, 2000), p. 5, <<http://www.shef.ac.uk/socstudies/Shop/thomas.pdf>>.

²⁷ Clive Bean, "Class and Party in the Anglo-American Democracies: The Case of New Zealand," *British Journal of Political Science*, Vol. 18 No. 3 (Jul. 1988): 309-10.

²⁸ Arend Lijphart, *Electoral Systems and Party Systems: a Study of Twenty-Seven Democracies, 1945-1990* (New York: Oxford University Press, 1994); Fiona Barker and Elizabeth McLeay, "How Much Change? An Analysis of the Initial Impact of Proportional Representation on the New Zealand Parliamentary Party System," *Party Politics* Vol. 6 No. 2 (2000): 131-154; Jonathan Boston, Stephen Levine, Elizabeth McLeay, and Nigel S. Roberts, *New Zealand's Changing Political Identity, New Zealand Under MMP: A New Politics?* (Auckland: Oxford University Press, 1996), p. 58; Thomas Brechtel and Andre Kaiser, "Party System and Coalition Formation in Post-Reform New Zealand," *Political Science* Vol. 51 No. 1 (July 1999): 7.

politics in industrialized societies are empirically unsupported, as by extension are theories that claim that all social structural bases to politics are in decline.”²⁹ Ironically, beginning in the 1970s, a populist-sounding, state-interventionist National Party under the leadership of Robert Muldoon was able to win over traditional Labour voters—the party of the New Zealand right won over workers by appealing to their class interests.³⁰ Subsequently, even if Labour was obtaining a smaller proportion of its votes from its traditional base by the 1980s, even if 36 percent of manual worker trade unionists in three Auckland electorates had not voted Labour for three consecutive elections, and even though the party increased its support amongst the middle class, most of the working class still voted for the Labour Party in the 1984 election.³¹ Even when Labour lost older working class voters to the right-wing Muldoon government of the 1970s, this was due to “that government’s promise of a generous universal superannuation scheme,” and when it further lost such voters in 1984, this was “caused by Labour’s application of an income surcharge to National Superannuation in 1984.”³² Muldoon’s appeal to what was called “Rob’s Mob” and his essentially social democratic intention “to protect the New Zealand of [the] ‘ordinary bloke’ had strong appeal to the traditional working class.”³³ Class, and by extension the welfare state and the regulation of markets, still mattered.

²⁹ Geoffrey Evans, “The Continued Significance of Class Voting,” *Annual Review of Political Science* (2000), 3: 412-413. See also Korpi and Palme, op. cit.

³⁰ “Muldoon’s popularity among the middle and lower-middle classes depended not only on his appeal to their social conservatism but also on his concern for their economic interests, which centred on the maintenance of economic security...To protect the ordinary bloke, he reverted to New Zealand’s statist tradition and embraced a series of desperate, dramatically interventionist programmes.” Nagel: 230.

³¹ Further, “Where survey research exists prior to the 1980s, it points to the Labour Party’s strong hold over the votes of the working class.” Bryce Edwards, *Political parties in New Zealand: a study of ideological and organisational transformation*, PhD dissertation (University of Canterbury, New Zealand, 2003), p. 265.

³² Vowles and McAllister, p. 197.

³³ Marcia Russell, *Revolution: New Zealand from Fortress to Free Market* (Auckland: Hodder Moa Beckett, 1996), p. 28; Edwards, p. 273.

The rise of postmaterialist politics—which, in any event, did not become closely associated with New Zealand Labour in the minds of voters in the 1980s³⁴—did not negate the importance of social class as an issue for the majority of working class voters at the election of the fourth Labour government, and therefore cannot be the core reason for Labour’s economic right turn—unless the rise of postmaterialism is linked to the changing class composition, and marginalization of the unions, *inside Labour itself*.³⁵ In the Australian case, postmaterialism was strongly associated with support for the Labor Party in the 1980s, but support for unions, state ownership, the welfare state, and substantial taxes on private profits were also still associated with the ALP.³⁶ There, the culture shift clearly did not affect class voting and was not the key reason for the ALP’s drift towards neoliberalism.

An Alternative Explanation

Why is it, then, that social democratic parties and governments have moved to the right at the level of macroeconomic policy, in some cases very radically and dramatically? And what is the effect of these parties’ embrace of neoliberalism on the welfare state? After all, social democratic leaders have often said that their market-supporting policies are intended to ensure the economic viability of welfare statism, not to undermine it;³⁷ and some, most notably Pierson, have claimed that “the welfare state has proved to be far more resilient than other key components of national political economies and far more

³⁴ Vowles and McAllister, p. 204.

³⁵ Some writers do link these aspects to the “politics of postmodernism,” defined by “fragmented interests...[t]he decline of the traditional working class organizations and industrial interests...the absence of a unifying political interest.” John J. Rodger, *From A Welfare State to a Welfare Society: The Changing Context of Social Policy in a Postmodern Era* (London: Palgrave MacMillan, 2000), p. 71.

³⁶ Vowles and McAllister, op. cit.

³⁷ Moschanos, pp. 290-1.

durable than existing theories of the welfare state would lead one to expect.”³⁸ How resilient has the welfare state in fact been under the left-governed version of neoliberalism?

My claim is that the degree to which unions have lost control over labor parties to their neoliberal leadership and their professional, middle-class individual members is what determines the parties’ shift in macroeconomic policy. It is the unions’ willingness and ability to be engaged in the internal politics of labor parties which determines whether the party leadership tries to work with the unions in governing (as in the Australian case), or simply treats the unions as an obstacle to the implementation of market-oriented policies (as in the New Zealand and British cases). A union movement which is at least relatively cohesive and united will prove to be a more credible political “player”—one which labor party leaderships are forced to take seriously—than one which is organizationally fragmented. This is the advantage of a centralized labor movement, despite the danger of oligarchy entailed by centralization.³⁹ And while the welfare state *per se* has not been radically overhauled under neoliberal labor party governments, what has been implemented is not mere incremental adjustment. In all three examples under review—the New Zealand and British cases in particular—the access to and provision of social services has been restructured in the interests of market-defined efficiency and fiscal constraint.⁴⁰ Even in Australia, where the real level of welfare benefits increased under Labor, the welfare system was made more selective and hence reduced access to services for some working class families. Moreover, large numbers of

³⁸ Paul Pierson, “The New Politics of the Welfare State,” *World Politics* 48 (Jan. 1996): 144.

³⁹ Cf. John Stephens, *The Transition from Capitalism to Socialism* (London: MacMillan Press, 1979), p. 46.

⁴⁰ Peggy G. Koopman-Boyden, “Social Policy: Has There Really Been One?,” Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Policy in New Zealand*, 2nd edition (Auckland: Oxford University Press, 1992), p. 231.

moderate-income workers effectively paid for improvements to the social wage through higher taxes.⁴¹ And in all three cases the most significant cutbacks and market-oriented reforms are in the realm of public services. This is consistent with Clayton and Pontusson's account of an anti-service (as opposed to anti-entitlement) bias in welfare-state retrenchment and supports their critique of Pierson's failure to acknowledge that public sector reorganization represents a form of systemic retrenchment.⁴²

My key case study is the New Zealand Labour government of the 1980s, where the historic party of the trade unions implemented a pro-market program more radical than that of Ronald Reagan or Margaret Thatcher. Through comparison to the labor governments of Australia in the 1980s and 1990s and of Britain since 1997, it can be determined that the left parties which most completely embrace market forces are those in which the influence of unions has most diminished. This fact can be best explained by the nature of the unions' political strategy—by how they act within, and in relation to, their historic parties. It is *union political strategy* which determines how easily a left party's leadership is able to implement neoliberal macroeconomic policies. In the case of New Zealand, it will be illustrated that it was fundamentally the depoliticization of union activity which allowed for such a dramatic change in the balance of class forces inside the NZLP—in essence, a change in the party's class character—and prevented a strong union challenge to the 1980s Labour government's agenda. The government was able to run roughshod over the unions. Much stronger political engagement within labor party

⁴¹ Tom Bramble and Rick Kuhn, "Social Democracy after the Long Boom: Restructuring Under Australian Labor, 1983 to 1986," Martin Upchurch, ed., *The State and 'Globalization': Comparative Studies of Labour and Capital in National Economies* (New York: Mansell, 1999), p. 41.

⁴² Richard Clayton and Jonas Pontusson, "Welfare-State Retrenchment Revisited: Entitlement Cuts, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies," *World Politics* 51.1 (1998): 67-98.

politics by Australian unions, however, forced the 1980s ALP government to act differently: the union leadership had to be consulted as new economic policies were introduced, hence changes were far more gradual and at least partially balanced by more traditional welfare-oriented programs. British union strategy began as very accommodating towards the New Labour leadership, and has generally remained so, though public sector unions were able to stave off market-oriented reform of the public sector through industrial militancy. Discussion of these differences in union strategy will occur in Chapter Four.

The title “labor party” describes a type of party that is the single mass party of the labor movement of a country. It has developed in Britain, Australia, New Zealand and Canada—countries where a party of the trade unions emerged, dominating the political life of the working class.⁴³ This type of party differs from the more common type of social democratic party which originally emerged in Europe and functioned as an ideological tendency on the left. There are good reasons to focus upon labor parties in particular. Labor parties are traditionally the “purest” working-class parties, created by and based directly upon unions of blue-collar and (to a much lesser extent) white collar workers. Further, the labor governments under examination—the Lange government in New Zealand in the 1980s, the Hawke and Keating governments in Australia in the 1980s and 1990s, and the Blair government in Britain from 1997 to 2007—all functioned in versions of the single-member-district, first-past-the-post “Westminster” parliamentary

⁴³ I use the term “working class” in Marxist fashion: those separated from the means of production, who cannot survive solely through income derived from property ownership, and therefore must find remunerative employment. This usually means working for a capitalist-employer in what Marxists deem an exploitative social relationship. This definition does not include professional and managerial personnel located in a position in-between labor and capital, whom I consider “middle class.”

electoral system.⁴⁴ Under such electoral systems, only one party has been the party of the unions and the left. In no cases did these parties have significant rivals for votes on the left—the Communist Parties of Britain, New Zealand and Australia were never significant electoral forces. This eliminates the need to discuss how the presence of Communist and left-socialist competitors affects social democratic party policies, as would be necessary were other examples used.

To limit this study to labor parties also permits a focus on that distinctive variant of social-democratic thought and practice dubbed “laborism.” Laborism is trade unionism extended into the arena of government. The principle of mainstream trade unionism—“a fair day’s wage for a fair day’s work”—is pursued through parliament, safeguarding wage-laborers’ wages and benefits and seeking full employment as the guarantor of their welfare. Unlike classical social democracy, it does not seek a gradual, evolutionary road to a society beyond capitalism—it promises to civilize capitalism on behalf of the working class. But it is explicitly a project which centers on the political representation of workers as a class, organized through trade unions. This project is now in deep crisis, as are many of the unions that built and supported labor parties and social democratic parties generally. The changed class composition of the leadership and individual membership of labor parties, the diminished power of the unions, and the subsequent embrace of market liberalization by labor party governments are directly connected phenomena. The “middle-classed” leadership changes the party’s electoral appeal, downplaying any remaining association with the working class; the middle class members come to dominate the party and assent to the leadership’s rightward shifts in economic, social, and industrial relations policy. The only thing standing in the way of the leadership’s plans is

⁴⁴ New Zealand subsequently adopted mixed member proportional representation in 1993.

the unions, and if the unions lack a coherent strategy and the discipline to implement that strategy, they will find themselves essentially without political influence in the parties they once founded to represent their interests.

By the 1970s real changes in the socioeconomic structures of all social democratic parties were becoming apparent. At the level of the electorate they were increasingly becoming white-collar parties, while at the membership level this process, expressed in the under-representation of the blue collar and the over-representation of the white collar, was ahead of the voter trend.⁴⁵ This trend toward a predominantly white-collar and civil servant membership was only resisted by labor parties with members organized collectively via unions.⁴⁶ As noted by Pelinka:

These differences between electorate and membership are a first indication of the problem of an oligarchy . . . A party is like a pyramid; the higher the level, the greater the social distortion, and the less the composition of this level resembles the composition of the base, and the less Social Democratic organs are characterized by a proletarian structure.⁴⁷

As early as 1971 there were studies such as *The Decline of Working-Class Politics* which argued that there was a fall in working-class participation in the British Labour Party which was making it “a more middle-class (or ‘classless’) party, so that its policies became less oriented to specifically working-class concerns and therefore led to a further fall in working-class participation.”⁴⁸ At the time, this argument was greatly overstated. Further, it made too many concessions to the notion that white-collar workers are not “real” workers. But the phenomenon of the middle-classing of social democracy has since become so pronounced that it cannot be ignored, and it must be taken into account

⁴⁵ Anton Pelinka, *Social Democratic Parties in Europe* (New York: Praeger, 1983), p. 45.

⁴⁶ Ibid, p. 47.

⁴⁷ Ibid, pp. 47-8.

⁴⁸ Barry Hindess, “The Decline of Working-Class Politics: An Appraisal,” Ben Pimlott and Chris Cook, eds., *Trade Unions in British Politics* (New York: Longman, 1982), p. 237.

when discussing why these parties' economic policies have moved so dramatically to the right.

In the case of the New Zealand Labour Party, it is generally acknowledged that there was a notable change in its social makeup by the time it formed its fourth government in 1984. This change correlates to a great drop in active, working-class branch membership. This historical trend was the same for most established social democratic and labor parties after World War II, save that in some countries (including New Zealand) the decline in total membership and the increasing dominance of white-collar professionals happened faster, and in some countries (e.g., Germany) slower. In addition, the electoral strength of these parties during the 1950s and 1960s was, as Moschonas points out, articulated around a central, primarily industrial, working-class bloc, and a second bloc based on the most "popular" and "radical-liberal" segment of the salaried middle strata. The social-democratic electoral base was no longer socially homogenous, though this did not prevent social democratic parties from being working class parties provided that they retained a high working-class penetration—which the British Labour Party, routinely securing three-fifths of the working-class vote, certainly did. Such parties did not yet conform to the model of the ostensibly-classless, catch-all party while their sociological reality was still based on the working class.⁴⁹

By the 1970s, however, in recruiting their elites, European social democratic parties came to "carry out a selection process that emphasizes the social distance between the rank and file and leadership . . . elites in government and party are to a much lesser extent workers by social background than the voters and members."⁵⁰ But even the

⁴⁹ Moschonas, pp. 50-1.

⁵⁰ Pelinka, p. 69.

membership composition gradually altered over time; Sassoon notes that “Socialist parties themselves became increasingly dominated by middle-class activists . . . In some cases, new anomalies appeared. For instance, the typical member of the British Labour Party—one of the most class-bound parties of Europe, in terms of image and rhetoric—was, by 1989, middle-class, middle-aged and male. Only one in four members was a manual worker.”⁵¹ In terms of electoral support as well, over the last thirty years there has been an increased—if fairly moderate—erosion in manual working-class penetration by social-democratic parties, and an accompanying increase in social-democratic voting by the expanding salaried middle strata; not only office workers, teachers, and health and social service workers, but intermediate executives and professionals, technicians and engineers. The increase in support by the latter category thus limits the electoral damage done to the parties by the disaffection of the former.⁵²

It is also generally accepted that there has been a change in the organizational character of what Duverger calls “mass parties” within most liberal democracies.⁵³ As Mény and Knapp point out, it was social democratic parties that defined the mass party. This “tool developed by the urban working classes . . . to make the most of the opportunities offered by a wider suffrage,” was financed by “membership dues . . . [as a] substitute for the personal or business finance of bourgeois politicians,” with trade union links “or simply party members knocking on doors to get the vote out” replacing traditional elite networks, and “a range of ‘satellite’ organizations . . . [ensuring] party

⁵¹ Sassoon, p. 656; Pelinka, p. 47.

⁵² Moschonas, pp. 99-100.

⁵³ Maurice Duverger, *Political Parties: Their Organization and Activity in the Modern State* (New York: John Wiley & Sons, 1959).

loyalties.”⁵⁴ This model of the mass party has been eroding for decades, as the operating conditions of parties has changed through the “communications revolution” which has brought television (and now the internet) into almost every household and generated extraordinary growth in the advertising and public relations industries. The once-common public meeting held by both national and local politicians has been marginalized. Politics is now more “capital-intensive” than “labor intensive.” Traditional mass parties, which relied on labor-intensive (and more amateur) techniques, have begun to look “antiquated and as slow as the dinosaurs—and equally doomed to extinction, given the erosion of the working-class communities from which they drew their lifeblood.”⁵⁵ Social democratic politicians, in adapting to these realities, and at times with their parties’ trade union links increasingly endangered, have become increasingly dependent upon the “personal or business finance” that they previously shunned. As a result, these parties increasingly fail to represent the basic economic and political interests of union members and by extension those of working-class people generally.

This explanation is intended as an application of the theory of working-class power resources. This theory claims that variations in organizational assets such as unions and left-wing political parties account for cross-country disparities in distributional outcomes.⁵⁶ It has been used to explain why certain welfare-states are especially expansive, such as those of northern Europe, which have small developed states with open economies, extensive social democratic institutions, and at times

⁵⁴ Yves Mény and Andrew Knapp, *Government and Politics in Western Europe* (Oxford: Oxford University Press, 1998), p. 94.

⁵⁵ Ibid, pp. 94-95.

⁵⁶ Stephens, *The Transition from Capitalism to Socialism*; Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); Gøsta Esping-Andersen, *Politics against Markets: The Social Democratic Path to Power* (Princeton: Princeton University Press, 1985).

strongly coordinated labor market institutions.⁵⁷ Korpi and Palme, for example, attempt to use the power-resources theory to explain welfare-state decline: they analyze retrenchment as distributive conflict involving a remaking of the early postwar social contract based on the full employment welfare state, noting that there have been important differences in countries' levels of cutbacks.⁵⁸ Against the perspective that the forces driving retrenchment emanate principally from the advance of postindustrial society, with the earlier class-based actors largely replaced by new interest groups of welfare-state clients, Korpi and Palme stress the continued relevance of class politics in Western democracies in the context of retrenchment.⁵⁹

But Korpi and Palme do not discuss the relevance of cases where the party of the left, the party that embodies working-class power resources, was the initiator of retrenchment and liberalization. Korpi and Palme argue against critics of their approach by noting that "the return of unemployment on a mass scale since the 1970s must be described as a basic regress of welfare states, a crushing of one of their central parts . . . it can be argued that both the arrival and the demise of full employment reflect significant elements of class conflict and partisan politics."⁶⁰ They claim that "Globalization and postindustrial developments have affected many of the parameters within which distributive conflicts take place. Yet . . . the probability for major cuts in these insurance programs has to a significant extent been associated with partisan government

⁵⁷ David R. Cameron, "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* Vol. 72 No. 4 (Dec. 1978); Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell, 1985).

⁵⁸ Walter Korpi and Joakim Palme, "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-95," *American Political Science Review* Vol. 97 No. 3 (Aug. 2003): 425.

⁵⁹ Ibid: 426.

⁶⁰ Ibid: 429.

composition.”⁶¹ This is largely true where “major cuts” are concerned. But it is surely relevant that governing social democratic parties—the British Labour Party is the exemplar—presently do little to *reverse* the cuts in insurance programs that were made under Conservative governments, and pledge themselves to deficit reduction, low taxes, and even “welfare-to-work” schemes. Moreover, where public sector reform is concerned, even Swedish social democratic governments have emphasized cost reduction and budgetary constraints.⁶²

Like Korpi and Palme, Huber and Stephens stress the importance of rising and persistent unemployment as a cause of welfare-state retrenchment—as well as trade interdependence and the globalization of production and finance—but with no notable attention paid to the internal processes and characteristics of the parties that were once firmly identified with welfare-state expansion and how they might play a role in cross-country divergence in rollback.⁶³ Echoing Pierson, Gilbert points to aging populations in explaining the crisis of the welfare state, as well as declining birth rates, immigration, and (again) globalization; his observation of convergence towards the “enabling” state, even as it notes that traditional welfare supporters on the left are implementing reforms associated with a conservative policy agenda, lacks an analysis of sociological changes in social democratic parties, or the reasons *why* such parties have implemented—or simply accepted—different degrees of retrenchment and liberalization.⁶⁴ Furthermore, save

⁶¹ Ibid: 441.

⁶² Clayton and Pontusson: 92.

⁶³ Evelyn Huber and John D. Stephens, “Welfare State and Production Regimes in the Era of Retrenchment,” *The New Politics of the Welfare State*.

⁶⁴ Neil Gilbert, *Transformation of the Welfare State: The Silent Surrender of Public Responsibility* (Oxford: Oxford University Press, 2002). Nor does Gilbert discuss how corporate political power and its ability to promote an anti-welfare state agenda varies across countries. For a critical review of Gilbert, see Sanford F. Schram, “Illusions of Change: Rethinking the Current Welfare Retrenchment,” *Social Service Review* (September 2003): 475-80.

partially for Huber and Stephens, these writers have not applied their explanations to the Australasian cases in particular; they have not attempted to explain how and why the New Zealand and Australia labor-party governments in the 1980s diverged. Those who use the class-power paradigm to explain the decline of the welfare state have generally failed to analyze the decline of working class power *within (historically) working class parties* and the subsequent programmatic change that these parties have undergone. This work intends to remedy that defect.

Conclusion: From Parties of Labor to Parties of Neoliberal Consolidation

No political party is ever pure in its class composition, and certainly not in its class support. In Britain, for example, it is well known that the Conservative Party has often drawn substantial working-class support, at times from up to one third of all working class voters,⁶⁵ just as some of the most radically left-wing Labour activists and parliamentarians have been drawn from the upper classes, such as Michael Foot and Tony Benn. But labor parties were assured of their predominantly working-class character by virtue of their indirect structure—they did not have to recruit the majority of their members individually but instead received them automatically through trade unions. Such a structure does not prohibit individual membership, but the number of direct members is often small in comparison to the number of indirect members. The parties were established in the first place as a means to protect the rights of working people, trade unionists in particular, and to advance their interests via reforms—though not to create a

⁶⁵ Eric A. Nordlinger, *The Working-Class Tories: Authority, Deference And Stable Democracy* (Berkeley: University of California Press, 1967); Duncan Hallas, "Towards a Revolutionary Socialist Party," Tony Cliff, Duncan Hallas, Chris Harman, Leon Trotsky, *Party and Class* (London: Pluto Press, 1971).

qualitatively different form of society (i.e. socialism), regardless of the rhetorical flair of some of the parties' leaders or desires of some of their activists and supporters.⁶⁶

All social democratic parties have been affected, both in their campaign platforms and in terms of policies actually implemented, both when in opposition and when in office, by changes in the global capitalist economy over the last thirty years. All have at either accepted the welfare-state retrenchment begun by previously-governing parties of the right or, as in the case of the New Zealand Labour Party, prepared the way for more serious retrenchment under a subsequent government of the right.⁶⁷ All have rejected the idea that the government can and should have a significant role in steering the economy. The promotion of state ownership in specific industries has given way to partial or outright privatization. Perhaps most importantly, social democratic parties have practically abandoned their long-standing commitment to the redistribution of wealth from the affluent to the popular classes.⁶⁸ But the labor parties have changed the most radically in their economic and social programs, in contradiction to what one might expect given their direct union affiliations. The Labour governments of New Zealand in the 1980s and Britain from 1997 through 2007, in particular, governed overtly against their union bases and specifically against public sector unions. While no neoliberal labor government has been able to implement sweeping welfare-state rollback, the macroeconomic policies of the 1980s NZLP government attacked a fundamental principle of the welfare state: "the idea that the economy should not be allowed to

⁶⁶ Gregory Elliott, *Labourism and the English Genius: the Strange Death of Labour England?* (London: Verso, 1993).

⁶⁷ Jim Delahunty, "New Zealand: the Welfare State Ploughed Under," *Monthly Review* Vol. 45 No. 7 (Nov. 1993): 28-40.

⁶⁸ Moschonas, pp. 290-1.

function in a socially damaging manner, but should be regulated in the public interest.”⁶⁹ The 1983-1996 Australian Labor government believed that the “traditional downwards, passive and universal model of welfare was no longer appropriate,” supporting instead a vision of welfare that “imposed greater responsibility on the individual.”⁷⁰ This prefigured British New Labour’s espousal of a “welfare-to-work” scheme which would encourage (and in some cases oblige) welfare recipients to take part in schemes designed to prepare them for work, with Old Labour approaches involving job creation and better benefits rejected as costly and counterproductive.⁷¹

Through the adoption and promotion of neoliberal ideas, norms and practices, Western labor parties have incorporated themselves as active agents in the reproduction and hegemony of neoliberal capitalism.⁷² To the limited extent that this was *not* true for the ALP it was because of that party’s continued close relationship with the trade unions, in contrast to the thorough hostility to the unions under the 1980s NZLP government and British New Labour. When the influence of trade unions is specifically excluded, even de-legitimized, labor parties effectively stop being labor parties, and the trade unions—and by extension the working class—are disenfranchised. The so-called modernization of social democratic and labor parties—inseparable from their domination by members of the professional middle classes—has led to a crisis of working-class political representation. In Moschonas’ words, workers have been “deprived of a political

⁶⁹ Jesson, p. 77.

⁷⁰ Paul Keating, “The Labor Government 1983-1996,” speech given at the University of NSW (March 19, 1999); Greg Patmore and David Coates, “Labour Parties and the State in Australia and the UK,” *Labour History* No. 88 (May 2005): 130.

⁷¹ Jamie Peck and Nikolas Theodore, “‘Work first’: workfare and the regulation of contingent labour markets,” *Cambridge Journal of Economics* No. 24 (2000): 120; Sara C. Motta and David J. Bailey, “Neither pragmatic adaptation nor misguided accommodation: Modernisation as domination in the Chilean and British Left,” *Capital & Class* No. 92 (Summer 2007): 119.

⁷² Motta and Bailey: 109, 111.

representation that is at once uncontested and more or less effective.”⁷³ The result is “labor parties” that do not represent organized labor, “social democratic parties” that do not implement social-democratic policies.

The next three chapters will track the process of transformation in the New Zealand, British and Australian labor parties, primarily in terms of the change in the class character of their individual memberships and Members of Parliament, and the ways in which this change affected the parties’ economic and social policies and their relationship to the labor movement. The second chapter will illustrate how the elite of the New Zealand Labour Party became ever-more distant from, and antagonistic to, its trade union base, to the point where the two virtually became divorced. The third chapter will describe the parallel history of the British Labour Party through its current incarnation as New Labour, a party which still needs its union base even as it attempts to politically marginalize it. The fourth chapter will focus upon the Australian Labor Party and examine how—despite its leadership’s embrace of economic rationalism—the relationship between the party and the unions differed greatly from the other two examples under review, thereby limiting the leadership’s ability to abandon its traditional economic, industrial and social policies. Each of these chapters will attempt to explain these variations in terms of the political and industrial strategies of the unions of each country. The final chapter will test my argument through a rigorous comparison of each country and will explain why the lacunae in the arguments of working-class power-resources theorists matters and must be corrected.

⁷³ Moschonas, p. 299.

Chapter Two: The New Zealand Labour Party

In this chapter I analyze the New Zealand Labour Party's embrace of neoliberal policies during its 1984-1990 government. I argue that this government provides the prime example of a working-class party which so repudiated its historic base and constituency that it effectively changed its class character. A change in the class character of the individual membership combined with the failure of the New Zealand labor movement to remain engaged with the party's internal politics made possible a change in the leadership of the party which sought to implement policies of "a distinctly Hayekian flavour."⁷⁴ While other factors may be relevant in explaining *how* the government was able to implement such radical measures once it had obtained power, only a focus upon the change in the NZLP's social composition can explain *why* the government was so open to New Right economic ideas and came to have such a firm ideological commitment to them. All other accounts ultimately center on how the party in power could be so successful in its project, and therefore miss what is truly important—that the project itself was initiated by an ostensible labor party.

The chapter is divided into four sections. I begin by analyzing the Labour government's policy choices—its far-ranging, quickly-implemented, and consistently neoliberal macroeconomic policy, its social policies which did not represent a radical change from those of prior Labour Party (or National Party) governments, and its essentially anti-union industrial policy. A second section focuses on the transformation of the Labour Party's individual membership from a working-class party to a middle-class party. During the 1960s and 1970s the unions and working-class individual

⁷⁴ Serge Halimi, "New Zealand: From Welfare State to Market Society: Test Tube Miracle of Total Capitalism," *Le Monde Diplomatique* (April 1997), <<http://www.casi.org.nz/politiceconomy/wstoms.html>>.

members largely abandoned political activity within the party, leaving a hole that was filled by middle-class activists who were social liberals but felt no particular attachment to traditional Labour Party economic policy and were open to the arguments of those influenced by the Chicago School of economics. The third section scrutinizes union-party relations—in particular, how the union movement's dependence on state enforcement of compulsory unionism led to the movement's depoliticization, leaving it thoroughly unprepared for the Labour government's political turnaround. The fourth section addresses other explanations that have been offered regarding the reasons why the Labour Party governed as it did.

1. Policy Changes

a. Economic Policy

After it took office in 1984, Labour, the party of the left, did what National, the party of the right, had not come close to doing: overturning six decades of state interventionism and instituting a near complete reliance on market forces with little role for mitigation by the government. This radical policy encompassed the entire economy: the dollar was devalued by twenty percent; the system of import licenses was dismantled and import tariffs were reduced; most government subsidies to New Zealand producers were phased out; the financial sector was deregulated; a floating exchange rate was instituted, as was an extensive program of state asset sales to reduce the role of government in non-core activities and to reduce government debt; a goods and services tax (GST) was introduced; the income tax was reduced; and the statutory framework for government finances and activities was changed, as was the Reserve Bank's role of balancing full employment and

low inflation to a policy of focusing exclusively on maintaining low inflation.⁷⁵ As many have noted, the “New Zealand experiment” was in many ways similar in its elements to the structural adjustment programs imposed on various countries by the International Monetary Fund, with its stress on fiscal discipline, reductions in public expenditure, tax reform, deregulation, foreign direct investment, financial liberalization, a floating exchange rate, trade liberalization, privatization and assertion of private property rights.⁷⁶

This was not at all what those who voted for Labour had expected. Before its election, the Labour Party had made few specific election promises; it offered little more than general criticisms of Prime Minister Robert Muldoon of the National Party and calls for the nation to pull together to save the economy. David Lange, who became Prime Minister in 1984, had condemned the National government’s “prolonged attack on working people, and trade unions in particular” and said he would refuse to “cave in to the international corporations, the huge world banks, and the so-called overseas experts.”⁷⁷

Upon taking power, Labour inherited an economy in worse shape than at any time since World War II, one characterized by high and rising unemployment, rapidly declining living standards (particularly for those with lower incomes), unsustainable external and internal deficits, and negligible growth. Inflation had been checked but the

⁷⁵ David Knutson, “Welfare Reform in New Zealand: Moving Toward a Work-Based Welfare System” (Wellington: Ian Axford New Zealand Fellowship in Public Policy, August, 1998), p. 17.

⁷⁶ Peter Conway, *The New Zealand Experiment 1984-1999* (Wellington: New Zealand Council of Trade Unions, 2002), p. 3; John Kay, “Downfall of an Economic Experiment: New Zealand’s Textbook Programme of Liberalisation has Left it Poorer than Before,” *Financial Times* (Aug. 30, 2000); Michael McKinley, “Reluctant Campers Too Far from Home: the Enigma of Australia and New Zealand at the Close of the Twentieth Century,” International Studies Association 40th Annual Convention, Washington, D.C. February 16-20, 1999, <www.ciaonet.org/conf/mcm02/>; Jane Kelsey, *Economic Fundamentalism: The New Zealand Experiment—A World Model for Structural Adjustment?* (London: Pluto Press, 1995).

⁷⁷ David Lange, address to the New Zealand Federation of Labour (Minutes of First Day’s Proceedings of the Forth-Sixth Annual Conference held in the Wellington Town Hall, May 3, 1983), p. 78.

cost was the severe unemployment level. Per capita income in New Zealand was around 125 percent of the OECD average in 1950—by 1985 it had fallen to only 75 percent.⁷⁸ Conspicuously, neither Lange nor his deputy, Geoff Palmer, both lawyers, had any background in economics. They left the bulk of economic decision-making to a group of three ministers—Roger Douglas, Richard Prebble and David Caygill. And this “gang of three,” as Halimi summarizes,

was simply reflecting the views of senior finance ministry officials, often trained by the OECD, the World Bank and American universities, and keen to see their country transformed into the prototype market society. Labour’s David Lange made possible what Conservative Robert Muldoon had refused to allow. Ultra-liberal senior officials had convinced the gang of three. They then won over the prime minister and his deputy, and the five government members got their proposals approved in cabinet . . . the international climate [could not] have been more favourable. As Don Brash recalls: ‘At the end of 1984, finance ministers in six OECD countries—New Zealand, Australia, Spain, France, Sweden and the United Kingdom—were strong and effective advocates of liberalisation, and all but one of these [the UK] was a member of a left-of-centre government.’ . . . The finance ministry was completely won over by the lessons taught at the University of Chicago, which stressed theoretical rigour rather than physical data, too often inclined to sully the purity of the model. Society would just have to adapt.⁷⁹

Edwards claims that “Labour’s economic policy was very much in flux between 1979 and 1984, with leading Labour politicians and activists beginning to advocate radical measures for change”—and this was not “an entirely elite phenomenon, as various party conferences passed economic policies that were a precursor to Rogernomics . . . Such moves were not necessarily viewed as right-wing ones, especially since it was National

⁷⁸ Paul Conway and Ben Hunt, “Productivity growth in New Zealand: economic reform and the convergence hypothesis” (Reserve Bank of New Zealand, June 1998), <http://www.rbnz.govt.nz/research/discusspapers/g98_2.pdf>.

⁷⁹ Halimi, *op. cit.*

that was blocking such change.”⁸⁰ It is true that as late as 1981 “the Labour Party saw no contradiction between the implementation of a ‘responsible’ economic policy and the advancement of its social goals in employment, regional development, etc . . . There was none of the now familiar Douglasite rhetoric that social goals must be postponed in favour of the implementation of economic policies.”⁸¹ But Labour’s electoral defeat in 1981 led to a hard break with this mentality: “A caucus subcommittee reported on electorate reaction to Labour Party policy and stated that the focus on unemployment had reinforced the public impression of the Labour Party as ‘soft on the undeserving’... It was stated that social welfare policies appeared to have won few votes . . . the best course would be to make economic restructuring the first priority and postpone welfare concerns.”⁸² This orientation was embraced by the Labour caucus.

Lange soon told the public that there would be “some major changes, telling one audience that all sections of the community had to accept that there would be ‘winners, losers, costs and benefits’ as a result of the changes Labour wished to see made.”⁸³ Despite the efforts of the president of the party, Jim Anderton, who wished to block Labour’s neoliberal direction, the Labour government faced little leftist opposition. Alternative policies were rarely debated, as the government developed “a ‘blitzkrieg’ style of reform which overwhelmed critics,”⁸⁴ while some of those critics remained loyal to Labour due to Lange’s campaign against nuclear weapons. The unions, too, remained

⁸⁰ Bryce Edwards, *Political parties in New Zealand: a study of ideological and organisational transformation*, PhD dissertation (University of Canterbury, New Zealand, 2003), p. 104.

⁸¹ W. Hugh Oliver, “The Labour Caucus and Economic Policy Formation, 1981-1984,” Brian Easton, ed., *The Making of Rogernomics* (Auckland: University of Auckland Press, 1989), p. 24.

⁸² *Ibid.*, p. 28-29.

⁸³ Michael Bassett, *The State in New Zealand 1840-1984: Socialism Without Doctrines?* (Auckland: Auckland University Press, 1998), p. 370.

⁸⁴ Peter Brosnan, John Burgess, and David Rea, “Labour Institutions, Government Policy and Economic Change in Australia and New Zealand,” paper presented to the XIIIth Meeting of the International Working Party on Labour Market Segmentation (Bremen, Germany, July 11-16, 1991), p. 9.

quiet, as the continued existence of the “closed shop” in certain sectors was not yet being called into question.⁸⁵ The unionized rank and file of Labour, according to Labour MP Mark Gosche, typically lacked a serious understanding of economics; their membership in the party was active on matters of industrial relations, but not broader economic policy.⁸⁶ Furthermore, as political commentator Chris Trotter of the New Zealand *Dominion Post* points out, Labour had just come into power on the heels of

. . . a legacy of failed massive state programs and controls, which might have been the first resort of a social-democratic government anyway . . . but [such programs] had been discredited before [Labour] even took office. And then suddenly you had coming down like Moses from Mount Sinai . . . a bunch of monetarists in the Reserve Bank and the Treasury, saying “Have I got a deal for you! You want some new ideas? Here they are!!”⁸⁷

The initial lack of the neoliberal macroeconomic policies’ popularity did not lead the Labour government to regularly attempt to convince the electorate through public discourse about the normative merits of its policies, as Prime Minister Margaret Thatcher did in Britain. Douglas, the key engineer of such policies for both Labour governments in the 1980s, apparently thought that the general public would simply come to agree with him about the value of the reforms.⁸⁸ In addition, public attention was deflected from economic matters by other issues. The Labour government took a strong stance against nuclear testing by the French in Muroroa and the exploding of the Greenpeace boat, and refused to let a nuclear-capable American warship come to New Zealand, followed by legislation to prevent future visits. At the same time, financial deregulation let loose a wave of speculative investment, and the government’s initial monetary and fiscal

⁸⁵ Halimi, op. cit.

⁸⁶ Interview with Mark Gosche MP, July 11, 2006.

⁸⁷ Interview with Chris Trotter, June 27, 2006.

⁸⁸ John Quiggin, “Social Democracy and Market Reform in Australia and New Zealand,” *Oxford Review of Economic Policy* Vol. 14 No. 1 (1998): 82; Schmidt, p. 14.

policies, coupled with wage increases due to the removal of Muldoon's wage and price controls, led to an economic boom.⁸⁹ These factors were sufficient for Labour to be reelected in 1987 on an even more vague set of electoral promises (a full manifesto was published only two weeks after the election).⁹⁰

Douglas and his allies then advanced many unpopular policies that were either not forecast in pre-election policy statements or that directly violated campaign promises, such as a proposal for a flat-rate income tax, privatization of state-owned assets, and fees for university students.⁹¹ Douglas attempted to push further forward into neoliberalism precisely as the New Zealand economy slid into recession in October 1987. At that point internal divisions in the Labour Party became evident, as Lange, initially an ally of Douglas—one with the unenviable job of defending “Rogernomics” to the Federation of Labour (FOL)—reverted to social democratic principles and “unilaterally declared the flat-tax proposal a non-starter, despite earlier Cabinet approval and public announcement.”⁹²

b. Social Policy

Prior to the 1980s, New Zealand's welfare state included publicly supported education, housing, health, legal aid, income maintenance, and other services. Concessions made by the 1984-90 Labour government to the party's traditional social democratic wing, as well

⁸⁹ Francis Castles, Rolf Gerritsen, and Jack Vowles, “Introduction: Setting the Scene for Economic and Political Change,” in Francis Castles, Rolf Gerritsen, and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Auckland: Auckland University Press, 1996), p. 16.

⁹⁰ Vivien A. Schmidt, “The Role of Values and Discourse in Welfare State Reform: the Politics of Successful Adjustment,” paper prepared for delivery at the Council for European Studies Conference (Chicago, Mar. 30–April 2, 2000), p. 12.

⁹¹ Jack H. Nagel, “Social Choice in a Pluralitarian Democracy: the Politics of Market Liberalization in New Zealand,” *British Journal of Political Science* Vol. 28 No. 2 (Apr. 1998): 237.

⁹² Castles, Gerritsen, and Vowles, p. 17.

as its affiliated unions and working class voters, included a refusal to slash welfare programs and benefit levels or withdraw completely from the provision of housing, healthcare, and education.⁹³ These compromises helped maintain Labour's existing base of working-class support—to a degree—and allowed the party to cobble together an electoral alliance of the prosperous beneficiaries of Rogernomics (urban professionals, affluent liberal social activists) with that base.⁹⁴

Labour's appeal for much of its stay in power in the 1980s was actually due to its ability to balance out its unpopular, radically pro-market economic policies with much more popular social policies: it claimed to introduce competition into the formal welfare system in order to save it, by making it more sustainable even as it increased spending on social assistance. Similarly, in health and education, the government increased spending even as it introduced greater competition in the provision of education (such as through a voucher-like system for primary education) and charged tuition fees for tertiary education (providing low income students with targeted allowances, however, making the reform redistributive). In 1988, Labour's Royal Commission on Social Policy even made the case for an increased role for the state in order to alleviate the social effects of economic restructuring, though such recommendations were ultimately ignored.⁹⁵ Labour thereby “managed to appeal to long-standing values of equality even as it sought to promote individualism and self-reliance and challenged long-standing values of security with

⁹³ Paul G. Buchanan and Kate Nicholls, *Labour Politics in Small Open Democracies: Australia, Chile, Ireland, New Zealand and Uruguay* (New York: Palgrave, 2003), p. 100.

⁹⁴ Edwards, p. 120. Chris Ford, a Labour Party activist who later joined the breakaway New Labour Party, argues that the real disconnect between the Labour Party and the working class as a whole “became apparent at the 1987 general election when, for the first time, there was almost a reversal in terms of where Labour secured support. In working class districts, there was a slight swing against the party, whereas in wealthier districts, the party saw an upswing in its vote in areas that had previously voted National, all thanks to Rogernomics.” E-Mail interview, August 15, 2006.

⁹⁵ Buchanan and Nicholls, p. 100.

economic reforms that radically altered the structure of the economy.”⁹⁶ Geoffrey Palmer, Deputy Prime Minister 1984-89, maintains that despite his government’s neoliberal macroeconomic policies,

One thing that we did not do was to cut the social welfare benefits or anything of that sort. We maintained the social welfare programmes, the income maintenance programmes, we enhanced them in some respects, we were trying to do things for women; we had big women’s policies. We were not a minimalist government. We were not a government that said that the state’s purpose is to do nothing. We were committed to the welfare state.

Russell argues that the data bears out Palmer’s claims: spending on health, education and welfare increased steadily between 1984 and 1989; unemployment benefits rose by 260 percent; sickness benefits by 166 percent; accommodation benefits by 142 percent; spending on health increased by nearly 60 percent and per capita spending on education doubled.⁹⁷

Despite these numbers, however, by the Labour government’s second term there was a distinct encouragement of families, employers, and local communities to take on greater responsibility for welfare. In Koopman-Boyden’s words, there was a shift in the balance between the competing interests of welfare and capitalism. New policies were cast within the framework of welfare *capitalism*, which gives “priority to work-related social provision with equality of opportunity and the encouragement of competition as the objective”—rather than *welfare* capitalism, which gives “priority to social provision based on citizenship, the objective being a fairer and more equal society.”⁹⁸ Douglas and

⁹⁶ Schmidt, op. cit.

⁹⁷ Marcia Russell, *Revolution: New Zealand from Fortress to Free Market* (Auckland: Hodder Moa Beckett, 1996), pp. 213-4.

⁹⁸ Peggy G. Koopman-Boyden, “Social Policy: Has There Really Been One?,” Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Policy in New Zealand*, 2nd edition (Auckland: Oxford University Press, 1992), p. 213.

the Treasury advocated a welfare system that reflected the goals, management structure and ethos of private enterprise. Health, education, and social welfare departments were subjected to a series of taskforce reviews with working parties dominated by private sector entrepreneurs and economists devoted to the Chicago School, rather than social policy experts.⁹⁹ The provision of police protection services, hospital services for the mentally handicapped, and the provision of information services were increasingly under fiscal constraint, with the private sector and community or voluntary organizations replacing the state's role. The Labour government also put forth long-term plans to withdraw the old age pension for those between sixty and sixty-four years of age.¹⁰⁰

Social policy under the 1984-90 Labour government, then, represented a sort of balancing act between economic rationalism and traditional social democracy. There was no marked decline in aggregate spending on the welfare state in this period, despite the government's neoliberal macroeconomic policies. However, though Douglas and the Treasury were unable to carry out all of their social policy goals due to the resistance of Lange, the party ranks, and the majority of MPs, the welfare state was still partially restructured in the interests of market-defined efficiency and fiscal constraint.¹⁰¹

c. Industrial Policy and Union-Party Relations

The reforms of the first Labour government (1935-49) won the loyalty of the New Zealand working class. Furthermore, they established a "historic compromise"—the working class and its party would not use the government to overthrow capitalism, but to

⁹⁹ Francis G. Castles and Ian F. Shirley, "Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State?," Castles, Gerritsen, and Vowles, eds., pp. 98-9.

¹⁰⁰ Koopan-Boyden, pp. 224-5.

¹⁰¹ Nagel: 235; Castles and Shirley, p. 95; Koopan-Boyden, pp. 228, 230.

stabilize it. While the working class benefited from full employment and the welfare state, the business community benefited from an extended era of prosperity, with manufacturers in particular gaining from import controls.¹⁰² It was the alliance between the Labour Party and the Federation of Labour (FOL) union leaders that provided the basis of this compromise. Labour enacted compulsory unionism in 1935, thereby raising many previously weak unions, particularly in the white-collar and agricultural sectors, to great size. In return, the unions affiliated to the Labour Party and provided it with funds and a base of support.¹⁰³

But by the time of the third Labour government (1972-75) the unions played almost no role in the formulation of government policy. The government did not even seek the advice of the affiliated unions on any of its industrial relations policy. Nor did it consult the party's national council, the industrial relations subcommittee of the executive, or the policy committee. The Joint Council of Labour, which usually built the union movement into the party's policy-making process, met twenty-two times between 1952 and 1957 but only twice between 1970 and 1975.¹⁰⁴

Immediately prior to Labour's electoral victory in 1984, some on the party's left wing put forth the idea of transplanting the corporatist "Accord" framework of Australia—which rested on formalized cooperation between the Labor Party government and the Australian Council of Trade Unions—to New Zealand, and a number of consultative "summits" were held.¹⁰⁵ But these forums' debates soon became effectively

¹⁰² Bruce Jesson, *Fragments of Labour: The Story Behind the Labour Government* (Auckland: Penguin Books, 1989), p. 17.

¹⁰³ *Ibid.*, p. 18.

¹⁰⁴ Shane Hanley, "Labour: A Middle Class Electoral Party," *Revolution* 14 (March 2001), p. 30; Douglass C. Webber, "Trade Unions and the Labour Party: The Death of Working-Class Politics in New Zealand," Stephen Levine, ed., *Politics in New Zealand: A Reader* (Boston: George Allen & Unwin, 1978), p. 189.

¹⁰⁵ Brosnan, Burgess, and Rea, p. 8.

irrelevant, as Labour's shadow finance ministers had been working to take the New Zealand economy in an unanticipated direction. The unions and the corporatist faction of the party were also simply outmaneuvered by Labour's neoliberal faction. Mike Moore—who became Chair of the Cabinet Committee in the Labour government—had raised the idea of a union-government “trade-off” in Labour's policy debates in 1983. But the plan was quashed by Stan Rodger, soon to become Minister of State Services, who claimed that the corporatist approach was not politically feasible and would be greatly unpopular with the voting public. He also argued that the decentralized structure of the FOL and its consequent weakness as a peak body precluded effective enforcement of agreements entered into at the peak level.¹⁰⁶ Moore was unable to find a credible solution to the problem of union compliance and the Labour Party leadership became convinced of the need to avoid cooperation with unions. At around the same time an alternative proposal for renovating Labour was floated, involving “the idea of breaking the formal affiliation links of trade unions to the Labour Party . . . to move away from the Party's identification with the working class in order to project a more truly ‘national’ image.”¹⁰⁷ The proposal may have failed, but it represented recognition by part of the party that the planned restructuring of the New Zealand economy would not be supported by Labour's traditional constituency.

Lange told the FOL in 1983 that the party remained “the political wing of the labour movement” and was committed to “creating greater equality in income and taxation policies.”¹⁰⁸ He declared his philosophical opposition to free-market policies and

¹⁰⁶ W. Hugh Oliver, “The Labour Caucus and Economic Policy Formation, 1981-1984,” Easton, ed. , p. 40.

¹⁰⁷ Oliver, p. 30.

¹⁰⁸ Address by David Lange to the New Zealand Federation of Labour, *Minutes of first day's proceedings of the forty-sixth annual conference held in the Wellington Town Hall* (May 1983), p. 82.

may even have been honest in doing so.¹⁰⁹ The 1984 Labour Party manifesto stated that the restoration of full employment was “the top priority.”¹¹⁰ But when New Zealand’s economic predicament was exacerbated by a currency exchange crisis which began immediately upon Labour’s assuming office, it allowed Douglas to argue that there was no time to pursue change through a consensual negotiated strategy. The Labour government, lacking major commitments to unions (or specific employers), included among its neoliberal economic measures the containment of wages by tough monetary policy rather than by a corporatist accord.¹¹¹

Because of the Treasury’s attitude that high wages and union restrictions were a cause of unemployment and its desire for labor market “flexibility,” New Zealand unions found themselves “being undermined by a Labour government that [they] had spent a lot of time and money helping elect, and not in a strong enough position to do anything about it.”¹¹² With the removal of specific economic measures that were designed to ensure employment—such as import controls—mass unemployment emerged, increasing from 4 percent of the labor force in 1985 to 10.2 percent by 1990.¹¹³ Combined with deregulation and the impact of competition, unionism in the core areas of mining and transport was hit hard. The meatworkers union, the major surviving base of militant blue-collar unionism in New Zealand, became further undermined by mechanization, the export of live sheep, and a deliberate strategy by the major companies to move away

¹⁰⁹ Jesson, p. 58.

¹¹⁰ Paul Dalziel, “The Economic Summit: What People Were Thinking,” Easton, ed., p. 155.

¹¹¹ Mark Bray and David Neilson, “Industrial Relations Reform and the Relative Autonomy of the State,” in Castles, Gerritsen, and Vowles, eds., p. 75; Mark Bray and Pat Walsh, “Differing Paths to Neo-Liberalism? Comparing Australia and New Zealand,” *Industrial Relations*, Vol. 37, No. 3 (July 1998): 368.

¹¹² Jesson, pp. 90-1.

¹¹³ David Denmark, “Social Democracy and Contextual Unemployment: New Zealand Labour in 1990,” *Australian Geographer*, Vol. 30 No. 2 (1999): 199.

from large works in the major cities to smaller satellite works in small towns and country areas.¹¹⁴

Public sector unionism was specifically attacked through Labour's State-Owned Enterprises Act of 1986, which provided the basis for converting trading departments and public corporations (e.g., the electricity and mines divisions of the Ministry of Energy, and the postal and telecommunications divisions of the Post Office) into businesses to be run along private sector lines.¹¹⁵ As a result of this legislation, the public service unions lost their traditional security and public sector union membership, which peaked in 1985 at nearly 193,000, fell sharply by 1989 to 162,000. Private employers, as well, became much more aggressive, locking out workers, increasingly using injunctions, and initiating massive damages claims against unions and individual trade unionists in an attempt to intimidate. The result was the first drop in union membership since the 1930s: after peaking in 1981 at 520,000, registered (private-sector) membership declined thereafter.¹¹⁶

The biggest challenge to the union movement by the government was the introduction of private sector employment practices into the public sector via the State Sector Act of 1988, which significantly changed state sector wage-fixing arrangements and modified the nature of government departments. Departmental chief executives became the employers of staff, independent of ministerial control; conditions were to be negotiated separately with employees of each department in terms of the 1987 Labour Relations Act, which moved industrial relations towards decentralized bargaining and

¹¹⁴ Tom Bramble with Sarah Heal, "Trade Unions," Chris Rudd and Brian Roper, eds., *The Political Economy of New Zealand* (Oxford: Oxford University Press, 1997), p. 131.

¹¹⁵ Ian Duncan, "Public Enterprises," Brian Silverstone, Alan Bollard, Ralph Lattimore, eds., *A Study of Economic Reform: The Case of New Zealand* (Amsterdam: Elsevier Science B.V., 1996), p. 397.

¹¹⁶ Bramble and Heal, op. cit.; Jesson, p. 89; W. J. (Jim) Knox, Presidential Address, *Minutes of the first day's proceedings of the Fiftieth Annual Conference held in the Wellington Town Hall* (New Zealand Federation of Labour, May 1987), p. 8.

reduced the involvement of government.¹¹⁷ Public sector unions were further undermined by the ending of job tenure and the reduction of other long-established conditions of employment.¹¹⁸ However, by the time that the State Sector Act was introduced, the heretofore-decentralized New Zealand union movement had gone through peak organizational reform and established the New Zealand Council of Trade Unions (NZCTU), and it was eager to show that it could resolve disputes rather than escalate them. As a result, it discouraged open resistance to the bill.¹¹⁹

But when the unions (again) put forth a corporatist alternative to “Rogernomics”—in which it agreed to exercise real wage restraint in exchange for greater union involvement in the formation of economic, social and industrial relations policy¹²⁰—it was too late. The NZCTU, unlike its more centralized Australian equivalent, lacked the power and legitimacy to ensure compliance with its decisions by the whole of the union movement. In Bray and Neilson’s summation: “A Labour government committed to a market direction of economic reform and a union movement relatively disorganised and distanced from the Labour Party presented a mutually reinforcing set of contingent causes that help to explain the steady direction of Labour reform towards labour market flexibility.”¹²¹

As unemployment doubled between 1987 and 1989, the unskilled and public sector workers who were most affected became a significant oppositional movement. They and their unions split from the Labour Party in 1989 and formed the short-lived

¹¹⁷ John Martin, “Remaking the State Services,” Holland and Boston, eds., p. 127; Bray and Neilson, p. 77.

¹¹⁸ Bramble and Heal, p. 133.

¹¹⁹ Bray and Neilson, op. cit.

¹²⁰ Brian S. Roper, “Leading from the Rear? A Theoretical Analysis of the Contingent Bureaucratic Conservatism of the NZCTU Leadership,” *New Zealand Journal of Industrial Relations* Vol. 21 No. 3 (Oct. 1996): 267.

¹²¹ Bray and Neilson, p. 79.

New Labour Party under the leadership of Jim Anderton. In 1990, after three years of falling stock market values and recession, the visibly disunited Labour government was displaced by a National government that soon built upon the “achievements” of Labour by bringing an end to compulsory unionism; reducing unions to the status of incorporated societies; substantially cutting benefits; and bringing major changes to health administration.¹²²

2. The Middle-Classing of the Parliamentarians and Membership

Unlike their British counterparts, New Zealand unions did not “sponsor” Labour Party election candidates. As a result, once a union member or official became an MP, his primary loyalty was to the Parliamentary Labour Party, regardless of the political positions taken by rank-and-file members of the party. Labour’s working-class militants often saw parliamentary representatives as “deputies” leading a “typically middle-class existence” through their surroundings and connections.¹²³

When Labour returned to office for a second time in 1957, it neither promised nor delivered any major social or economic reforms. With this loss of the party’s reforming zeal, many of the party’s working-class direct members—as opposed to those who had indirect membership via the unions—dropped out, with consequences that would come to be felt in the following decades.¹²⁴ While before 1957 eight or nine of every ten members were blue-collar workers, by 1970 only one out of every two such workers was a

¹²² Herman Schwartz, “Small States in Big Trouble: The Politics of State Reorganization in Australia, Denmark, New Zealand and Sweden in the 1980s,” *World Politics* Vol. 46 No. 4 (July 1994): 547; Castles, Gerritsen, and Vowles, p. 17.

¹²³ Webber, p. 182.

¹²⁴ According to Webber, “The Grey Lynn, Otahuhu, Napier, Westport and Port Chalmers branches—all of them in undoubtedly working class districts and among the biggest in the party in 1940—recorded membership decreases between 1940 and 1975 ranging from 87 to 94 per cent, far in excess of the average decline.” Webber, p. 187. See also Jesson, p. 24, and Edwards, p. 95.

member, with the proportion falling even further throughout the 1970s and 1980s.¹²⁵ From a peak of 51,174 in 1940, Labour's branch membership fell steadily until it stood at 14,247 in 1975, representing a 72 percent decline in a period where the voting population nearly doubled.¹²⁶ Labour's extended stay out of office (1960-72) proved disastrous for the party, as it lost not only members but enthusiasm. The amount and intensity of activities at branch level dwindled with the membership:

In the Auckland Region there was a marked, overall decline in the average number of (branch) meetings held annually from a peak of 17 in 1938 to a nadir of six in 1970. If the sum of the annual averages for number of meetings, average attendance and number of financial branches in each year between 1938 and 1970 is taken as a reliable indicator, it can be shown that total branch activity in the Region in 1970 was less than one-fifth of that in 1947.¹²⁷

Party activities had come to place far greater emphasis on electoral matters than on retaining a mass membership. In a survey of the thirteen Labour MPs elected in the Auckland region in 1969, Gustafson found the following representative comments:

“The size of the branch is not of great importance provided it has sufficient key people” . . . “Numbers are irrelevant” . . . “At the 1969 election I had three really good people who were worth 30 ordinary workers” . . . “To be quite honest with you, I do not, at present, have nor have I had for some months, any branches that operate in the traditional manner” . . . “I confess that I have never been a strong organisation man” . . . “I am not satisfied that large branches serve any useful purpose” . . . “the organisation of an electorate is best left to a handful of people and, for the last four elections, I have always conducted my campaigns with a committee of 14-15 people.”¹²⁸

¹²⁵ Edwards, p. 269; Barry Gustafson, “The Labour Party,” Hyam Gold, ed., *New Zealand Politics in Perspective*, second edition (Auckland: Longman Paul, 1989), p. 210.

¹²⁶ Olssen, p. 23; Hanley, p. 28; Nagel: 228.

¹²⁷ Barry Gustafson, *Social Change and Party Organization: The New Zealand Labour Party since 1945* (London: Sage Publications, 1976), pp. 11-12; Hanley, op. cit.

¹²⁸ Gustafson, p. 31; Hanley, op. cit.

The party's branch minutes indicate the same trend, as "the primary functions of the grass-roots organisation of the NZLP were increasingly viewed as putting people on the electoral roll, informing them of the candidate's name, getting them to the poll on election day, and raising enough money to cover local publicity and running expenses."¹²⁹ Membership dwindling accelerated after the Keynesian-type demand-management policies of the third Labour government (1972-1975) failed to end stagflation.¹³⁰

An ineffective Labour Party was a party which lost its supporters' interest. It was also a Labour Party in which, increasingly, party officials and parliamentarians were divorced from the traditional Labour constituency. The core Labour membership that signed up in the 1930s was either dying off or dropping out, but there was increasingly little interest in the party in winning back a working class that was supposedly, as Labour officials claimed at the time, "corrupted by affluence." But the affluence of New Zealand workers was exaggerated; as Bedggood explains,

wages ha[d] been left at a rising subsistence level sufficient to maintain aggregate demand, while a vast non-productive labour force together with the capitalist class ha[d] taken a disproportionate share of the national wealth. Nor ha[d] the state fiscal policy redistributed wealth to any marked degree. Thus the reward structure reflect[ed] inequalities of income which [bore] no relation to the productive process.¹³¹

¹²⁹ Gustafson, p. 10; Hanley, op. cit.

¹³⁰ Much the same was occurring in Britain at the time, where "the proportion of working-class Labour parliamentary candidates (including trade union officials) dropped from twenty-seven percent of the total in 1951 to twenty-one percent in 1966...and even trade union sponsored candidates—working class in our definition—are increasingly middle class in fact...at every level, the working class and trade union element is being undermined..." Michael Kidron, *Western Capitalism Since the War* (London: Weidenfeld and Nicholson, 1968), p. 119.

¹³¹ David Bedggood, "Class Consciousness in New Zealand," David Pitt, ed., *Social Class in New Zealand* (Auckland: Longman Paul, 1977), p. 123.

It also went unnoticed by theorists of working-class affluence and complacency that the years 1968-1977 saw the highest levels of strike activity in New Zealand history. This was primarily due to New Zealand workers' desire to improve their living standards in circumstances of labor shortages, alongside a long-term decline in the wages share of national income.¹³²

Into the hole in Labour's membership left by worker-activists stepped an "Auckland cabal" of ambitious, pragmatic, socially liberal, educated middle-class activists.¹³³ Gustafson notes that in 1972 Labour's candidates included not only a number of people with a negligible history of party activity but "at least" three successful candidates who, until right before their selections, had been National Party members.¹³⁴ By the early 1970s former union officials made up less than a quarter of Labour parliamentary members, while the last Labour MP to hold executive office in the Federation of Labour left Parliament in 1966. Union activists and leaders who otherwise would have run for office opted for professional employment.¹³⁵

Table 2.1: Occupations of Labour MPs (percentages)

	1935	1957	1972	1984
Professional, semi-professional	17.9 %	24.4 %	40.0 %	73.2 %
Business, other white-collar	26.8 %	36.6 %	27.3 %	12.5 %
Manual workers, farmers, union officials	55.3 %	36.7 %	32.8 %	14.4 %

Source: Barry Gustafson, "The Labour Party," in Hyam Gold, ed., *New Zealand Politics in Perspective*, 3rd ed. (Auckland: Longman Paul, 1992), p. 276.; Nagel: 229.

One can credibly argue, then, that the decline in Labour membership effectively meant that the New Zealand working class was dropping out of politics. The social extraction of

¹³² Brian Roper, "The Changing Class Structure," Chris Rudd and Brian Roper, eds., *The Political Economy of New Zealand* (Oxford: Oxford University Press, 1997), p. 83; Bramble and Heal, p. 124.

¹³³ Jesson, p. 24.

¹³⁴ Gustafson, p. 30; Hanley, p. 29.

¹³⁵ Webber, p. 184.

the remaining Labour stalwarts was inclined towards the professional classes. There was “no effective resistance to the shredding of working class traditions and the party reoriented toward elections, and reorganised on a professional basis.”¹³⁶ The “professional basis” refers to the “new class” of university-educated Labour activists, some of whom came from prosperous professional, business or farming backgrounds, including future Minister of Finance Roger Douglas.¹³⁷ With the growth in the political importance of issues apart from wages and the welfare state that resulted, and the general decline in numbers of the blue-collar workforce, the Labour Party began to orient towards young and rising professionals concerned with non-economic issues. These middle-class social liberals opposed apartheid in South Africa and racism against the Maori in New Zealand; they were feminists and were against nuclear weapons; but they were “relatively indifferent to issues of social class or of the capitalist economy.”¹³⁸ They came to be the dominant group among Labour Party members.

Whereas in the 1930s only the Labour leadership could be credibly accused of being “bourgeoisified,” now “bourgeoisification” affected all levels, as the Labour elite—which “no longer had any visceral identification with poor and working-class people”—now was now free to orient their party towards the upper classes.¹³⁹ When Labour formed its fourth government in 1984, the party’s caucus and cabinet were overwhelmingly professional. Power in the party became increasingly held by the middle-class membership, which accordingly selected candidates and devised policies in its own

¹³⁶ Hanley, *op. cit.*

¹³⁷ Nagel: *op. cit.*

¹³⁸ Jesson, p. 76.

¹³⁹ Nagel: 232. Webber argues that by 1975 Labour was “less the party of the organized working class [than] the party of the salaried middle class.” Webber, *ibid.*

liberal image.¹⁴⁰ Most of these members did not enter the party as free-market ideologues. But as representatives of an education meritocracy they did not see themselves as tied to the interests of any social groupings, classes or strata; unlike Labour's traditional social-democratic activists, they saw the economy as essentially a technical issue, and were willing to give the Labour government the benefit of the doubt because it was the Labour government.¹⁴¹ The reason, then, that the Labour Party's new breed of members and MPs were increasingly receptive to neoliberal arguments in the 1980s was because their social backgrounds allowed for this possibility. They had no particular attachment to the traditional goals of the union movement: full employment and the economic security provided by the welfare state.

In parallel with the decline of the organized working class in politics, and specifically within the Labour Party, an expanding class of new entrepreneurs developed in the early 1980s which began to make money in property development and finance. Notably, this rapidly expanding fraction of capital lacked any genuine political representation. The NZLP took up the opportunity to represent this class. Even as much of the working class continued to vote for the Labour Party in the 1980s, an important element in Labour's election in 1984 was the support of the business sector. The party leadership had carried out intense lobbying of business, providing assurance that a Labour government would be pro-business. By the 1987 general election this reconfiguration strategy was clearly proving successful:

The influx of former National and New Zealand Party voters into the Labour Party's vote meant that the 1987 election was so characterised by class dealignment that [there was] no correlation

¹⁴⁰ Colin James with Alan McRobie and Hugh Morton, *The Election Book* (Wellington: Allen & Unwin / Port Nicholson Press, 1987), p. 32; Edwards, p. 269.

¹⁴¹ Colin James, *New Territory: The Transformation of New Zealand, 1984-92* (Wellington: Bridget Williams Books, 1992), p. 242; Edwards, p. 121; Jesson, p. 77.

between household income and party choice in the election, and manual and non-manual workers divided evenly between the major parties, although professionals were actually more likely to vote Labour . . . This class dealignment was starkly evident also in the geographical distribution of votes, in that Labour enjoyed unusually high levels of support in seats that were either traditionally held by National or were marginal, while it lost support to National in many safe Labour seats.¹⁴²

New Zealand workers may have grown less than enthusiastic about Labour by 1987, but they had nowhere else to take their support—apart from non-voting¹⁴³—and hence were a reasonably captive vote.¹⁴⁴ By the end of the 1980s it appeared that the Labour Party had largely transformed from a party of workers to one dominated by “lawyers, administrators, academics, professionals, artists, designers, researchers and others from the new middle class.”¹⁴⁵ Increases in the proportions of union officials and MPs at the 1988 party conference were mainly due to the smaller size of that conference (537 attending) as compared to that in 1983 (753 delegates).¹⁴⁶ It also reflected the attempt by the union movement to reassert its influence within the party after the merger that created the NZCTU.

¹⁴² Edwards, p. 266. Nagel provides the numbers: “In electorates with minor or no boundary changes since 1984, the average changes in Labour’s vote were +1,315 in sixteen safe National electorates, +619 in nineteen marginal electorates, -93 in twenty-four safe Labour electorates, and -1,817 in four Maori electorates (also safe for Labour). Clearly, Labour was moving up the social ladder.” Nagel: 250.

¹⁴³ Vowles writes that by 1987 “members of the traditional productive core of the working class were no more likely to vote Labour than any others...and more likely not to vote at all. Labour’s working class losses to non-voting were offset by gains in the middle class.” Jack Vowles, “Party strategies and class composition: the New Zealand Labour and National Parties in 1988 and beyond,” *New Zealand Sociology* Vol. 7 No. 1 (May 1992): 41.

¹⁴⁴ Edwards, pp. 120-1.

¹⁴⁵ Daphne Lawless and Grant Morgan, “The Journey to Social Liberalism,” *Unity* (Feb. 2006), p. 33.

¹⁴⁶ Jack Vowles, “Who Joins the Labour Party and What Do They Think?” in Margaret Clark, ed., *The Labour Party after 75 Years* (Wellington: Victoria University of Wellington, 1992), p. 77.

Table 2.2: Occupations of Labour Party Delegates in the Full-time Labor Force, 1983 and 1988 Conferences, and occupations of the adult population (percentages)

	1983	1988	1986 (Census)
Manager/Sales	12 %	9 %	15 %
Professional	26 %	18 %	12 %
Teachers	16 %	16 %	3 %
Clerical	8 %	11 %	18 %
Farmers	1 %	1 %	5 %
Manual/Service	19 %	14 %	47 %
Union Officials	14 %	20 %	-
MPs	4 %	11 %	-
N	265	245	

Source: Jack Vowles, “Who Joins the Labour Party and What Do They Think?” in Margaret Clark, ed., *The Labour Party after 75 Years* (Wellington: Victoria University of Wellington, 1992), p. 78.

3. Union Strategy Towards the Labour Party

a. The Influence of Industrial Conciliation and Arbitration

The labor movements of New Zealand and Australia were both shaped by the presence of arbitration and conciliation systems which never existed in Britain. In New Zealand, the Industrial Conciliation and Arbitration Act (ICAA) of 1894 proved to have a tremendous influence over trade unions for nearly 100 years. A combination of legislative recognition of both employee and employer unions and a legislative base of compulsory conciliation and arbitration buttressed collective relations between both participants. Trade unions were thereby given a degree of state protection and legitimation.¹⁴⁷

¹⁴⁷ Raymond Harbridge and Anthony Honeybone, “External Legitimacy of Unions: Trends in New Zealand,” *Journal of Labor Research* Vol. XVII No. 3 (Summer 1996): 427; Buchanan and Nicholls, p. 93.

A set of state structures in industrial relations was set up alongside the government and the Department of Labour, most importantly the Court of Arbitration. If a union registered under the Act—which most did—and was unable to resolve a conflict with an employer, the Court of Arbitration stepped in. The various courts also acted as a national tribunal, regulating wages and conditions through legally enforceable rulings, known as “awards.” The court’s wage-fixing policies moderated the impact of market forces on workers, and by 1907 it adopted the principle that pay rates should be indexed to the cost of living.¹⁴⁸

However, from the beginning the ICAA had a pre-emptive character. It was designed by middle-class Liberals in order to ensure social and industrial peace. In practice it helped to hinder the formation of an independent working-class political party during the 1890s and 1910s.¹⁴⁹ In addition, under the ICAA strikes were made illegal, and unions tended to become “little more than creatures of the Arbitration Court”—indeed, many unions were formed in order to take advantage of the statutory protections of the ICAA, and such unions remained small and regional, with limited financial means, lacking effective organizational capacity of their own.¹⁵⁰ The unions were shaped by the arbitration system, becoming preoccupied with procedural matters and unlikely to be able to sustain industrial action (which was in any case largely seen as undesirable). But the advantages of being part of the state-sponsored system were substantial, as the system of unqualified preference for unionists evolved into a legislative basis for compulsory unionism. By 1985 some 223 registered unions and 26 state sector service organizations

¹⁴⁸ Pat Walsh, “From Arbitration to Bargaining: Changing State Strategies in Industrial Relations,” Chris Rudd and Brian Roper, ed., *The Political Economy of New Zealand* (Oxford: Oxford University Press, 1997), pp. 186-7; Brosnan, Burgess and Rea, p. 1.

¹⁴⁹ Buchanan and Nichols, pp. 92-3.

¹⁵⁰ Jesson, p. 14, Walsh, p. 189.

had a combined membership of more than 683,000 within a full-time work force of over one million; in parts of the public sector—teaching, police, firefighters, post office, railways—union membership approached 100 percent.¹⁵¹

Though the ICAA had been written by the Liberal Minister of Labour, William Pember Reeves, without the intent of conferring advantage upon one social class over another, arbitration appeared to increase trade union power by increasing unions' bargaining capacity, thereby advancing the relative position of wage-laborers as a class. Union membership, representing around 8 percent of the working population in 1901, doubled by 1911 and quadrupled by 1921, with union density reaching 26 percent. For the Arbitration Board and Court's first decade or so, decisions usually favored the unions, increasing real average wages and hence the motivation for groups of workers to register as arbitration unions. By 1907 it seemed that "the power balance had clearly tipped . . . in favour of unionists," and the early years of the twentieth century saw steady growth for organized labor.¹⁵² With the election of the first Labour Party government in 1935, the unions were rewarded for their support through the establishment of compulsory union membership. They were also given large block votes in Labour Party conferences.¹⁵³ The advantages of the arbitration system seemed evident to most union leaders, particularly when combined with Labour Party governance. Due to compulsory unionism many previously weak unions, particularly in the white-collar and agricultural sectors, rapidly grew, with their leaders becoming powerful.¹⁵⁴ During World War II through the fall of the Labour government in 1949, union leaders were very much involved in government

¹⁵¹ Harbridge and Honeybone: 427-8.

¹⁵² Bassett, pp. 88, 91; Buchanan and Nicholls, p. 96.

¹⁵³ Tom Bramble with Sarah Heal, "Trade Unions," Rudd and Roper, eds., p. 126.

¹⁵⁴ Erik Olssen, "The New Zealand Labour Movement, 1920-1940," Eric Fry, ed. *Common Cause: Essays in Australian and New Zealand Labour History* (Wellington: Allen & Unwin, 1986), p. 24.

affairs, with the high point being their involvement in the tripartite Economic Stabilization Commission and the appointment of the Federation of Labour (FOL) president to the position of Minister of Labour. Trade union officials were thereby incorporated into the political process.¹⁵⁵

The benefits of state protection and compulsory unionism appeared obvious. Unions' coverage rights were guaranteed against potential rivals; employers were obliged to negotiate with them; and they were given easy access to compulsory arbitration by state tribunals, which ensured the application of resulting awards to all workers in the occupation or industry concerned and accepted a responsibility to enforce the award upon all employers. By 1945, there were 282,000 members of registered and state sector unions, representing 59.6 per cent of the workforce.¹⁵⁶ But state protection and compulsory arbitration still did not come without strings for FOL unions. They became greatly dependent on the state for membership and resources. Delahunty argues that save for "a few honourable exceptions unions had become inert collectors of member subscriptions, but without much connection in struggle with their members. This was matched by attitudes among members which saw the union movement as the 'game' of some odd individuals, who by and large did nothing for them but take their money."¹⁵⁷ The commitment to the unions by their ranks became increasingly "thin and frail" as the regulations and rules which governed the unions encouraged them to be "bureaucratic and distant . . . far removed from the shop floor."¹⁵⁸ The union leaders themselves were under no obligation to perform on behalf of their members. Even employers came to

¹⁵⁵ Bramble and Heal, pp. 126-7.

¹⁵⁶ Ibid, p. 128.

¹⁵⁷ Jim Delahunty, *Night's Black Agents: The NZ Labour Party Since 1984* (Wellington: 1999), <<http://www.thrall.orcon.net.nz/textsnightblack.html>>.

¹⁵⁸ Buchanan and Nicholls, p. 98.

support compulsory unionism, recognizing that it gave a power base to conservative, industrially passive union leaders and allowed governments to smash more militant unions by deregistering them and establishing compliant unions in their place.¹⁵⁹ Strictly defined membership rules led to the proliferation of small unions (and an array of unions in any workplace) that could not adequately respond to their members' needs. As wage-fixing on the part of the Court of Arbitration usually followed the lead of awards made to unions that were large and strategically important, smaller and more vulnerable unions were unlikely to fight any of their own battles. Indeed, the unions of the clerical and service sectors were essentially "paper" unions with weak-to-nonexistent workplace structures. Further, arbitration rules were interpreted such that unions' role in society was limited to bargaining over wages and (to a certain extent) conditions, not to the taking up of broader industrial, political and social issues. When political or secondary strikes occurred it was only with the tacit consent of government officials.¹⁶⁰

With the onset of economic crisis in the early 1970s the efficiency and fairness of the arbitration framework was openly challenged. This occurred after decades in which the unions' influence on wider economic policy had considerably diminished, even during the two brief periods of Labour governance from 1957-60 and 1972-75. The relationship between the Labour Party and the unions generally had become quite loose, varying with circumstance. The FOL's main impact on economic policy came not by direct influence upon the government, but through the presentation of successful General Wage Order cases to the Court of Arbitration. As Walsh notes, such influence as the unions could exert on government policy was by and large limited to strictly industrial

¹⁵⁹ Bramble and Heal, p. 129.

¹⁶⁰ Buchanan and Nicholls, *op. cit.*; Harbridge and Honeybone: 428; Bray and Walsh: 363.

matters, over which it was always consulted, most notably in the drafting of the Industrial Relations Act 1973 which was done by the FOL working jointly with the Employers Federation and did not break fundamentally with the traditional model of arbitration.¹⁶¹

Decades of an arbitration system that remained unchanged under both Labour and National governments, as well as a welfare state and a robust economy buttressed by interventionist and protectionist economic and social development strategies which also remained fundamentally the same under both parties,¹⁶² acted to depoliticize the New Zealand labor movement—at least, to minimize the unions’ commitment to ensuring their representation in parliament. The National government of the 1950s and 1960s acted in a sympathetic way towards union goals such as full employment and made few serious changes to the welfare state and the protected economy, and union leaders even had access to the government during those years. As the differences between National and Labour in power were minimal, one can see why union leaders failed to see much reason for the unions to be overly concerned with political matters. The stability of the historic compromise seemed permanent; overt involvement in party politics appeared superfluous.

All the same, the unions’ depoliticization was not total. Affiliated unions through their card votes remained an important force at Labour Party conferences—roughly 44 percent of the vote—and they continued to supply significant organizational resources, which would be mobilized in the early 1980s.¹⁶³ The collapse of the historic compromise

¹⁶¹ Pat Walsh, *Trade Unions in New Zealand and Economic Restructuring* (Sydney: ACCIRT - University of Sydney, 1991), p. 4; Buchanan and Nicholls, p. 99.

¹⁶² Buchanan and Nicholls, op. cit.

¹⁶³ Nagel: 223. Matt McCarten, secretary of the Unite union, who in the early 1980s was active in the Hotel and Hospital Workers in South Auckland, claims that “in my union...none of us really paid any attention to the Labour Party.” Interview with Matt McCarten, June 30, 2006, Auckland.

via the chaotic state of the New Zealand economy and the harshness of Robert Muldoon's National government towards the unions roused them from their nonpolitical slumber. Bill Andersen, president of the pro-USSR Socialist Unity Party (SUP), the dominant force in the Auckland unions at the time, became secretary of the Northern Drivers' Union, one of the most radical unions affiliated to Labour in the 1970s and 80s.¹⁶⁴ This led to a rise in industrial militancy which broke with the FOL's traditional policy of compromise and moderation. By 1984, after nine years of a National government, even the SUP, which often ran its own candidates in elections and did not usually support Labour Party candidates, opted to support the election of a Labour government.¹⁶⁵

b. Acting as the Loyal Opposition

Although the National government of 1975-84 was far more strident in its rhetoric than its actions regarding the arbitration system and trade unions generally, it did impose two freezes on wages, and—after confrontations with the unions over budget cuts—it did put an end to compulsory unionism in 1983, thereby depriving the unions of their guaranteed membership. Prime Minister Muldoon had thus “reduced [the unions] to impotence, and had shown them that their established position in the economy was no longer secure.”¹⁶⁶ This was reason enough for the unions to make a Labour Party victory in 1984 a priority. Upon Labour's victory, compulsory unionism was restored.

Labour's post-victory Economic Summit Conference brought together representatives of the FOL with those of business (most importantly the Federated Farmers and the New Zealand Manufacturers' Federation) in an attempt to reach a

¹⁶⁴ Webber, p. 185; Jesson, p. 46.

¹⁶⁵ Socialist Unity Party, *Communism in New Zealand* (Auckland: Socialist Unity Party, 1986), p. 37.

¹⁶⁶ Jesson, p. 92.

consensus on economic policy.¹⁶⁷ In 1981 the FOL had already published *Towards An Alternative Economic Strategy*, which included socialistic language stating that “Investment and production should be for social use, not private gain” and “A primary objective of a trade union economic policy should be to raise the consciousness of the working class about the economic realities which surround them.”¹⁶⁸ The Alternative Economic Strategy that the FOL ultimately proposed at the Conference, however, was corporatist but not particularly socialist. It stressed full employment, progressive taxation, price controls, a minimum wage adjusted to the cost of living, increasing New Zealand’s self-reliance, industrial development, trade policy, and monetary policy.¹⁶⁹ Yet certain prerequisites for corporatism were lacking in the New Zealand labor movement. The FOL had little power over affiliates, particularly in terms of central funding and the right to strike, and the leadership of the labor movement was split between the FOL and the public-sector Combined State Unions (CSU). New Zealand unions were insufficiently cohesive and united enough to gain support for a corporatist strategy within the Labour Party.¹⁷⁰ Moreover, most of the union leaders were too narrowly concerned with wages and conditions to fight for a corporatist arrangement, a result of years of conditioning by the ICAA’s restrictive, depoliticizing definition of the proper scope of “industrial matters.”

As Labour government policy changes were done at a rapid pace, the unions struggled to keep up. There was a degree of union opposition to tight monetary policy, reform of the public sector, and the removal of tariffs and subsidies, but it was “diverse

¹⁶⁷ Ibid, p. 56.

¹⁶⁸ New Zealand Federation of Labour (Alf Kirk), *Towards an Alternative Economic Strategy* (Federation of Labour, August 1981), p. 26.

¹⁶⁹ Jesson, op. cit.

¹⁷⁰ Bray and Neilson, pp. 70-1.

and uncoordinated . . . The opposition of public sector workers to staff cuts . . . was scattered and relatively uncoordinated; and there were no deep links between private and public sector unions.”¹⁷¹ However, Labour did not deregulate the labor market to the same extent as other markets. Important parts of the traditional arbitration system were retained, including exclusive bargaining rights for registered unions. There were also high wage round payouts in the first two years of the Labour government.¹⁷²

The unions did little to publicly oppose the lifting of controls on local and foreign investors, the introduction of sizeable tax reductions for companies and the wealthy, the removal of farm subsidies, the reduction of public spending, the removal of import controls, or the introduction of indirect taxation on goods and services. Rather, they acted as a loyal opposition, debating economic policy at party conferences, but hardly more.¹⁷³ Union loyalty was quite surprising in certain cases. When the Labour government put forth plans to institute a regressive valued-added tax known as the Goods and Services Tax (GST) in 1986, many unions opposed it, but some unions, including the largest union affiliated to the Labour Party, the Hotel and Hospital Workers, voted to support it, out of loyalty to the government—specifically, to the government’s support for compulsory unionism.¹⁷⁴ Fear of the return of a National government which would undo compulsory

¹⁷¹ Bray and Nielson, p. 76.

¹⁷² Bray and Walsh, op. cit.

¹⁷³ Jesson, p. 94.

¹⁷⁴ Interview with Matt McCarten; Jesson, p. 74-5. Lange justified the GST before the FOL by claiming that the government would make the revenue from the tax “available to finance tax cuts for those on low and middle incomes, and to make proper benefits provision for those on no income.” Address by David Lange to the New Zealand Federation of Labour, *Minutes of first day’s proceedings of the forty-eighth annual conference held in the Wellington Town Hall* (May 1985), p. 43.

unionism, and knowledge of the assault on unions in Thatcher's Britain, provided enough reason for the unions to remain loyal to Labour.¹⁷⁵

To an extent, the union position of loyal opposition paid off: compulsory unionism was restored and large wage increases were won in the 1985 wage round. The most prominent success that the unions enjoyed pertained to the Labour Relations Bill of 1987. The bill's introduction led to a great political battle between the Treasury, the Labour Department and the Prime Minister's office, and an important pro-union lobby in Labour politics. After much lobbying and bureaucratic in-fighting, for once the Treasury and Business Roundtable failed to get their way, mainly because they had moved beyond matters of pure economic policy into a very politically sensitive area. Their plans for total deregulation of the labor market were blocked. In addition, the bill included a requirement for unions to have 1,000 members, thus starting a process of union mergers aimed at reducing the fragmentation of the movement.¹⁷⁶ It also recognized that a collective bargaining system implies a right to strike and for the first time specifically stated that right in positive terms.¹⁷⁷ Employers viewed the legislation as a betrayal.¹⁷⁸ But their interests were met in one particular respect: unions were prohibited from seeking access to second-tier (enterprise) bargaining, the process by which workers in a firm could negotiate for benefits on top of an award. Though relatively few unions left the award system, this provision actually *encouraged* union and award fragmentation, as

¹⁷⁵ Jesson, p. 75. Lange told the FOL in 1986 that "The Labour Party and the trade union movement will always have their differences. Where I believe we are in agreement is in the wisdom of trade unions promoting worthwhile reform in co-operation with a Government that is far from perfect in your eyes, is not like its opponent rabidly anti-union, and never will be." Address by David Lange to the New Zealand Federation of Labour, *Minutes of first day's proceedings of the forty-ninth annual conference held in the Wellington Town Hall* (May 1986), p. 36.

¹⁷⁶ Jesson, p. 94.

¹⁷⁷ Brosnan, Burgess, and Rea, p. 9.

¹⁷⁸ Bray and Neilson, op. cit.

each enterprise now had separate agreements. The Labour government thereby paved the way for the abolition of awards by the succeeding National government of 1990.¹⁷⁹ The unions' partial success ultimately proved to be of limited importance in comparison to the government's economic policies. Closures in manufacturing and construction, and the restructuring of the public sector—the sale and commercialization of state assets and Departments in particular—led to a severe increase in unemployment. Combined with a recessionary economy, this enabled some strident employer groups to use the Labour Relations Act to their advantage; excepting 1988, every wage round between 1984 and 1991 saw a decline in real wages.¹⁸⁰

c. The Attempt at Internal Renewal

The anti-union offensive of the 1980s led to two responses from the labor movement: organizational restructuring and a new political strategy. With the failure of the FOL to broaden its focus beyond wages and benefits, the labor movement was left “flat-footed,” without a strategy to build a defense against anti-union reforms.¹⁸¹ The decline of blue-collar and the rise of white-collar unionism since the 1970s had led to peak-level pressure for unity between the private-sector FOL and the public-sector CSU. In 1987, the two merged into the New Zealand Council of Trade Unions (NZCTU), with 530,000 affiliated members. The NZCTU assumed responsibility for developing general union policies and providing overall leadership to the unions.¹⁸² Union leaders hoped that with internal

¹⁷⁹ Jesson, p. 95; Bramble and Heal, pp. 132-3.

¹⁸⁰ Brosnan, Burgess and Rea, p. 11.

¹⁸¹ Russell, p. 215.

¹⁸² Bramble and Heal, op. cit.

renewal they could “present themselves as mature economic partners and then the government would modify its direction to incorporate them.”¹⁸³

In 1987 President Rex Jones and the NZCTU leadership advocated “strategic unionism” and a compact patterned after the Accord between the Australian labor movement and the Hawke-Keating federal Labor governments. Strategic unionism rested on a trade-off in which it agreed to exercise real wage restraint and discourage industrial action and political protest in exchange for greater union involvement in the formation of economic, social and industrial relations policies by the government. Strategic unionism was promoted as a “third way” between Robert Muldoon-style state intervention (government subsidization of industries, wage and price controls) and the strident monetarism of Rogernomics. The aim of its proponents was to improve working class living standards through job creation and expanded welfare, superannuation, and pensions.¹⁸⁴ But no comprehensive corporatist political program was offered. Genuine corporatism, as Jesson explains, had been ruled out by Labour’s embrace of market forces; the NZCTU strategy of “constructive engagement” was just “a way of limiting the damage.”¹⁸⁵ But the Labour government still refused to consult with the NZCTU leadership in any significant economic policy decisions. Like the FOL before it, the NZCTU had little power over its affiliates. Joining the NZCTU did not clearly tie unions to its leadership’s corporatist strategy. At the same time, strategic unionism discouraged

¹⁸³ Bray and Neilson, p. 78.

¹⁸⁴ Bramble and Heal, pp. 134-5; Brian Roper, “The New Zealand Council of Trade Unions and the Struggle against the Employment Contracts Act,” *Red & Green* No. 6 (2007), p. 17.

¹⁸⁵ Jesson, p. 121.

industrial action and political protest, as they would undermine the labor movement's credibility as a "mature economic partner" in a corporatist arrangement.¹⁸⁶

Strategic unionism, then, effectively backfired. Given the NZCTU's lack of control over individual unions and its discouragement of union militancy, employers and the government had no fear of union opposition to pro-market reform, and therefore saw no need to make concessions to the unions in the form of a greater say over proposed policies.¹⁸⁷ Nor were the unions as united strategically as it might have appeared at the 1987 conference, where they all acted virtually in unison. Many in the unions had come to oppose the conciliatory manner of Jones and were now firmly opposing the Labour government's policies. There were disagreements over industrial matters as well. The unity of blue-collar, white-collar, private and public unions represented by the creation of the NZCTU proved to be more organizational and symbolic than truly solidaristic. Indeed, many unions remained ambivalent about strategic unionism and the compact, and some traditional blue-collar unions opted not to join the NZCTU. The NZCTU's emphasis on negotiation and compromise with both employers and government reinforced the alienation of both blue-collar unions outside the NZCTU as well as those which remained just barely inside the federation.¹⁸⁸ Ultimately, the compact was scrapped; a much more limited "Agreement for Growth" was signed in April 1990, six weeks before an election that led to Labour's defeat and National's victory. The document merely represented the NZCTU's willingness to accept further wage cuts in

¹⁸⁶ Bray and Neilson, op. cit.; Roper, op. cit.

¹⁸⁷ Bramble and Heal, p. 135; Bray and Neilson, p. 79.

¹⁸⁸ Jesson, op. cit.; Bray and Neilson, op. cit.; Roper, p. 16.

return for a government commitment to involve the leadership in formulating economic policy. With the NZLP's defeat, it was never put into practice.¹⁸⁹

Employers may have been upset simply by the unions' attempt to negotiate a corporatist arrangement with Labour and by the unforeseen decline in enterprise bargaining which resulted from the Labour Relations Act.¹⁹⁰ But they need not have worried. The NZCTU's still refused to openly criticize the government when it privatized government agencies and deregulated industries. Fearful to move from loyal opposition to outright opposition, the NZCTU became estranged from its membership and allies and thus weakened further. Many looked to the NZCTU for leadership but heard nothing.¹⁹¹ Still too disunited and fragmented after decades under the arbitration system, and increasingly alienated and separated from a Labour Party in which it had not been seriously involved for years, the labor leadership could not formulate a corporatist plan that the party leadership would have to take seriously, yet it was unwilling to repeat the industrial militancy of the Muldoon years under a Labour government to force concessions from it.

It is primarily the alienation of the New Zealand labor movement from its historic party which accounts for the great change in the Labour Party's class composition and the triumph of Douglas and his comrades. Years of indifference by the union leadership to politics—its single-minded concern with attaining wage benefits—destroyed the unions' ability to influence the course of political events. This was made obvious in the months

¹⁸⁹ Bramble and Heal, p. 136; Bray and Neilson, op. cit.

¹⁹⁰ Bray and Walsh: 369.

¹⁹¹ Ellen Dannin, "We Can't Overcome? A Case Study of Freedom of Contract and Labour Law Reform," *Berkeley Journal of Employment and Labour Law*, Vol. 16 No. 1 (1995): 39; Roper, pp. 17-8. According to Russell, by 1990 the union movement "was beginning to believe that the Opposition [National] might be a gentler and more attractive alternative." Russell, op. cit.

before the 1984 election, when the Labour Party Joint Council was debating economic policy: “The FOL [Federation of Labour] and State Services union leaders knew at the time of the policies [which] Roger Douglas was suggesting. Peter Harris, Rob Campbell and one or two others participated in the policy debates, but the rest of the union leadership did nothing effective about it.”¹⁹² Had the FOL not been so quick to support the status quo at the Conference; had there been more prominent trade unionists seeking to advance union interests in parliament; had the FOL leadership not been willing to let the Joint Council become obsolete,¹⁹³ then it is conceivable that the policies of the “Auckland cabal” might have received a far greater challenge from within the Labour Party. Social-democratic unionized workers in the party would have been—and, in their reduced numbers, in fact were—far more hostile to the Treasury’s economic advice than were the middle-class individual party members. Under the 1984-90 Labour government the union movement proved to be strategically adrift, without enough influence within its historic party even to significantly moderate the Labour government’s commitment to privatization, labor market deregulation, and the commercialization of state enterprises.

4. Alternate Explanations for the Labour Government’s Policy Choices

In explaining how Labour was able to execute such a radical program, many have emphasized the importance of New Zealand’s governmental structures and the role of the Treasury. Nagel and Schwartz have both noted that New Zealand’s political institutions lacked checks and balances that could block, delay or water down Labour’s program; no presidential veto, need to compromise with a second chamber, judicial review existed to

¹⁹² Jesson, p. 93.

¹⁹³ Webber, p. 189.

get in Labour's way. As one-party majorities controlled parliament, leaders did not need to negotiate with coalition partners; they had an "elected dictatorship."¹⁹⁴ Both writers also note that the Treasury was the most important source of economic advice to the Cabinet, an aspect of New Zealand's political system which many writers believe to be the most important factor in explaining the Labour government's economic right turn. Schmidt stresses the "elite conspiracy" of a "small coterie" led by Roger Douglas; Boston points out that even though the Treasury's power is not "entrenched constitutionally," it has power that rests "not merely on its role as a control department, but also on the particular rules governing the process of Cabinet decision-making, its political support, its capacity to influence the framework within which policy options are considered, the quality of its staff, and the absence of strong bureaucratic rivals."¹⁹⁵ However, these explanations are inadequate; they explain the means by which the Labour government was able to implement neoliberal reforms, but not *why* it did so. They may mention "the discrediting of the old economic solutions" and even the changing class basis of Labour leaders,¹⁹⁶ but in failing to discuss the changing class basis of Labour *membership* and the failure of the unions to keep a strong grip on the party that was supposedly theirs, they do not stress what is most important—that the class character of the entire party was radically changing, which is why there was no significant revolt by the party membership against "Rogernomics" until 1988, when Jim Anderton MP and certain unions (the Hotel and Hospital Workers, the Distribution Workers) formed a pole of attraction for those

¹⁹⁴ Nagel: 233; Schwartz: 546.

¹⁹⁵ Schmidt, p. 14.; Jonathan Boston, "The Treasury and the Organisation of Economic Advice," Easton, ed., p. 78.

¹⁹⁶ Schmidt, op. cit.; Nagel: 228.

intransigently opposed to government policy.¹⁹⁷ That Anderton and his followers found the Labour Party unreformable—leading to their departure and founding of the New Labour Party in 1989—attests to how deep the changes in the party truly ran.

a. The Problem of the Political Structure

Geoffrey Palmer, who became deputy prime minister in 1984, later said of the danger of alienating traditional Labour supporters via these policies:

Well, we were not a Government who really worried too much about those matters . . . If you compare us with the Australian Labor Government, they never went too far because they always wanted to kept their core union support on board. And we did offend people. But, looking back on it, I don't see how we could have avoided it.¹⁹⁸

The policies were in fact controversial and often deeply unpopular, yet the reformers in favor of them usually prevailed. This was because New Zealand was especially well suited to engage in this type of dramatic and unprecedented series of economic reforms. New Zealand's political structure provided few impediments to a government that wishes to implement its policies. Once the Prime Minister and Cabinet agreed to a policy, they could quickly push it through Parliament. The government could use the approach of passing a bill under urgency: "Under urgency, a bill can pass Parliament in as little as one or two days without ever being referred to a parliamentary select committee for public consultation."¹⁹⁹ Prior to 1993, parliament operated in a way that was conducive to minority rule; while formal decisions in the House were taken by majority vote, the parties voted as disciplined blocs, with each member required to follow the majority in

¹⁹⁷ Jesson, p. 134.

¹⁹⁸ Russell, p. 130.

¹⁹⁹ Knutson, pp. 17-18.

his or her party's caucus, regardless of personal judgment or constituency preferences. As Nagel explains, in the 1980s,

. . . a new rule of cabinet solidarity . . . [required] all members of the Labour cabinet . . . to support its decisions in caucus . . . During the Labour government of 1984-90, out of a caucus of fifty-six or fifty-seven, twenty were (at most times) members of cabinet; in addition, another eight or so held other offices that induced them to vote with the Ministry . . . Consequently . . . eleven votes in cabinet could control the passage of laws in a parliament of ninety-five or ninety-seven members . . . This arithmetic logic was compounded further by the reformers' superior preparation and understanding of economics (aided by the Treasury), the force of their personalities, and their skilful exploitation of group dynamics.²⁰⁰

Before 1993 New Zealand was considered perhaps the purest example of the Westminster system of majoritarian democracy, as Lijphart labels it.²⁰¹ This fact has been used to explain why the Labour Party moved so dramatically to the right on economic policy: all those who wanted to replace Muldoon had to join the Labour Party, which was consequently a very broad anti-Muldoon coalition including both unions and economic liberals who were unhappy with Muldoon's Keynesian and statist policies. The Westminster system is defined by parliamentary sovereignty, fusion of legislative and executive power through cabinet government, a unicameral legislature, a unitary system with weak local authorities and no provinces or states, frequent (usually triennial) elections, and single-member-district plurality elections that promoted the dominance of two political parties, one or the other of which normally had a disciplined parliamentary

²⁰⁰ Nagel: 234-5.

²⁰¹ Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries* (New Haven: Yale University Press, 1984). Nagel argues that "institutions like Britain's and New Zealand's before 1993 ought to be called 'pluralitarian' rather than 'majoritarian'. Obviously, at the basic constituency level, their elections employ plurality rather than majority rule. Moreover, at the national level, the frequent presence of electorally futile minor parties means that typically only an aggregate plurality of voters supports the winning party." Nagel: 224.

majority.²⁰² It ensures that the party in office does not risk facing a majority opposition in the parliament during an election period and therefore has the opportunity to carry out its policies without compromise.²⁰³

It is true that New Zealand's electoral system, which aggregated votes by districts, did leave Labour with a systemic disadvantage—its vote was excessively concentrated.²⁰⁴ But the “logic of the Westminster system” thesis cannot explain the reasons for Labour's rightward shift. The British and Australian labor parties also work under the first-past-the-post system, yet the British party leadership never planned to *initiate* such a far-reaching pro-market program as the New Zealand party, and the Australian party leadership, while increasingly neoliberal, embraced its trade union constituency to a far greater degree than did the New Zealand party leadership. Furthermore, it is possible for the plurality electoral system to work to the *advantage* of a labor party whose core blue-collar constituency is numerically a minority: in the British general election of 2005, the Labour Party won an overall majority of 66 seats (55.1 percent) despite winning only 35.2 percent of the national vote.²⁰⁵

Moreover, at virtually the same time that the NZLP was embracing Chicago School economics, the British Labour Party, operating under essentially the same electoral system as its New Zealand counterpart, had moved decidedly leftward. This was the era in which British Labour had captured the Greater London Council (GLC) on a radical program under “Red” Ken Livingstone; in which the supporters of Labour Left

²⁰² Ibid.

²⁰³ Poul Erik Skov Christensen, *The Experiment in New Zealand: The Consequences and Experiences of the Reforms in New Zealand* (Economic Council of the Danish Labour Movement, June, 2001), pp. 8-9.

²⁰⁴ Nagel, op. cit.

²⁰⁵ Electoral Reform Society, “5 May 2005: Worst Election Ever” (May 13, 2005), <http://www.electoral-reform.org.uk/publications/briefings/election2005.pdf>.

leader Tony Benn led pressure for the constitutional reform of the Labour Party, leading to a Special Party Conference which passed new rules for electing the leader by membership, unions, and parliamentary party rather than solely the latter; the radical Michael Foot became the parliamentary party's leader; and Benn contested the deputy leadership, losing by less than one percent.²⁰⁶ The Labour Left seemed stronger than it had ever been, albeit not strong enough to prevent defeat at the 1981 Party conference, or to make the left-wing "Alternative Economic Strategy" be integrated into Labour's 1983 Manifesto.²⁰⁷ The Manifesto made reference to nationalization of industry and increasing union power.²⁰⁸ Such a program was a far cry from where New Zealand Labour (or Australian Labor) planned to go. It is indeed true that the leftward turn of British Labour did not correlate with electoral success. But this had less to do with the radicalism of its 1983 program—a radicalism which paled in comparison with that of the programs of then-elected socialist parties in France and Greece—than with the presence of an electoral alliance between the Liberals and the Social Democratic Party (a right-wing split from Labour) and the well-publicized internal squabbling between Labour's left and right factions. As Panitch and Leys remark, "a visibly disunited party cannot win elections."²⁰⁹

²⁰⁶ Geoff Eley, *Forging Democracy: The History of the Left in Europe, 1850-2000* (New York: Oxford University Press, 2002), 461-63; Leo Panitch and Colin Leys, *The End of Parliamentary Socialism: From New Left to New Labour*, 2nd Edition (New York: Verso, 2001).

²⁰⁷ The Manifesto was less radical than two economic strategy documents produced in 1982 that reflected the new ("Bennite") Labour Left's influence at the time, the Trade Union Congress-Labour Party Liaison Committee's *Economic Planning and Industrial Policy* and the Home Policy Committee's *Labour Programme 1982*. Panitch and Leys note that "nothing that has been produced by the British labour movement since this time comes anywhere near as close to making any significant progress towards the development of socialist strategy." Panitch and Leys, pp. 204-05.

²⁰⁸ Eley, pp. 463-64.

²⁰⁹ Panitch and Leys, p. 208. In contrast, in New Zealand, "party factions had long been discouraged, and only began to emerge formally in the mid-1980s, and then only as a by-product of the intense internal policy debates." Jack Vowles and Ian McAllister, "Electoral Foundations and Electoral Consequences: From Convergence to Divergence," Castles, Gerritsen, and Vowles, eds., p. 202.

Furthermore, the existence of the Westminster system alone does not explain why market ideologues such as Roger Douglas and Ruth Richardson would choose the Labour Party—a party that one would expect would be innately hostile to monetarism—rather than enter the conservative National Party and move it towards acceptance of their agenda. (Douglas later started his own unambiguously pro-market party, ACT New Zealand.) Even David Lange, the Labour prime minister, later said, “. . . we went beyond that which was essential and we started to pursue things for the sake of ideology.”²¹⁰ This was hardly expected, as pragmatic parties in a two-party system are supposed to converge towards the position of the median voter, towards static equilibrium, as stated in the theories of Downs and Arrow.²¹¹ And for decades both of New Zealand’s two main parties did converge around a mildly social-democratic policy framework.²¹² When this consensus began to break down in the face of economic crisis, Labour, after losing office in 1975 after only one term, “immediately instigated a turn to the left—thereby helping corrode the postwar settlement. This left turn was illustrated by a decision at the party’s 1977 annual conference to restore the principle of ‘the socialisation of the means of production, distribution and exchange’ to the party’s constitution.”²¹³ This parallels the rise of the British Labour Left. But ultimately, in 1984, Labour implemented an economic

²¹⁰ Poul Erik Skov Christensen, *The Experiment in New Zealand: The Consequences and Experiences of the Reforms in New Zealand* (Economic Council of the Danish Labour Movement, June, 2001), p. 11.

²¹¹ Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957); Kenneth J. Arrow, *Social Choice and Individual Values* (New Haven: Yale University Press, 1963).

²¹² “When National took office for the first time in 1949, its leader Syd Holland declared, ‘There is going to be no more socialism in New Zealand’...Nevertheless, in power the National Party embraced the main features of Labour’s historic compromise—which the National Party had previously defined as ‘socialist’. In particular, National now accepted the Labour Government’s social security legislation. A societal consensus had developed about its value, and conservative politicians therefore had no choice but to promise not to undermine it...That National had reluctantly accepted Labour’s Keynesian economics and the welfare state in the 1940s and 1950s might have seemed like a huge defeat for the right, but this concession was actually the basis on which the National Party, like other parties of the right around the Western world, was able to dominate politics in the second half of the 20th century.” Edwards, p. 97.

²¹³ *Ibid.*, p. 103.

policy agenda that deviated greatly from the postwar consensus from the right rather than from the left. If one of New Zealand's two main parties was to embrace the theories of Friedrich Hayek and Milton Friedman, one would expect it to be the obvious party of the capitalist class—National. Yet it was Labour, the party of the working class, which was to implement a radical pro-market program.²¹⁴

b. The Influence of the Treasury

A corollary of the unitary, centralized structure of New Zealand's political institutions was the near-monopoly position of the Treasury (i.e., the finance ministry) with respect to economic policy advice. It combined functions which in the United States are assigned to five major agencies, and the separate Reserve Bank, just as aggressive on fiscal and exchange rate policy, eventually gained a new organic statute, making it the OECD's most independent central bank. One widely accepted explanation of why Labour embraced New Right economic theories comes from those who argue that the Labour cabinet was taken over by the Treasury of Roger Douglas, Finance Minister from 1984 to 1989. It was fiscal bureaucrats who "aggressively promoted the introduction of markets

²¹⁴ One might then ask why National did *not* implement a radically pro-market program in the early 1980s. The primary reason lies in the person of Robert Muldoon, who openly espoused the interventionism and protectionism that had long secured prosperity for New Zealand. He had no hesitation in imposing price or pay freezes, or committing the state to the risky, extravagant industrial enterprises of "Think Big." He was no Ronald Reagan or Margaret Thatcher. Indeed, the mainstream right in New Zealand in the 1970s and early 1980s generally supported big industrial complexes and Keynesian policies. But certain people in business circles started pushing for drastic change from the Keynesian consensus, most notably Donald Brash, general manager of Broadbank Corporation, who became National's candidate in the East Coast Bays by-election in September 1980. It became obvious to the free-marketeers in the National Party that if "big government" in New Zealand was to end, Muldoon first had to be removed from office—and indeed, a group of younger National MPs tried and failed to remove him from the prime-ministership after he failed to give unqualified support to Brash. Many in National who opposed Muldoon's policies ended up joining either the Labour Party—without the party refusing their membership, as one might expect—or the New Zealand Party of Bob Jones, previously one of National's major financial backers, which won 12.2 percent in the 1984 election. The post-Muldoon National government of 1990, however, fully embraced neoliberalism, continued the previous Labour government's economic agenda and further deregulated the labor market. Bassett, pp. 348-9; Nagel: 228.

for public goods. The Treasury . . . used its briefing papers to the Labour government in 1984 and 1987 to lay out specific steps for deregulating the economy and introducing market mechanisms into the public sector.”²¹⁵ As Nagel explains,

Except in a few specialized struggles . . . the main source of competent competing policy advice during the Lange ministry was the Prime Minister’s Advisory Group, which comprised eight to ten members . . . This tiny office was no match for the Treasury, which in 1990 employed 361 staff members and spent NZ\$70 million on consultants. [. . .]during the reform years, the conventional relationship between elected governments and bureaucratic advisers in a Westminster system was to a great extent reversed. The Treasury became the principal initiator; to know what governments would do, one had to read the Treasury’s briefing papers, not party programmes. (In fact, Labour did not even publish a manifesto before the 1987 election.)²¹⁶

But to leave matters there is to beg the question of why the Finance Ministry of a government of a heretofore social-democratic party would be composed primarily of ideologically driven neoliberals. Douglas and his colleagues may have argued that they were not ideologues; the New Zealand economy required thorough restructuring to avoid collapse, and as the Labour government was responsible for managing the economy, there was no choice but to enact policies that would reduce business costs and remove inefficient industries.²¹⁷ But it is generally agreed that those who pushed hard for privatization and deregulation were hardly mere pragmatists; as Lange would later say, the Treasury’s commitment to market forces was almost on the level “of a religious cult.”²¹⁸ Somehow this cult was able to enter a trade-union-based party and use the

²¹⁵ Schwartz: 546.

²¹⁶ Nagel: 333-4.

²¹⁷ Edwards, p. 266; Roger Douglas, *Unfinished Business* (Auckland: Auckland University Press, 1993).

²¹⁸ Nagel: 334.

autocratic structure of the New Zealand constitution in order to wholly alter the policies of that party.

It is not enough to simply focus on the ideological predilections of Treasury officials without discussing why those predilections existed. When powerful, highly placed officials in a party with a working-class base have pledged ideological fealty to right-wing economic doctrines—the reforms were enacted “in the name of a revival of the values of classical liberalism and laissez-faire”²¹⁹—this means that there has been a distinct shift in which class the party is attempting to represent. Much as Tony Blair’s New Labour in Britain would later do, the NZLP government established close relationships with business figures. In 1985-86 it appointed businessmen to the boards of State-Owned Enterprises, the Bank of New Zealand and the Reserve Bank. These men, who were ideological right-wingers opposed to the old welfare-state-and-Keynesianism consensus, thereby gained direct access to political power, becoming an unofficial advisory group that exercised greater influence than many regular cabinet members. Like the Treasury, they saw no place in economic policy for non-commercial concerns, let alone any influence by unions or the government in economic management.²²⁰

Conclusion

The 1984-90 Labour government was able to implement economic policies that went against the party’s historic legacy primarily because of the dramatic change in the party’s social composition. This was the toll taken by years of effective separation between the party and the unions, itself the result of a general depoliticization by the unions. With a

²¹⁹ Schmidt, *op. cit.*

²²⁰ Jesson, p. 82.

lessened dependence on union funding came an increased dependence on business donations.²²¹ By 1988 Labour's membership was down to 25,000, making it one of the smallest labor parties in the Western world.²²² Even if, in the 1980s, the unions retained a degree of influence over Labour with regard to policies affecting their specific organizational interests, this does not prove that the Labour Party was still a labor party in the strict sense of that term.

The experience of the fourth Labour government in New Zealand illustrates the degree to which it is possible for a union-based social democratic party to become dislodged from its traditional base. Social democratic governments and unions around the world may have had illusions in the permanence of the Keynesian historic compromise. Other governments of the left—the French Socialist Party of the early 1980s in particular—may have retreated from traditional social-democratic economic commitments in the face of a disciplinarian world economy. Prior to the election of the Lange government, the British Labour Party—as will be discussed in the next chapter—responded to economic crises in a manner that presaged “Rogernomics”: relaxing corporate taxes, purposively elevating inflation rather than unemployment as its main enemy, and generally distancing itself from its historic commitment to wealth redistribution and egalitarian social policies. The difference, however, is that (at the time, at least) the Callaghan government ultimately could not afford to embrace the monetarist techniques that seemed necessary to control Britain's inflation, because this would have risked alienating Labour's support from unions and workers generally. But with Keynesianism discredited and unionists striking in opposition to austerity measures and

²²¹ Webber, p. 190.

²²² Hanley, p. 31.

declining public spending, the Labour government found itself trying to distance itself from its historical electoral basis—trade unions.²²³ But where British Labour vacillated, losing its working-class support while remaining distrusted by classes hostile to organized labor, the NZLP was steadfast, and outside of the realm of labor market policy it had no trouble being so because the New Zealand unions—unlike their British counterparts—had drifted away from sustained political intervention. The result was a near-thorough dismissal by the NZLP of its policy commitment to organized labor—and the working class overall.²²⁴

²²³ David Denmark, “Social Democracy and the Politics of Crisis in New Zealand, Britain, and Sweden,” Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Government in New Zealand*, 2nd Edition (Auckland: Oxford University Press, 1992), p. 280.

²²⁴ *Ibid.*, p. 283.

Chapter Three: The British Labour Party

In this chapter I analyze the British Labour Party's embrace of neoliberal policies during the Blair government. I argue that Labour's turn to the right is principally the result of two factors: a transformation of the party's individual membership base, and a shift to a more passive approach to union-party relations on the part of organized labor. The combination of an increasingly middle class membership and a labor movement on the defensive created the opening through which Blair and his colleagues moved to establish a very close relationship with business, to bring the Labour Party into what Motta and Bailey term a "neoliberal power network," actively contributing to the reproduction of neoliberal hegemony.²²⁵

The chapter is divided into three sections. I begin by analyzing New Labour's policy choices—its basically anti-union industrial policy, its conscious rejection of redistributionist Keynesianism and embrace of essentially Conservative macroeconomic and spending policies, and its comprehensive reorientation of the welfare state. A second section focuses on the transformation of the Labour Party's individual membership from predominantly working-class party to increasingly middle-class. During the 1980s the party leadership worked to lessen the authority of the unions and steer the party toward a more widely based cross-class membership. The final section examines union-party relations. While unions adopted a militant response to spending cuts and wage controls in the 1970s, their desperation to unseat the Conservatives at any cost led to a more passive strategy in the 1990s. Working from a reduced institutional base within the party,

²²⁵ Sara C. Motta and David J. Bailey, "Neither pragmatic adaptation nor misguided accommodation: Modernisation as domination in the Chilean and British Left," *Capital & Class* No. 92 (Summer 2007): 115.

the unions were unable to sway policy, even when some of them actively sought to do so towards the end of the Blair years.

1. Policy Changes: How New Labour was New

In Britain, unlike New Zealand, it was not the traditional party of the left which wholeheartedly initiated the neoliberal era, and in many respects Blair's New Labour was not a policy innovator. It was the inheritor and continuator of the economic and social legacy of fifteen years of Conservative dominance: the privatization of council housing; significant cutbacks in the State Earnings-Related Pension Scheme (SERPS); a much stricter unemployment-benefits regime; and, above all, the overhaul of Britain's industrial relations system. Three Industrial Acts between 1980 and 1984 had swung the balance of power in the workplace deliberately towards employers, and the price of labor was lowered through the abolition of Wages Councils, relaxation of unfair dismissal regulations, and privatization of public industry and services.²²⁶

The New Labour leaders never intended to radically reverse such measures. Their project, from its inception, involved the explicit rejection of traditional social-democratic policies such as public ownership, state investment in and influence over private industry, and the extension of industrial democracy. Tony Blair made clear that his government would retain the key elements of the trade union legislation of the 1980s, leaving British law the most restrictive on trade unions in the Western world.²²⁷ While remaining tied to

²²⁶ Stewart Wood, "Labour Market Regimes Under Threat? Sources of Continuity in Germany, Britain, and Sweden," Paul Pierson, ed., *The New Politics of the Welfare State* (Oxford: Oxford University Press, 2001), p. 395.

²²⁷ Greg Patmore and David Coates, "Labour Parties and the State in Australia and the UK," *Labour History* No. 88 (May 2005): 134; Chris Howell, "From New Labour to No Labour? The Industrial Relations Project of the Blair Government," *New Political Science* Vol. 22 No. 2 (2000): 201.

the unions through (reduced) union collective representation within the party, the Labour Party acquired a great range of associations with individuals with business interests and/or identities, many of whom have played an important role in the operation of the party and/or the government. This integration of the Labour leadership with business interests has been suggested through its policy-making while in office, particularly by its use of policy “taskforces” which create managed and exclusive forums for deliberation over policy direction and detail. Business interests occupy a similar policy-making role in government initiatives such as “city academies” and Public-Private Partnerships and Private Finance Initiatives (PPP/PFI).²²⁸

Labour’s 1997 manifesto made it clear: no longer was the party even to hint at taking part in “bitter political struggles of left and right. [. . .] Many of these conflicts have no relevance whatsoever to the modern world—public versus private, bosses versus workers, middle class versus working class.”²²⁹ The manifesto’s economic priorities—summarized below by Hefferman—echoed those outlined in the 1979 Conservative manifesto:

- (1) Ensuring financial stability by promoting sound money and placing the reduction of inflation at the heart of both monetary and fiscal policy;
- (2) Placing the market at the centre of economic life through deregulation and the rejection of direct state intervention;
- (3) Privatisation of state-owned industries and utilities so withdrawing the state from direct control over economic activity;
- (4) Controlling trade union activity by legislation and (together with other measures) so disciplining the labour market.²³⁰

²²⁸ Motta and Bailey: 116.

²²⁹ Labour Party, *New Labour: Because Britain Deserves Better* (1997), <<http://www.psr.keele.ac.uk/area/-uk/man/lab97.htm>>.

²³⁰ Richard Hefferman, “New Labour and Thatcherism,” Andrew Chadwick and Richard Hefferman, eds., *The New Labour Reader* (Cambridge: Polity, 2003), p. 49.

Casting aside policies which even the right wing of “Old” Labour held dear, Blair stressed that New Labour was “principally concerned with strengthening the power of capital and allowing competition within the market to secure social reforms by virtue of ‘trickle down’ economics”; the party was to be explicitly “for and of business.”²³¹

a. Industrial Relations Policy

Prior to the 1997 election it was made clear that the days of Labour as the political expression of the unions’ interests were past: a Labour government would decidedly not reverse trade union immunities to allow secondary industrial action or alter the rules on picketing. The existing laws on industrial action, picketing, and ballots would remain unchanged.²³² However, Blair claimed that his government would not be anti-union in the active, Thatcherite sense. At times he seemed willing to work with the unions in the quest for industrial competitiveness. But Blair told the Trade Union Congress (TUC) immediately upon taking office that the flexibility of the current labor market would be retained; industrial relations would not return to their pre-Thatcher state.²³³ The unions were promised only “fairness, not favours.”²³⁴ Following the election victory, the power of unions and party activists within New Labour were further restricted: the unions would control the election of only 12 National Executive Committee members out of 33—no longer a majority.²³⁵ The unions would also no longer be included in any significant

²³¹ Ibid, p. 51.

²³² Labour Party, “Labour’s Business Manifesto: Equipping Britain for the Future,” in Chadwick and Heffernan, eds., p. 100.

²³³ David Coates, *Prolonged Labour: The Slow Birth of the New Labour Nation* (Basingstoke: Palgrave, 2005), p. 28.

²³⁴ Leo Panitch and Colin Leys, *The End of Parliamentary Socialism: From New Left to New Labour*, 2nd Edition (New York: Verso, 2001), p. 274.

²³⁵ Ibid, p. 283.

political consultation on economic policy—thus distinguishing the Blair government from its continental social-democratic counterparts.²³⁶

Once in government, New Labour's remaining policy commitments to the unions progressively eroded. Though Blair did not reverse Labour's commitment to restore to the unions their legal right to recognition whenever 50 percent of the relevant workforce supported it, the Confederation of British Industry (CBI) lobbied successfully (and unsurprisingly, given Blair's desire to be "business-friendly"²³⁷) to ensure that the recognition process would be slower and more complicated than originally planned; that five million workers were excluded entirely; that the right of individual workers to be accompanied into disciplinary meetings by a union official of their choice would be restricted; and that employers could dismiss workers involved in lawful disputes after eight weeks.²³⁸ The government also went back on its commitment to give part-time workers the same legal rights as full-time workers and to allow workers to claim unfair dismissal after six months' employment, rather than two years.²³⁹

The unions still supported the government's 1998 Employment Relations Bill, with Bill Morris of the Transport and General Workers' Union (TGWU) deeming it "a first step, not the last word, on workers' rights"—though it would in fact be the last word on workers' rights, and the only Industrial Relations Act, that the unions would hear during New Labour's first term.²⁴⁰ British labor markets would remain the least regulated

²³⁶ Gerassimos Moschonas, *In the Name of Social Democracy: The Great Transformation, 1945 to the Present* (London: Verso, 2002), p. 184.

²³⁷ "Blair appears far more comfortable around business executives than trade unionists, and he has recruited large numbers of industrialists to his government; getting off a corporate jet which had shuttled him to the TUC Congress in 1995, he reputedly told his hosts: 'I'd much rather carry on talking to you than to this lot.'" Howell: 209.

²³⁸ Coates, p. 86.

²³⁹ Panitch and Leys, p. 254.

²⁴⁰ Coates, p. 87.

in Western Europe.²⁴¹ Though Blair had stated that he desired to meet the modest objectives of the European Union's goal of raising social and labor standards, New Labour ministers opposed moves by the European Commission to increase the right of unions to be consulted about key company decisions such as investment, dismissals and closures. Though it signed Britain up to the "social chapter" of the European Union Treaty of Maastricht, the Blair government insisted that British and European global competitiveness was a greater priority than the modest reformist concerns of the EU.²⁴²

Where Labour once was almost entirely dependent on trade unions for its financial support, New Labour was able to match the Conservatives in winning seven-figure checks from major business figures. In the crucial quarter leading up to the 2001 general election, three wealthy individuals gave more money than the entirety of the unions.²⁴³ Though Labour had long had informal ties with big business figures, the rise of Blair saw a veritable revolution in the party's relationship with capital through the "blind trust" system, in which a trust beneficiary's assets are managed by executors who decide how those funds are invested and the beneficiary lacks knowledge of the trust's holdings. This system was ostensibly set up with the aim of "creating a wall between a politician and a pot of money to avoid conflicts of interest"²⁴⁴ but which were created with the express intent of lessening the party's dependence on union finances. With increased

²⁴¹ Patmore and Coates: 135.

²⁴² John Palmer, "New Labor Faces New Left Challenge," *New Politics* Vol. 7 No. 4 (Summer 1998): 34-5.

²⁴³ David Osler, "After New Labour," *Weekly Worker* 449 (Sept. 26, 2002), <<http://www.cpgb.org.uk/worker/449/osler.html>>.

²⁴⁴ Lucy Ward and Steven Morris, "Device that keeps ministers at arm's length from their money," *The Guardian* (Dec. 9, 2002), <<http://politics.guardian.co.uk/cherie/story/0,,857371,00.html>>. It was later revealed that Blair attempted to conceal millions of pounds of financial aid from multi-millionaire supporters who were subsequently nominated for peerages. For details on the secret long-term strategy by New Labour to lure and reward major party donors, see Andrew Alderson and Melissa Kite, "Revealed: birth of plot to sell access to Blair," *Sunday Telegraph* (Apr. 22, 2007), <<http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2007/04/22/nhons22.xml>>.

business donations to Labour came a drop in the percentage of trade unions' contribution to party funds, from 54 percent in 1995 to 30 percent in 1999.²⁴⁵

b. Economic and Social Policies

As summarized above, the economic strategy implemented by the Blair government respected the major boundaries of Conservative policy and placed foremost importance on creating a framework for economic stability, born of a desire to avoid returning to the economic tribulations of the 1970s.²⁴⁶ In New Labour's selective withdrawal of the state in economic and social policy, there was less traditional privatization than there was simply the acceptance of Conservative-initiated privatizations—rail, coal, Her Majesty's Stationery Office (HMSO)—and the transfer of public-sector responsibilities to private enterprise: PPI in the health and education domains, a publicly declared preference for private over public pension schemes, and encouragement to buy services previously supplied through the public sector.²⁴⁷ The most radical measure the government took was to cede responsibility for setting interest rates to the Bank of England. In doing so Blair and Chancellor Gordon Brown made clear to investors that New Labour could be trusted to work within the constraints set by the workings of the world capitalist economy; it would not politicize policy making by trying to “impose its will upon forces largely beyond its control.”²⁴⁸

²⁴⁵ Panitch and Leys, p. 282.

²⁴⁶ Andrew Glyn and Stewart Wood, “New Labour's Economic Policy,” Andrew Glyn, ed., *Social Democracy in Neoliberal Times: The Left and Economic Policy Since 1980* (Oxford: Oxford University Press, 2001), p. 201, 220.

²⁴⁷ Moschonas, p. 209; Colin Hay, “That Was Then, This Is Now: The Revision of Policy in the ‘Modernization’ of the British Labour Party, 1992-97,” *New Political Science* Vol. 20 No. 1 (1998): 20.

²⁴⁸ James E. Cronin, *New Labour's Pasts: The Labour Party and its Discontents* (London: Pearson Education Limited, 2004), p. 417.

In terms of social policy, the New Labour government's scheme for reducing unemployment and maximizing labor-force participation, *New Deal at Work*, attempted to be simultaneously neoliberal and social-democratic: it withdrew welfare benefits and toughened incentives to (re-)enter the labor force, even as it used public funds to assist those entering the labor market by providing child-care support, education and training, and subsidized work.²⁴⁹ The White Paper *Fairness At Work* established that unions' legal right of recognition should be restored whenever their level of support in the workplace equaled 50 percent, consultation rights for workers and unions in the face of redundancy plans were established, and rights to maternity leave were extended to 18 months.²⁵⁰ Labour's 1997 election manifesto promised "a sensible set national minimum wage" to "end the scandal of poverty pay," and a statutory minimum was adopted, though not one linked explicitly to the general level of either wages or earnings, thus marking a break with previous Labour proposals.²⁵¹

Some have contended that the adoption of the minimum wage, among other policies, is proof that New Labour ultimately remained social-democratic, as "real" neoliberals are fully opposed to such measures. Crouch argues that

. . . it is entirely consistent with social democracy to bear in mind the implications of policy for the functioning of markets . . . attempt[s] to find a compromise between workers' security needs and market forces is entirely consistent with classic social democracy . . . The balance of policy actions of the government fall clearly within the social-democratic category . . . offset by just a few neo-liberal measures in punitive components of the 'welfare into work' incentives.²⁵²

Similarly, Cronin claims that the New Labour government

²⁴⁹ Colin Crouch, "A Third Way in Industrial Relations?," Stuart White, ed., *New Labour: The Progressive Future?* (Basingstoke: Palgrave, 2001), p. 99.

²⁵⁰ Ibid, pp. 101, 104; Coates, pp. 56, 81.

²⁵¹ Coates, pp. 87-8.

²⁵² Crouch, pp. 101-2, 104.

. . . moved decisively from restraint to expansion as early as 1998 . . . its investment in public services [has] continued to grow since that turn. The second Comprehensive Spending Review (2000) . . . proposed still further increases in the funding of public services, with large sums again devoted to health, education and transport . . . the first post [2001]-election budget, in April 2002, contained the first clear and unambiguous rise in taxes on income. National Insurance contributions were increased by 1p and the upper limit upon which they were levied was removed entirely. The extra funds were to be used specifically for investment in the health service. The spending review of 2002 proposed still more increases that would continue to raise public expenditure . . . The trend in [rising] public expenditure was massive and unmistakable.²⁵³

But ultimately one must judge policy by what it does not do as well as by what it does, and by this standard, New Labour policy was less “a social democracy which has to make concessions to powerful neoliberal interests” than “a neoliberalism which has to make concessions to the social-democratic heritage and membership of the party.”²⁵⁴ In this, it echoed the New Zealand Labour government of the 1980s, committed to neoliberal economic policy while enacting a compromised version of social-democratic social policy.

Where the national minimum wage was concerned, the New Labour leadership refused to specify a particular amount or to link it in any definite way to the general level of either wages or earnings, as the unions had wanted. The government then declared that the amount would ultimately be set only after a referral to a commission which—in a sharp break from past Labour policy—would include business interests, not solely the national trade union leadership.²⁵⁵ Once set, the minimum wage would be kept at a very

²⁵³ Cronin, pp. 434-5.

²⁵⁴ Crouch, p. 104.

²⁵⁵ Panitch and Leys, p. 254; Coates, p. 88.

low level—£3.70 per hour.²⁵⁶ The union leadership did not accept this without criticism; in 1998, TUC President John Edmonds attacked government resolve to hold down wage levels—public sector pay in particular—without any corresponding resolve in attacking corporate greed. The Blair government would not raise the national minimum wage until October 2000, and then by only 10p; it required much union lobbying to force the government to further raise the minimum wage after the 2001 election.²⁵⁷

The Blair government was committed to making use of market forces “in the effort to improve public services” through the subcontracting of services in health and local government, the further development of the autonomy of local providers, local management of school funding, recourse to private investment for public projects via Private Finance Initiatives, and trying to procure private funds to improve failing schools.²⁵⁸ Perhaps most notably, under New Labour new hospitals began to be financed by private capitalists, who lease them to the National Health Service for 30 years, after which time they remain privately owned. Osler points out that the first six completed schemes had a capital cost of £423 million, yet involved payments of £2.4 billion over the life of the contracts.²⁵⁹ Yet by 2004 British health spending, at 8.7 per cent of GDP, was well below the West European average of 10.7 percent. At that time the number of doctors was 1 per 1,000 of population in the UK, compared to 2.7 in the United States, 3

²⁵⁶ Liz Davies, “The Fraud of ‘New Labor,’” *New Politics* Vol. 8 No. 2 (Winter 2001): 157.

²⁵⁷ Coates, pp. 89-90.

²⁵⁸ Cronin, pp. 436-7.

²⁵⁹ David Osler, *Labour Party PLC: New Labour as a Party of Business* (London: Mainstream Publishing, 2002), p. 120. The lobbying industry in Britain, essentially an offshoot of PPP/PFI, began to provide “an appreciable living for middle men and women who offer a bridge between business and the cash-starved public sector, to an extent that would have been considered suspect throughout the relatively gentlemanly years of the post-war [social-democratic] consensus.” Among those benefiting are 16 fairly prominent “Blairites” who received profitable posts working for lobbying companies, such as GPC Market Access director Derek Draper, who commanded “upwards of £225 an hour” due to his former position within New Labour. *Ibid*, pp. 99, 101.

in France and 3.4 in Germany. New Labour's per capita recruitment targets for doctors and nurses, even if projected through to 2024, still fell below the average that the European Union (EU) achieved in 1997.²⁶⁰

Echoing the Conservative Party, New Labour advocated a "welfare-to-work" scheme which encouraged (and in some cases obliged) welfare recipients to take part in schemes designed to prepare them for work. Old Labour approaches involving job creation and better benefits were rejected as costly and counterproductive. Welfare was now conditional upon the recipient's conduct and often their performance of menial work. In introducing the government's Welfare Reform and Pensions Bill in 1999, Alastair Darling, the secretary of state for social security, declared the end of "the something-for-nothing approach that has characterised the past."²⁶¹ In a measure arguably more stringent than anything proposed by the Conservatives, New Labour deemed that those aged 18-25 claiming unemployment benefits for more than six months would lose *all* entitlement to benefits should they refuse to accept one of the options presented to them by the government: a job with an employer; work with a voluntary organization; work on an environmental taskforce; or, for those without basic skills, full-time education or training. Those either pregnant or with dependents would still lose 40 percent of their entitlement were they to fail to comply with their part of this contract.²⁶²

In its attitude towards public provision, and what Hall has called its "restoration of that discredited and obscene Victorian utilitarian distinction between 'the deserving'

²⁶⁰ Susan Watkins, "A Weightless Hegemony: New Labour's Role in the Neoliberal Order," *New Left Review* 25 (Jan.-Feb. 2004): 13-14.

²⁶¹ Motta and Bailey: 119; Jamie Peck and Nikolas Theodore, "'Work first': Workfare and the Regulation of Contingent Labour Markets," *Cambridge Journal of Economics* No. 24 (2000): 120.

²⁶² Hay: 21.

and ‘the undeserving’ poor,”²⁶³ New Labour made a real break with its social-democratic past; its governmental practice is best characterized as “change in neoliberal continuity.”²⁶⁴ Given Labour’s abandonment of its traditional egalitarianism, it is notable that the level of economic inequality in Britain changed little since the Conservatives ruled; in fact, when household spending, rather than income, is used to measure living standards, the relative poverty rate in Britain *rose* after Labour assumed power—from 20 percent to 22 percent between 1996/97 and 2002/03. The rate of child poverty based on household spending rose by 11 percent for those same years.²⁶⁵

2. The Middle-Classing of the Parliamentarians and Membership

The change in the class composition of the Labour Party’s parliamentary fraction began many years before that of its individual membership. The party was born in 1900 as a working-class party based upon trade unions seeking the redress of working-class grievances, the safeguarding of the rights of workers through collective bargaining and the implementation of legislation that would improve workplace conditions and, to some extent, the conditions of workers outside their shops.²⁶⁶ But by 1922 the de-proletarianization of the Parliamentary Labour Party (PLP) had begun in earnest, with MPs being drawn mainly from the professional-managerial strata and those with elite

²⁶³ Stuart Hall, “The Great Moving Nowhere Show,” Hefferman, ed., p. 86.

²⁶⁴ Moschanos, p. 194.

²⁶⁵ The IFS argues that “Spending provides a more direct measure of people’s material well-being, since it more directly captures the consumption of goods and services” and that it “may provide a better picture of households’ long-term financial circumstances than income because, while incomes tend to fluctuate over time, most people borrow and save to ensure that their standard of living changes by less.” Institute for Fiscal Studies, Press Release (May 17, 2006), p. 2; Gary Younge, “Left’s Labour Lost,” *The Nation* (Apr. 10, 2006), <<http://www.thenation.com/doc/20060410/younge>>.

²⁶⁶ Andrew Thorpe, *A History of the British Labour Party* (New York: St. Martin’s Press, 1997), p. 16; Gregory Elliott, *Labourism and the English Genius: the Strange Death of Labour England?* (London: Verso, 1993), p. 23.

educations.²⁶⁷ By 1935 the union-sponsored section of the PLP consisted of only 80 out of 154 MPs.²⁶⁸ Kavanagh, writing in 1982, contends that

Since 1945 an average of 34 per cent [of Labour MPs] have been former workers. The total of 'workers' among Labour MPs is exaggerated, if we include the large number of ex-trade union officials (twenty-seven in 1980) in the total. Even trade union sponsorship, originally a device for recruiting workers to Parliament, is increasingly being offered to university graduates and people with little experience of industry. The unions are now more concerned to sponsor specialized representatives who may not necessarily be members of the union.²⁶⁹

The differentiation between union-sponsored and non-union-sponsored Labour MPs was enhanced by the erosion of overlap between party leadership and union leadership. In 1923 the Secretary of the TUC, at one point an MP, was excluded from parliamentary work, as union leadership came to be seen as an employment requiring full-time attention. By 1935 only three union General Secretaries were in parliament, none from a major union. At the cabinet level, this compositional differentiation of leadership was also reflected in the Labour governments of 1924 and 1929, with only seven union-sponsored MPs in the cabinet of 20 in 1924 and only six in the cabinet of 19 in 1929 (though in both cabinets nearly half of the membership arose from working-class backgrounds). Indeed, at least seven cabinet ministers in 1924 and five in 1929 came from aristocratic or upper-middle-class upbringings.²⁷⁰

By the 1960s some claimed that there had been a nearly total middle-class takeover of the Labour Party, not merely at the leadership level but at that of the rank-

²⁶⁷ Dennis Kavanagh, "Still the Workers' Party? Changing Social Trends in Elite Recruitment and Electoral Support," Dennis Kavanagh, ed., *The Politics of the Labour Party* (London: Allen & Unwin, 1982), p. 97.

²⁶⁸ Lewis Minkin, *The Contentious Alliance: Trade Unions and the Labour Party* (Edinburgh: Edinburgh University Press, 1991), p. 13.

²⁶⁹ Kavanagh, op. cit.

²⁷⁰ Minkin, p. 14.

and-file.²⁷¹ Hindess claimed that the close association between party and social class had itself declined—a result of the prosperity associated with reforms that Labour had implemented—and, with “the progressive disappearance of the class polarization of formal politics,” there was “a decline in political activity resulting from identification with, and commitment to, the interests of the working class as such.”²⁷² This analysis echoed that found in *Must Labour Lose?* (1960), which provided a rationale for transforming the Labour Party from a class-based party into a catch-all people’s party.²⁷³

It is true that after the Second World War the number of professionals among Labour MPs continually increased and the number of those who had come from working class occupations continually decreased. Prior to that, many MPs came from working-class families, left school at an early age, and became manual workers, trade union organizers, or ordinary clerical workers. This shift in the class of cabinet ministers was exemplified by the evolution of the Labour cabinet under Harold Wilson. In 1964 about half of Wilson’s cabinet had working-class roots, but these ministers steadily left the cabinet and were replaced by members of the educated middle class; by 1970, only three cabinet ministers of working-class origin remained.²⁷⁴ According to one election study the percentage of Labour MPs who with backgrounds in professional occupations increased from 49 percent in 1955 to 61 percent in 1970. The proportion of working-class-born MPs, both blue- and white-collar, dropped from 42 percent to 31 percent over the same years, while the purely “manual” category fell from 35 percent to 25 percent of

²⁷¹ Even in 1945, the year of Labour’s great electoral triumph, the percentage of trade-union-sponsored MPs had declined to 31 percent and “the large general unions had been generous in supporting candidates from a wide variety of social backgrounds.” Ibid, p. 71.

²⁷² Barry Hindess, *The Decline of Working-Class Politics* (London: MacGibbon and Kee, 1971), p. 164; Tom Forester, *The British Labour Party and the Working Class* (New York: Holmes & Meier Publishers, Inc., 1976), p. 28.

²⁷³ Mark Abrams and Richard Rose, *Must Labour Lose?* (Middlesex: Penguin, 1960).

²⁷⁴ Kavanagh, p. 100.

the PLP. In fact, the proportion of professionals in the PLP of 1970 was higher than that in the Conservative part of parliament—with the caveat that while most of the Labour professionals were teachers, lecturers and lawyers, most of the Conservative professionals were company directors, doctors and lawyers. But ignored in Hindess's formulations is that the Labour MPs of his time were largely *second-generation workers*, tied to the labor movement and its party through emotional and family links. There may have only been twenty ex-miners sitting as Labour MPs in 1973, but there were forty sons of miners.²⁷⁵ Forester points out that

. . . wider educational opportunities have meant that a far higher proportion of articulate working class children have entered middle class occupations through the medium of higher education . . . An Ernie Bevin [Foreign Secretary of the 1945 Labour government] born today would almost certainly go to university and become an economist, statistician, or businessman . . . He is less likely to become a local Labour leader or to work his way up the Trade Union ladder from the bottom rung.²⁷⁶

Kavanagh concurs with Forester, claiming that attendance at a university has become the main “switchboard” for entry into politics for both Conservative and Labour MPs. In 1945, 43 percent of Labour MPs had only an elementary education, the minimum provided by the state; by 1979 only 15 percent fit that category. The Education Act of 1944 had allowed more working-class children to enter grammar schools and universities, making upward mobility possible. Between 1945 and 1979 the proportion of Labour MPs who were university graduates rose from 33 percent to 57 percent.²⁷⁷ Were these university graduates “middle class”? If so, they were, as Forester and Kavanagh both note, first-generation middle class.

²⁷⁵ Forester, p. 68.

²⁷⁶ Ibid, p. 69.

²⁷⁷ Kavanagh, pp. 97-8.

Table 3.1: Professionals in the Parliamentary Labour Party (raw numbers)

	1951	Oct. 1974	1979
Lecturers (consultants and scientific researchers)	24	55	28
Teachers	18	38	36
Journalists, publishers	33	22	13
Politicians, organizers	6	8	13
Percentage of Labour MPs	26 %	38 %	30 %
Total of Labour candidates	163	267	267
Percentage of Labour candidates	27 %	43 %	43 %

Source: Kavanagh, p. 99.

Table 3.2: Social Composition of Labour Cabinets, 1924-76 (raw numbers)

Date	Size	Aristocrat	Middle Class	Working Class
1924	19	3	5	11
1929	20	2	2	12
1945	20	0	8	12
1964	23	1	14	8
1974 (Mar.)	21	1	16	4
1976 (Mar.)	22	1	13	7
Average	20	1.5	10	8.5

Note: Aristocrats are those who had among their grandparents a holder of a hereditary title. Source: Kavanagh, p. 101.

It was in the late 1970s that the decline in Labour's working-class membership truly began. Labour had been returned to power in 1974 "in the teeth of a storm of discontent produced by a worldwide economic crisis that nobody really understood," with high and rising inflation domestically, the pound depreciating in the unstable monetary arrangements instituted in 1971, and the international economy battered by the 1973 oil crisis and subsequent world recession.²⁷⁸ It soon became apparent that the British economy could not regain competitiveness without ensuring business confidence. Labour

²⁷⁸ Cronin, p. 153; David Denmark, "Social Democracy and the Politics of Crisis," Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Policy in New Zealand*, 2nd edition (Auckland: Oxford University Press, 1992).

may have promised to redistribute power and wealth to “working people and their families,” but renewed capital accumulation required the government to cut public spending on social services and effect a reduction in working-class living standards by restraining real wages and deflating the economy.²⁷⁹

Such policies had a significant effect in diminishing working-class membership in, and support for, the Labour Party. Whiteley illustrates that the primary motives for working-class individuals to join Labour are instrumental—they wish to pursue “public goods,” i.e. specific policy objectives for their class. Based on a survey of Labour Party Conference delegates, it was discovered that working-class members of the party had most often joined the party because they saw Labour as representing and promoting the interests of the working class, or as an extension of their trade union activity, or because they were convinced of the benefits of socializing the means of production and extending industrial democracy. This contrasted with members from a middle-class background, who tended to express their reasons for joining in generalized idealistic terms, such as to achieve “social justice.”²⁸⁰ The Labour government of the 1970s presided over rising unemployment and inflation, and scaled back the welfare state, thus increasing rather than decreasing inequality and alienating its supporters and members:

Economic performance is a particularly salient issue for the voters as a whole, and it can be inferred that it is also true for Labour Party members. Hence the instrumental members, who are disproportionately working class, are leaving the party as a result of these failures of policy outcomes. [. . .] There are three possible tactics when faced with declining performance: ‘exit, voice, or loyalty’. We might crudely summarise the situation in Labour’s grass-roots parties in

²⁷⁹ Elliott, pp. 87-90.

²⁸⁰ Paul Whiteley, “The Decline of Labour’s Local Party Membership and Electoral Base, 1945-79,” Kavanagh, ed., pp. 117-120.

response to the failures of Labour in office as follows: ‘nearly everyone voices, but while the middle class remains loyal, the working class exits’.²⁸¹

Labour in government could no longer meet the needs of its core supporters. The decline of the British economy thus exacerbated the decline of Labour’s individual party membership and erosion of its electoral base. It had become one of the smallest mainstream social-democratic parties in Europe, losing an average of 11,000 members each year, with an estimated less than 250,000 members by the end of the 1970s.²⁸² In addition, this shrinkage in membership and support occurred at a time when the number of manual workers who spontaneously identified themselves as working class had increased—from 34 percent in 1970 to 39 percent in 1979.²⁸³ This increase in class identification came at a time when the Labour government was being “effectively humbled by union power,” as rank-and-file workers struck against the government’s attempt to limit wage increases with the cooperation of top union officials. By January 1979 there were more workers on strike than at any single month since May 1968; there appeared to be a “civil war between the political and industrial wings of the Labour movement.”²⁸⁴ Regardless of campaign promises of a return to full employment, an “industrial democracy commission” and “easing the costs of rapid industrial change for working people,”²⁸⁵ only 50 percent of the manual workers’ vote went to Labour in 1979,

²⁸¹ Ibid, p. 122.

²⁸² “Taking the median number of members and activists as representative of the average constituency, there must have been around 250,000 individual members and 55,000 activists in 1978. This contrasts sharply with the [Labour Party’s] published figure for affiliated membership in 1978 of 675,000.” Whiteley, p. 115.

²⁸³ Panitch and Leys, p. 162.

²⁸⁴ Elliott, p. 91.

²⁸⁵ Labour Party, *The Labour Way is the Better Way* (1979), <<http://www.psr.keele.ac.uk/area/uk/man/lab-79.htm>>.

as it received its worst electoral performance since 1935, with a “seismographic swing” away from Labour to the Conservatives on the part of younger and skilled workers.²⁸⁶

Table 3.3: Labour Party Membership and Share of the Popular Vote, 1945-79

Election Year	Individual Membership	Vote Percentage
1945	Circa 500,000	48.8 %
1951	Circa 908,000	48.8 %
1966	Circa 820,000	48.9 %
1970	Circa 680,000	43.9 %
1974 (Oct.)	Circa 670,000	39.2 %
1979	Circa 250,000	36.9 %

Sources: Panitch and Leys, pp. 86, 162; Whiteley, p. 115; Lindsey German, “How Labour Lost Its Roots,” *International Socialism* No. 87 (July 2000), <<http://pubs.socialistreviewindex.org.uk/isj87/german.htm>>.

In the aftermath of defeat, the new Labour Left gained serious influence within the party and, to a certain degree, in the unions. It is common to dismiss this radical left led by Tony Benn as overrun with middle-class socialist ideologues, and it is true that Labour’s history is filled with examples of both radical MPs with middle-class backgrounds and very moderate MPs with working-class backgrounds. But many of the “Bennite” activists had been active as shop stewards or local union organizers or officials in the 1970s,²⁸⁷ and were as “organically” linked to the working class as any of Labour’s official intellectuals. Many of them were teachers or social workers, or studying to be such. But most of them, like their counterparts in Labour’s parliamentary wing, had working-class backgrounds. They were quite marginal in their middle-class status, failing to internalize traditional professional norms, and often allying with trade unions in community activism.²⁸⁸ They often were active union members (albeit usually in a white

²⁸⁶ Elliott, p. 92; Panitch and Leys, p. 163; Kevin Jeffreys, *The Labour Party since 1945* (New York: St. Martin’s Press, 1993), p. 103.

²⁸⁷ Cronin, p. 216.

²⁸⁸ Panitch and Leys, p. 21.

collar or public sector trade union), and their political base lay in the working-class communities in which they had grown up or in which they participated as Labour Party activists.²⁸⁹ Many Labour city councilors who were part of this new left expressly believed that a “social gap” between leaders and followers was undesirable in itself, or that MPs with working-class roots were more truly “representative” of their class and hence more likely to share the same values and emotions.²⁹⁰

The Labour program of 1983 stressed the party’s “new partnership with the trade unions” and again pledged to produce “a fundamental and irreversible shift in the balance of power and wealth” in favor of the working class through “radical, socialist policies.”²⁹¹ In response to Labour’s subsequent electoral rout—just under 8.5 million votes, less than 28 percent, a further loss of three million votes from the previous election²⁹²—a wide-ranging debate ensued regarding the party’s future. The party leadership increasingly embraced the argument offered by Eric Hobsbawm and Martin Jacques, which was regularly propagated in the “Eurocommunist” journal *Marxism Today* and which centered on such trends as the decline of the blue-collar industrial sector, the increasing prevalence of white-collar work, upward social mobility, and the increase in union conflict with public authorities (rather than private capitalists) to explain Labour’s decline.²⁹³ The Fordist stage of capitalism was being eclipsed, and together with Margaret Thatcher’s challenge to local government and the break-up and sale of local-authority owned housing, this caused the wearing away of the traditional bases of Labour’s working-class

²⁸⁹ Ibid, pp. 30-1.

²⁹⁰ Kavanagh, p. 107.

²⁹¹ Labour Party, *The New Hope for Britain* (1983), <<http://www.psr.keele.ac.uk/area/uk/man/lab83.htm>>.

²⁹² Elliott, p. 134.

²⁹³ Eric Hobsbawm, Martin Jacques, Francis Mulhern, *The Forward March of Labour Halted?* (London: Verso, 1981); Cronin, p. 205.

support—that is, it caused *class dealignment*: the traditional link between voting behavior and occupational status (i.e., where manual voters tended to vote Labour and non-manual workers tended to vote Conservative) no longer held.²⁹⁴ Hence, Labour would have to broaden its appeal beyond those easily identifiable as working class or be reduced to the status of a regional party of a shrinking class.²⁹⁵ Neil Kinnock, who became leader of the party three months after the 1983 election, took this advice to heart by beginning the process of curbing the influence of activist members and the trade unions inside the party, as both were seen as unrepresentative of the electorate.²⁹⁶ Kinnock also took the initiative in 1987 to ensure that the Labour Party conference implemented a new system of selecting parliamentary candidates, which compromised between the principle of “one man one vote” (OMOV) and the traditional union weighted vote.²⁹⁷ Labour’s loss of the election that year only consolidated the view by Labour leaders that the party’s identity as the “collectivist party of the organized working class” was “outmoded and off-putting: an electoral albatross”; further “modernization” was required.²⁹⁸

This new orthodoxy was disputed by some social scientists, most prominently Anthony Heath and his colleagues. They accepted the mainstream account of changed class structure, and that there had been a decline in the levels of voting for one’s “class party”—which they labeled *absolute* class voting—but argued that the best indicator of class dealignment was the level of *relative* class voting, which indicates the relative

²⁹⁴ James P. Allan, *The British Labour Party in Opposition, 1979-1997: Structures, Agency, and Party Change*, MA thesis, 1997 (Virginia Polytechnic Institute and State University, 1997), p. 27.

²⁹⁵ Elliott, p. 135.

²⁹⁶ Panitch and Leys, pp. 219-220.

²⁹⁷ Ibid, p. 224.

²⁹⁸ Elliot, p. 153.

strength of the different political parties in different social classes.²⁹⁹ Utilizing a more sophisticated class schema than the usual manual/non-manual dichotomy, they explained that there were no clear patterns of dealignment in relative class voting; the data from general elections from 1964 to 1987 displayed “trendless fluctuation.”³⁰⁰ Hence, class dealignment could not be blamed for Labour’s poor performance at the election: Labour was still a class party, albeit a less successful class party than before—one that failed to deliver the goods to its voters when in office.³⁰¹ The decline in consistent working-class support for Labour was reflected in the decline in its individual membership: 60,000 members left the party between 1984 and 1988.³⁰²

It was even questionable that Labour’s class base was shrinking. Deindustrialization was an undeniable fact, as nearly a quarter of all manufacturing jobs were destroyed within the first two years of Thatcher’s government, and the coal industry was shattered after the great miners’ strike of 1984-85.³⁰³ And the white-collar “salaried” had, according to Heath et al., increased to 27 percent of the employed population, with many such employees “plausibly characterized as [being] in routine, non-manual working-class occupations, since they involve . . . neither ownership nor control of [economic] processes including the worker’s own labour. As such, something approaching half of those assigned to the ‘new middle class’ can be argued to belong to the recomposed working class.”³⁰⁴ Yet throughout the Labour Party it was increasingly accepted that the more socialist and class-conscious the political program, the more

²⁹⁹ Gordon Marshall, David Rose, Howard Newby, and Carolyn Voger, *Social Class in Modern Britain* (New York: Routledge, 1989), p. 230.

³⁰⁰ Anthony Heath, Roger Jowell, John Curtice, *How Britain Votes* (Oxford: Pergamon Press, 1991), p. 35; Allan, op. cit.; Elliott, p. 158.

³⁰¹ Heath, Jowell, Curtice, pp. 29, 78; Allan, *ibid*; Elliott, *ibid*.

³⁰² Panitch and Leys, op. cit.

³⁰³ Martin Thomas, “The Crisis of British Socialism,” *New Politics* Vol. 5 No.4 (Winter 1996): 116.

³⁰⁴ Elliott, pp. 158-59.

difficult it was to convince voters to back it.³⁰⁵ As classical laborism, with its industrial-working-class-based image, was abandoned, official Labour discourse characterized the party solely as “the representative of the general public good in terms of economic management, infrastructural protection and efficient welfare delivery: not at all as the voice of the working class suffering a particular form of social injustice, let alone as aspiring to political and social hegemony.”³⁰⁶ The Labour Party was being remade in the image of what the Liberal Party might have become had it survived as one of Britain’s two main parties after 1918. It had not yet drifted as far to the right in economic policy as the New Zealand Labour Party, as its structural link to the trade unions was far stronger than the NZLP’s; nor had it yet made a clean break with traditional social democratic policies and principles. But as British Labour increasingly denied the basis of its own founding—to politically represent working people—its commitment to social reform became ever more threadbare.³⁰⁷

Under Kinnock, Labour’s image became to a large extent modeled around images favored by the target groups in the middle-class south of England.³⁰⁸ According to Sassoon, by 1989, “the typical member of the British Labour Party—one of the most class-bound parties of Europe, in terms of image and rhetoric—was . . . middle-class,

³⁰⁵ Willie Thompson, *The Long Death of British Labourism: Interpreting a Political Culture* (London: Pluto Press, 1993), pp. 153-4.

³⁰⁶ *Ibid.*, p. 158.

³⁰⁷ Labour’s 1992 manifesto exemplified this abandonment of social egalitarianism and any sort of class-based appeal—or, rather, it was a different class to whom the appeal was made: “It is the government’s responsibility to create the conditions for enterprise to thrive. Business needs sustained and balanced growth, with stable exchange rates, steady and competitive interest rates and low inflation. We will deliver them.” Labour Party, *It’s Time to Get Britain Working Again* (1992), <<http://www.psr.keele.ac.uk/area/uk/man/lab92.htm>>. The party’s connections with business became closer at this time, as Kinnock revived the Labour Finance and Industry Group, which was soon supplemented by the creation of the Labour Industry Forum and the High Value Donors Unit. Motta and Bailey: 116.

³⁰⁸ Allan, p. 69.

middle-aged and male. Only one in four members was a manual worker.”³⁰⁹ By 1995, 49 percent of Labour’s individual members were professionals or members of the salariat. The demographic profile of party members—its “middle-class character”—thus became skewed in comparison with core party supporters in the wider electorate.³¹⁰ While these members tended to be “left-wing” on such matters as environmental protection and nuclear power, they were generally “right-wing” on issues such as the role of trade unions and economic policy.³¹¹ While in 1987 Kinnock still feared moving too far to the right of traditional Labour social democracy,³¹² he was able to ensure that the weight of the unions’ bloc vote would be reduced to 70 percent (it would later drop to 50 percent in 1995).³¹³ After failure at the polls in 1992, Kinnock’s successor, John Smith, established a Union Links Review Group which adopted one-member-one-vote for candidate selection, further marginalizing union influence over the matter. A new formula for leadership elections was established in which union members affiliated to Labour, voting as individuals, would have a third of the electoral college votes.³¹⁴ The rule requiring that

³⁰⁹ Donald Sassoon, *One Hundred Years of Socialism: The West European Left in the Twentieth Century* (New York: The New Press, 1996), p. 656; Pelinka, p. 47.

³¹⁰ Paul Whiteley and Patrick Seyd, “The Dynamics of Party Activism in Britain: A Spiral of Demobilization?,” *British Journal of Political Science* Vol. 28 No. 1 (Jan. 1998): 118.

³¹¹ Patrick Seyd and Paul Whiteley, *Labour’s Grass Roots: The Politics of Party Membership* (Oxford: Clarendon, 1992), p. 137. Moschonas claims that the Labour Party, “strongly marked . . . by the role of socioeconomic issues in the structuration of its internal divisions, and highly ‘protected’ by the electoral system, has remained unreceptive to the emergence of post-materialist values and themes.” Moschonas, p. 176.

³¹² Richard Hefferman, “New Labour and Thatcherism,” Andrew Chadwick and Richard Hefferman, eds., *The New Labour Reader* (Cambridge: Polity, 2003), p. 53.

³¹³ “For Neil Kinnock, trade union links with the Labour Party were both an embarrassment and a necessity. He needed the block vote to push his policies through Party conference. He needed the approbation of the labour movement if he was to be seen to carry the labour movement with him. And he needed union cash to finance his election campaigns. But the approval he sought from the British establishment required not only that he keep a safe distance between himself and the unions but that at critical movements he act as a public opponent of trade unionism.” Richard Hefferman and Mike Marqusee, *Defeat from the Jaws of Victory: Inside Kinnock’s Labour Party* (London: Verso, 1992), p. 147.

³¹⁴ Panitch and Leys, p. 225. As early as 1989 it appeared that many party members wished to seriously change the connection of the unions to the party; 72 percent thought that “The trade union block vote at conferences brings the party into disrepute.” Seyd and Whiteley, pp. 50-1; Cronin, p. 346.

party members belong to unions was dropped.³¹⁵ But these modifications were miniscule compared to the alterations made after Smith died and Tony Blair—unlike Smith, a man with no background in the labor movement³¹⁶—came to power.

Table 3.4: Social Characteristics of Labour Party Members and Voters (1990)

Class	Members	Voters
Salariat	49 %	14 %
Routine non-manual	16 %	19 %
Petty bourgeoisie	4 %	4 %
Foremen/Technicians	5 %	6 %
Working class	26 %	57 %
N	4621	

Source: Patrick Seyd and Paul Whiteley, *Labour's Grass Roots: The Politics of Party Membership* (Oxford: Clarendon, 1992), pp. 33, 39.

With Blair's ascension to the leadership of the Labour Party came a significant increase in the party's membership. Close to 150,000 new members joined in 1994-5. Initially, it was not clear who exactly these people were. While some were middle class and agreed with Blair's planned policies, 40 percent of them came through a cut-price membership scheme for members of the affiliated trade unions, mostly manual workers' trade unions.³¹⁷ Yet by 1997 the number of trade unionists in the party had dropped to one-third of the whole membership, down from two-thirds in 1990; by 1998 only 29 percent of the party membership belonged to a union. The party's working-class, trade-unionist ethos and culture no longer existed at Labour's grassroots.³¹⁸ From 1990 to 1997 the number of members with incomes in excess of £40,000 increased five times.³¹⁹

³¹⁵ Howell: 206.

³¹⁶ Ibid: 208.

³¹⁷ Thomas: 121.

³¹⁸ Patrick Seyd and Paul Whiteley, *New Labour's Grassroots: The Transformation of the Labour Party Membership* (Basingstoke: Palgrave, 2002), p. 37. Notably, by 1998, only 30 percent of the British workforce was unionized. Seyd and Whiteley, p. 43.

³¹⁹ Ibid, p. 38.

Labour members became overwhelmingly drawn from the salariat, though the party attracted a slightly higher percentage of manual workers after 1994, despite the leadership's expressed desire to distance itself from Labour's traditional base.³²⁰ It is unsurprising that many of the party's newer members were more pro-market than its pre-1994 members, with the latter being twice as likely as the former to "strongly disagree" that "the production of goods and services is best left to the market."³²¹ By 1999, only 39 percent of the party agreed that "the central question of British politics is the class struggle between labour and capital," compared with 66 percent in 1990.³²² The middle-class takeover of the Labour Party once posited by Hindess now finally appeared to match reality.

Table 3.5: The Changing Social Composition of the Labour Vote, 1974-1997

	Percentage voting Labour					
	1974	1979	1983	1987	1992	1997
Petit-bourgeois	2 %	3 %	3 %	4 %	3 %	8 %
Salariat						
Non-union	7 %	7 %	5 %	8 %	10 %	19 %
Union members	6 %	7 %	7 %	6 %	6 %	7 %
Routine non-manual	14 %	12 %	12 %	15 %	16 %	17 %
Working Class						
Non-union, homeowners	9 %	13 %	12 %	16 %	18 %	19 %
Non-union, council tenants	17 %	20 %	20 %	16 %	16 %	11 %
Union members	36 %	30 %	24 %	19 %	15 %	11 %
Other working class	6 %	5 %	3 %	2 %	3 %	4 %
Unemployed	3 %	3 %	14 %	14 %	12 %	6 %
N	647	539	849	882	743	926

Source: Anthony Francis Heath, Roger Jowell, and John Curtice, *The Rise of New Labour: Party Policies and Voter Choices* (Oxford: Oxford University Press, 2001), p. 139.

³²⁰ Ibid, pp. 42-3.

³²¹ Ibid, pp. 52-3.

³²² Ibid, p. 61.

The radical makeover of the Labour Party into New Labour appeared to be a winning strategy in 1997: the party came to power with a working majority of 179 seats, its greatest ever. New Labour's electoral base seemed to be extremely wide geographically, ethnically, and socially, with growth among middle and senior managers in private sector firms, in the river valleys of the North where the vestiges of Victorian industry remained, in the more prosperous new industrial belts of the Midlands and the South East, manufacturing workers, in the new service sectors, women who worked at home and women who worked outside, the traditional professions, home-owners and even share-owners.³²³ But the social background of the 419 MPs was more professional than ever before: 239 university graduates, 104 former academics/teachers, 32 former barristers or solicitors, only seven former miners and two former dockers.³²⁴

If after the fall of the Callaghan government the Labour Party had become a largely middle-class party in Parliament drawing on a diminishing body of working-class electoral support, by the time that Blair took power the MPs and individual membership were largely as one where social class was concerned. In the words of Mark Seddon—then a member of Labour's national executive—over the course of Blair's years in power, much of the traditional membership “simply disappeared, [gave] up, retired to their armchairs or [threw] their energies into other campaigns as the great moving right show of the last decade gathered pace.”³²⁵ Individual Labour membership dropped from 407,000 in 1997 to 214,952 in 2003, the smallest figure since Labour started compiling membership statistics in 1928. Most significant were the drops in Labour's inner-city

³²³ Coates, p. 43.

³²⁴ Panitch and Leys, p. 272.

³²⁵ Mark Seddon, “Awakening the Dead,” *The Guardian* (Nov. 29, 2004), <<http://www.guardian.co.uk/politics/2004/nov/29/labour.uk>>.

heartlands.³²⁶ This decline corresponded with a significant loss in Labour's core electoral support. In the 2001 general election, on average the Labour vote share fell by 2.6 percent and the overall turnout fell by 13.2 percent in the parliamentary seats won by Labour. While the Labour vote increased in constituencies containing many white-collar workers, it fell in those dominated by unskilled manual workers, the very group which—with semi-skilled workers and the unemployed—constituted the backbone of Labour's vote during its years out of power.³²⁷ Given the party leadership's middle-class swing-voter-centered electoral strategy, it is unsurprising that workers experienced “a loss of collective incentives” to vote Labour.³²⁸

Some may maintain that it was New Labour's electoral victory and the moderate character of its program that led to the middle-class domination of the party membership, unlike in New Zealand, where such domination preceded the Labour Party's embrace of neoliberal policies. While Blair's becoming party leader and then Prime Minister did result in a greater middle-class membership in the Labour Party than ever before, the germ of this change was in the organizational reform of the party undertaken in the early 1990s, on the initiative of the party leadership, prior to Blair's ascendancy. It was Kinnock's desire to change the Labour Party from the political wing of the labor movement to a centralized electoral machine with a widely based cross-class membership, and it was Kinnock who adopted an explicitly “tough posture” towards the

³²⁶ Ibid, p. 282; Lindsey German and Charlie Kimber, “New Labour Faces Deep Crisis,” *Unity* (February 2006), p. 93.

³²⁷ Seyd and Whiteley, pp. 177-8.

³²⁸ Ibid, p. 180.

TUC in the late 1980s and ensured that Labour adopted a harshly restrictive policy on union rights.³²⁹

3. The Evolution of Union-Party Relations and Union Strategy

a. The 1970s and the Failed Attempt at Corporatism

Prior to the rise of Blair, many rank and file Labour Party members—despite the best efforts of “modernizers”—still thought of it as the workers’ party, identified with the labor movement, and “operated within a mental framework that was ‘Labourist’ and putatively ‘socialist,’ however vaguely those terms were now defined. Equally significant was the fact that the unions still clearly regarded the party as their creation and property.”³³⁰ This was despite the open conflicts that had emerged between the unions and the parliamentary wing of the party. Union leaders and members had discovered, in the mid-late 1970s, that whatever pressure that representatives of the major unions might be able to put on a Labour government through party conference votes could not compare to the pressure exerted on it by “a galloping collapse on the foreign exchange markets.”³³¹

Traditional Labour economic policies had begun to meet their end in 1974, when the party assumed office in a partially crippled economy. Yet Labour still feared that the embrace of market-centered policies would alienate the party’s union and traditional working-class electoral base.³³² To defeat inflation, the Labour government sought to secure agreement from the unions to hold down wages—that is, it initiated a retreat from

³²⁹ Panitch and Leys, p. 225; Hefferman and Marqusee, op. cit.

³³⁰ Cronin, p. 355.

³³¹ Colin Crouch, *The Politics of Industrial Relations* (Manchester: Manchester University Press, 1979), p. 103.

³³² Denmark, p. 280.

its promise to not implement an incomes policy. While monetarism was not embraced in the Treasury in the 1970s in the ideological fashion that the New Zealand “Rogernomes” would later embody, a reflationary policy was ruled out despite the constant growth of unemployment, as were import controls and capital controls.³³³

This period was a hard one in which to attempt income restraint, as workers tried to compensate for increases in the cost of living through increased pay. The size of claims, the number of strikes and the proportion of the workforce joining unions continued to rise throughout the 1970s. Indeed, since the 1960s the unions had become powerful enough to usually ensure that their members obtained continuing real wage gains, regardless of changing levels of inflation or devaluation.³³⁴ But given that Labour had delivered on various other campaign promises and that a Conservative government would declare war on the unions, the TUC General Council was willing to accept the idea that wages had to be kept down and that Labour had to remain in office. In return the government promised to take measures which would increase union power at the workplace and to provide increases in the “social wage” going to pensioners, the unemployed, and the low-paid.³³⁵ Jack Jones of the Transport and General Workers’ Union (TGWU) and David Basnett of the General and Municipal Workers Union, in particular, used their substantial influence to work with the government on developing an acceptable incomes policy. In 1975, a flat rate wage increase of £6 was agreed upon by the government and the TUC; while it had a slight moderating effect on wages and

³³³ Panitch and Leys, p. 111.

³³⁴ Crouch, p. 90; Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), p. 83.

³³⁵ Hall, p. 82.

inflation, the improvement was insufficient, and the financial crisis worsened.³³⁶ The financial market was “frustrated” as the incomes policies still appeared to give too much power to the unions, though in reality the government was able to control most of the policy agenda which it discussed with the unions and this control was used in order to gain the initiative in tripartite talks with the TUC and the Confederation of British Industry (CBI).³³⁷

On May 16, 1976, Harold Wilson resigned as prime minister and James Callaghan took his place. His victory indicated the likelihood of continuity in the path followed since 1974. The April 1976 budget contained a 2 percent cut in the standard rate of income tax which was made partly contingent on the government’s reaching a satisfactory agreement with the TUC on the extension of incomes policy. Right-wing critics seized upon this contingency, arguing that the government was beholden to union leaders beyond the reach of the popular vote and hence unable to function independently. There had been a change in public attitudes towards unions for the worse after the strike wave of the late 1960s, and even some on the left of the Labour Party were now worried that Labour’s connection to the unions had become too obviously visible.³³⁸ In fact, while it was true that Labour had given the unions a greater social legitimacy than they had ever previously enjoyed—in terms of both their legal rights to establish themselves in workplaces and their involvement in policy administration—the real content of the government’s economic policy after 1975 drifted ever further from the TUC’s priorities, particularly as a level of unemployment was maintained that the TUC regarded as

³³⁶ Cronin, pp. 170-2.

³³⁷ Panitch and Leys, p. 112; Crouch, p. 97.

³³⁸ Cronin, p. 176.

intolerably high.³³⁹ But the union leaders were too weakened and frightened by the economic slump to dissent from the government's general approach. Even the most left-wing among them were afraid that if they were to push the government too hard the result would be a particularly reactionary Conservative government. It was not just the leadership that felt paralyzed; even shop stewards generally saw no practical alternative to Labour's pay policy in the face of economic crisis.³⁴⁰

The second stage of incomes policy in May 1976 went reasonably smoothly, but investor confidence was not restored and the pound continued to fall in value, even more quickly than the advocates of a lower exchange rate advocated.³⁴¹ By autumn of 1976, another £1 billion was slashed from the public budget, the government "had largely exhausted its reserves of support within the ranks of the unions."³⁴² 1977-78 saw major strikes involving bakery workers, air traffic controllers, and firemen, while in several industries a movement of shop stewards was developing in opposition to any renewed incomes policy.³⁴³ The presence of over 100 competing unions gave each individual union more incentive and ability to break from the policy so as to protect wage differentials; many of the unions were able to make up the losses their members had suffered over the foregoing years.³⁴⁴ By the time that Stage II of the incomes policy ended in the summer of 1977, the union leadership could no longer deliver pay restraint. In mid-1978 the annual TUC congress formally rejected the incomes policy, as did the Labour Party conference. But the government still imposed a 5 percent norm, which no

³³⁹ Crouch, p. 100.

³⁴⁰ Minkin, pp. 169-70; Panitch and Leys, p. 148.

³⁴¹ Cronin, p. 177.

³⁴² Ibid, p. 178.

³⁴³ Crouch, p. 104.

³⁴⁴ Hall, p. 83.

union leader would publicly defend. Unions trying to break with the incomes policy were not threatened with sanctions by the TUC, though they still were not offered overt support.³⁴⁵

As Peter Hall notes, one unintentional effect of incomes policy was to turn the unions into public antagonists with the state,³⁴⁶ as January 1979 saw the “winter of discontent”—a wave of strikes by low-paid public sector workers. The Labour leadership’s response was, like that of Thatcher and the Conservatives, to call for “law and order”; Callaghan went so far as to cross picket lines, even as he still claimed that a corporatist consensus provided a way forward, despite the obviousness of the death of the social contract and the incomes policy.³⁴⁷ Hall explains how Labour’s incomes policies had unintentionally sabotaged the attempt to develop a more centralized system of wage determination:

Although incomes policies were designed to integrate the unions into a national system of wage determination, they actually accelerated a trend toward the organizational disintegration of the unions themselves. That trend entailed growth in the numbers of shop stewards within British plants and an increase in their influence over wage determination at the expense of central union leaders. Incomes policies tended to immobilize the union leadership for lengthy periods of time and encouraged the spread of productivity agreements and plant bargaining, as part of the age drift associated with a national norm. Both developments increased the numbers and authority of local stewards.³⁴⁸

The Labour government was held responsible for an unruly labor movement and paid the electoral price. Labour could no longer win votes by claiming that its special relationship with the unions equipped the party to be a better economic manager; high-profile deals

³⁴⁵ Cronin, p. 189; Crouch, p. 105.

³⁴⁶ Hall, p. 84.

³⁴⁷ Panitch and Leys, p. 130.

³⁴⁸ Hall, *op. cit.*

with union leaders on wage restraint, combined with their repeated collapse due to rank-and-file militancy, furthered the image of the unions having too much power.³⁴⁹ Simultaneously, Labour was blamed for under-funded and malfunctioning welfare programs. The party's supporters expressed their discontent through an "anti-government backlash" and ensured its defeat. Labour's vacillations between 1974 and 1979 propagated both an end to social-democratic corporatism and the recommencement of sectional animosities within the labor movement.³⁵⁰

The strategy of the unions towards the Labour governments of the 1970s can be described as one of critical support—until the rank-and-file, particularly in the public sector, opted to rebel openly against pay restraint. The TUC was willing to help keep Labour in power for fear of a Conservative or coalition-government alternative which would be unreservedly anti-union. Its leadership had influence with the government and greatly feared losing it, hence its decision to keep working closely with the Callaghan government even after the IMF loan. It was TUC pressure which encouraged the government to reflate sooner rather than later and its influence was clearly observable in budgetary priorities pursued in 1977-78.³⁵¹ But the rank-and-file backlash forced the union leadership to retreat from its support for an incomes policy negotiated at the top. This reflected the organizational limits of the TUC's bargaining arrangements with the state; as a loose confederation of unions, it required much effort to secure agreement to an incomes policy from each member union and its ranks. When the ranks rebelled, the

³⁴⁹ Panitch and Leys, p. 131.

³⁵⁰ Denmark, pp. 280-1. Cronin points out that between 1974 and 1979 "social spending had increased as a share of total public expenditure and . . . had grown by almost 2 percent in real terms . . . In seeking to distribute burdens equitably and to protect what it regarded as the core social programmes, the government saw itself as continuing to operate in the social-democratic tradition." Cronin, p. 186.

³⁵¹ Crouch, p. 187.

TUC leaders' organizational resources were exhausted and they could no longer act as moderating influences; indeed, wildcat strikes in 1979 were often made official by leaders who feared appearing out of touch with their members.³⁵²

b. From Thatcher through Blair

The Thatcher years were disastrous for British trade unionism. Three Industrial Acts between 1980 and 1984 destroyed a range of union rights and made unions liable in the event of an industrial action that was not authorized via a required process. The balance of power in the workplace was deliberately tilted towards employers, and unions were stripped of legal immunities. As the Conservatives allowed unemployment to rise even further upon taking office, the unions were further damaged. Employment in manufacturing industries fell by 36 percent in the 1980s and the effect on British unionization rates was calamitous.³⁵³ By 1996, among the youngest workers—those under twenty—only 10 percent were union members.³⁵⁴

Despite the memory of the conflicts of the 1970s, the unions were still prepared to return Labour to office so as to unseat the Conservatives—and without making any demands. The labor movement was so desperate to unseat the Tories that they were willing to tell Tony Blair—in the words of John Sheldon of the National Union of Civil and Public Servants—“just offer us *something*.”³⁵⁵ By the time of the New Labour landslide of 1997, the unions had been forced to swallow many bitter pills. The reconstitution of the industrial and political power of unions as bargaining institutions

³⁵² Cronin, pp. 191-2.

³⁵³ Stewart Wood, “Labour Market Regimes under Threat?” Pierson, ed., p. 395.

³⁵⁴ Thomas: 116.

³⁵⁵ Ibid: 117-8.

was not forthcoming under the New Labour government. At best the government promised to maintain a commitment to union recognition, but would otherwise be concerned with strengthening individual rather than collective rights at work—against unfair dismissal, inadequate maternity rights, insufficient training, and the like.³⁵⁶ The anti-union legislation of the 1980s would not be reversed, and Blair even boasted of the restrictiveness of British labor law, which was to help create a “flexible but highly skilled labour force.”³⁵⁷

When New Labour assumed office the unions initially seemed to have little interest in promoting their specific interests within—let alone asserting control over—their historic party. The TUC was initially “anxious to promote itself as a ‘social partner’ with both business and government.”³⁵⁸ During Blair’s first term there was little evidence that the unions’ support for the government translated into a significant degree of influence over that government. Union leaders appeared to believe that it could persuade the government to introduce progressive legislation “behind the scenes,” but in practice the trade union leadership simply promoted New Labour policies to its members. For example, John Edmunds, General Secretary of the GMB, one of the largest British public service unions, voted down calls within the Labour Party for the national minimum wage to be index-linked—despite this being GMB policy—on the grounds that he had negotiated a minor concession and feared it being jeopardized.³⁵⁹ The Transport and General Workers Union (TGWU) stood with the government against the brief wave of

³⁵⁶ Coates, p. 82.

³⁵⁷ Patmore and Coates: 134.

³⁵⁸ Sheila Cohen, *Ramparts of Resistance: Why Workers Lost Their Power and How To Get It Back* (London: Pluto Press, 2007), p. 127.

³⁵⁹ Davies, op. cit. Davies was at this time on the National Executive Committee of the Labour Party.

fuel protests in 2000—the first approximation of a mass domestic movement from the left against New Labour, prior to the Iraq War.³⁶⁰

Over time, however, there were increasing complaints by union leaders. They were angered over New Labour's lack of passion for European labor law, particularly as it pertained to the protection of temporary workers; by the Department of Trade and Industry's denial of penalty-free access to industrial tribunals to workers until they had wholly exhausted their employers' own grievance procedures; and particularly by Chancellor Gordon Brown's persistent refusal to link state pensions to average earnings. By the middle of Labour's second term the TUC made known its dissatisfaction with the lack of employment rights in Britain and its fear of "pensioner poverty."³⁶¹

The New Labour government's favored means of investing in public projects—PFI—also quickly ran into union opposition. The unions feared that PFI and other measures involving subcontracting and privatization in the name of "flexibility" would involve "at a minimum a loss of influence, perhaps also the sacrifice of cherished benefits and the acceptance of lower wages, and in extreme cases lost jobs. Flexibility to them meant the freedom of managers to hire and fire or, at least, to redesign jobs and to impose new working conditions. The unions wanted none of this."³⁶² A far more volatile conflict between unions and New Labour centered on the wages of Britain's 5.5 million public sector workers. The Chancellor had inherited and enforced the Conservatives' spending limits in the first two years of the New Labour government, so as not to use additional funds simply to reward the existing public workforce. Heavy public deficits in 2001 led to further wage retrenchment. In 2002 public sector unions opposed this call for yet more

³⁶⁰ Watkins: 32.

³⁶¹ Coates, p. 92.

³⁶² Cronin, p. 437.

pay restraint, as well as the government's attempt to intensify their work processes and erode their working conditions, and a wave of strikes by low-paid workers resulted, beginning with a strike by nearly one million council workers in July. Teachers' unions in London conducted the first strike over cost-of-living allowances in nearly 30 years. London Underground workers in the Rail Maritime and Transport Union (RMT) also walked off the job. The longest dispute was the first nationwide firefighters' strike since the 1970s, lasting from November 2002 to June 2003. Though most other strikes were much shorter, together they led to a 13-year high in days "lost" to strike action.³⁶³

For a time, union pressure on the government seemed to have its successes. In the run-up to the 2001 general elections, trade unionists' votes and union funds again were relevant to policy-making; the first post-election budget contained the first "clear and unambiguous" rise in income taxes and there was a "massive and unmistakable" trend towards increased public expenditure on health, education and welfare.³⁶⁴ But with the end of the elections came a renewed intransigence by Blair against the "self-indulgent rhetoric" of TUC leaders who opposed public sector restructuring—specifically the "awkward squad" of new, left-wing union leaders in the TGWU, the GMB, Unison, Amicus (the "big four" of British unions), the RMT and the FBU, all of whom presented a threat to the government's privatization plans.³⁶⁵ Union pressure proved sufficient to force Blair, in 2003, to pledge that new contractors providing services for local authorities would have to offer new workers virtually the same terms and conditions as

³⁶³ Ibid; Coates, pp. 92-3; Rebecca Smithers, "London teachers' strike call enrages minister," *The Guardian* (Mar. 6, 2002), <<http://education.guardian.co.uk/schools/story/0,,662602,00.htm>>; Kevin Maguire, "The Guardian profile: Bob Crow," *The Guardian* (July 2, 2004), <<http://www.guardian.co.uk/guardianpolitics/-story/0,3605,1252026,00.html>>.

³⁶⁴ Cronin, pp. 434-5; Coates, pp. 93-4.

³⁶⁵ Cronin, p. 438; Kevin Maguire, "Blair lashes left as he calls for partnership," *The Guardian* (September 11, 2002), <<http://society.guardian.co.uk/ppp/story/0,,800412,00.html>>.

those of colleagues already switched from the local council to the contractor. But union pressure was not enough to prevent consistent defeats on PFI-type issues throughout New Labour's second term.³⁶⁶

It was at this point that certain union leaders, most prominently Bob Crow of the railway union (RMT), proposed cutting union funding for the Labour Party and directing it elsewhere. The RMT was in fact expelled for allowing branches to support the Scottish Socialist Party, and the Fire Brigades Union disaffiliated, with the GMB, the TGWU and the CWU all withholding crucial campaign contributions in defiance of the New Labour government's refusal to compromise on its plans for the public sector, give full protection against unfair dismissal, or protect the pensions of private-sector workers.³⁶⁷ Indeed, it was no secret that Blair always intended a sweeping overhaul of Labour Party funding, which would have required union members to agree to annual donations to the party through their unions, with the total donation made by each union subject to a cap.³⁶⁸ But the party leadership was still unable to make a clean break with the unions. It remained dependent on union funds, albeit to a lesser extent, and it depended on the unions' organizational capacity to deliver votes. At times, Blair even required "Old Labour style backroom deals and union bloc votes to avoid embarrassing defeats at conference."³⁶⁹ He could not depend on corporate funding on the same scale as the Conservatives, despite

³⁶⁶ Coates, p. 94.

³⁶⁷ Cronin, op. cit.; Coates, pp. 94-5. However, the RMT has also affiliated to the Labour Representation Committee, the internal Labour group established by a number of left-wing MPs. Gregor Gall, "The End of an Enduring Alliance? Trade Union-Labour Party Relations," <<http://www.word-power.co.uk/platform/PlatformStyle-25>>.

³⁶⁸ "Current rules require unions to ask members every 10 years whether they want to contribute to a political fund. The unions then take money from the political fund and distribute it as they wish. The arrangement enables union leaders to wield considerable financial clout—and political pressure. But MPs believe [Blair] will [support] 'individualisation', where each union member opts in or out of contributing to political parties." Will Woodward, "Blair supports plan to weaken unions' grip on party, MPs told," *The Guardian* (Dec. 12, 2006), <<http://politics.guardian.co.uk/unions/story/0,,1970176,00.html>>.

³⁶⁹ Coates, p. 90.

the latter's state of disarray, as the Tories retained networks within the capitalist establishment that dated back centuries. New Labour "still ha[d] no real organic links with the ruling class"; it therefore still needed the unions and their subscriptions.³⁷⁰ Hence the speech by New Labour's Secretary of State for Trade, Patricia Hewitt, at the 2003 TUC:

I know very well that a lot of you here think that we have got far too close to big business and we somehow cold-shouldered or elbowed out the unions. I do not happen to think that is the reality but I am worried that that is such a widespread perception, and we have to change that. We have to make our relationship and our partnership work better.³⁷¹

It appeared that the unions were increasingly prepared to resist New Labour's plans to reform and restructure public services,³⁷² either within or outside of the party.

But appearances proved deceiving. The unions largely determined the agenda of Labour's annual conference held at Bournemouth in September, 2003,³⁷³ and one might have expected the unions' opposition to Blair's market-oriented agenda to merge with popular opposition to Britain's involvement in the Iraq War. But the coalescing of the anti-war opposition within the parliamentary party and the trade-unionist "awkward squad" was short-lived. The FBU had already called off a strongly supported strike in order to free up the troops who were standing in as strike-breakers, so they could be dispatched to Iraq.³⁷⁴ At the Labour Party, the union leaders voiced criticisms of the Iraq War only "as an afterthought"; when union block votes determined what issues would be debated as emergency resolutions, Iraq was not on the list.³⁷⁵ They made no attempt to

³⁷⁰ Osler, *Labour Party PLC*, p. 224; Panitch and Leys, p. 283.

³⁷¹ Coates, p. 95.

³⁷² Cronin, op. cit.

³⁷³ Ibid., p. 467.

³⁷⁴ Watkins, op. cit.

³⁷⁵ Cronin, p. 471.

mobilize their members for an electoral college to “send Blair packing,”³⁷⁶ thereby failing to make common cause with those in the Parliamentary Labour Party who opposed the war but were not necessarily aligned with the unions’ agenda. Nor did the unions clearly articulate an alternative to the government’s plans for public service reform; they merely re-stated their opposition to it.³⁷⁷

The unions proceeded to write up a 56-point action plan, agreed at the Labour National Policy Forum in July 2004 at Warwick University, primarily made up of existing policy commitments that had not yet been acted upon. The major issues of repealing the anti-labor laws, ending PFI and instituting progressive taxation were not touched upon. No commitment was given by the government not to dismiss thousands of civil servants or to provide student grants. At the Labour conference the “big four” unions saved Blair from defeat over setting an early date for troop withdrawal from Iraq as a payback for promises made at Warwick, such as the protection of Bank Holiday pay and longer maternity pay. The Labour conference also voted to re-nationalize the railways, but the leadership immediately made it clear that it would ignore this, as it had ignored similar Labour conference decisions pushed through by the unions, such as the legalization of secondary strikes and boycotts and the enabling of local councils to renovate and build more council housing instead of transferring it to private management and ownership.³⁷⁸

One would have expected that the New Labour leadership’s consistent refusal to honor conference decisions would have made it plain to the unions that they could no longer avoid the question of changing Labour’s leadership. In May 2007, they were given

³⁷⁶ Watkins, *op. cit.*

³⁷⁷ Cronin, p. 473.

³⁷⁸ Coates, p. 95; Gall, *op. cit.*

a golden opportunity, as Tony Blair announced his resignation, opening up a leadership contest in the Labour Party. Yet despite the fact that hundreds of Labour MPs received money from unions, and at times the help of union officials, for their constituency campaigning, the big unions made no attempt to find Labour MPs competent to stand for leader and deputy leader on a platform of loyalty to the labor movement and respect for Labour Party conference decisions. One labor-loyal MP, John McDonnell, emerged on his own, promising to enact a Trade Union Freedom Bill if elected, which would provide better protections for workers, simplify bureaucratic rules about industrial action notices and ballots, and give unions the ability to take supportive industrial action.³⁷⁹ McDonnell, like the unions, also opposed PFI and PPP and opposed the replacement of the Trident system, the third generation of British submarine-mounted nuclear weapons.

But McDonnell received the backing of only three small unions—the FBU, RMT and ASLEF. The larger unions, whose General Secretaries regularly made speeches against New Labour and the Iraq War, such as Amicus’s Derek Simpson, the TGWU’s Tony Woodley and the CWU’s Billy Hayes, supported Blair’s friend-turned-rival and Chancellor of the Exchequer Gordon Brown. Effectively, McDonnell fell victim to a Labour Party rule change requiring an MP to win support from 12.5 per cent—up from 5 percent, which McDonnell more than achieved—of the Parliamentary Labour Party in order to stand for party leader. At the March 2007 meeting of the Labour National Executive Committee, not one union representative voted to reduce the number of MPs’ nominations needed to prompt a leadership contest. They “knowingly backed a seamless

³⁷⁹ John McDonnell MP, “Time for a New Trade Union Bill,” <<http://www.john4leader.org.uk/2006/09/time-for-trade-union-freedom-bill.html>>.

transition to a Brown-led Labour Party.”³⁸⁰ TGWU and Amicus promoted and financed another Blair-loyalist for Deputy Leadership—Jon Cruddas, a supporter of the Iraq War and of the transformation of NHS hospitals into private foundation hospitals, who supported reducing the unions’ share of votes at Labour Party conference from 49 to 33 percent.³⁸¹

Union leaders such as Amicus’s Derek Simpson argued that it would be difficult to motivate union members to help Labour win a fourth term unless the party changed its policies and that union support “comes with a price.”³⁸² Yet Brown was endorsed by Amicus, TGWU, and Unison without making any specific demands on him, such as requiring that he retreat from imposing 3 percent real-terms pay cuts on public sector workers. Furthermore, given that Brown kept all competitors off the ballot, it is unclear why the unions felt the need to endorse him at all.

Overall, the unions’ strategy towards New Labour was inconsistent. Battered by the years of Conservative government, they initially pledged thorough loyalty to the Blair government. But relations grew tense when the government insisted on significant qualifications regarding the introduction of a minimum wage and the procedures for

³⁸⁰ Stan Crooke, “McDonnell’s lack of support poses questions for unions,” *Scottish Socialist Voice* No. 308 (May 25, 2007), p. 8.

³⁸¹ Stan Crooke, “Cruddas support disgrace,” *Scottish Socialist Voice* No. 308, p. 8. Cruddas claims that “Over time . . . the gradual reform of the party has consolidated a federal proportionality between members, unions and elected representatives of roughly a third each, originally enshrined in the electoral college still used to elect the party’s leader and their deputy. This should now be reflected across the NEC, the NPF and conference. In the latter case, this would mean the unions’ share of the vote being reduced, and the arrival of a new third force that would—among other effects—increase links between the party at large and its representatives in national and local government, and thereby increase the sense that conference meets partly in the context of wider electoral developments.” Jon Cruddas and John Harris, *Fit for Purpose: A Programme for Labour Party Renewal* (Compass, 2006), p. 16. Yet “[t]he aim, according to union insiders, is to get a left-leaning MP into the cabinet to articulate the union agenda in a way that was not possible under Mr Blair.” Christopher Adams, “Unions expecting gains from party leadership contest,” *Financial Times* (May 14, 2007), <<http://www.ft.com/cms/s/e26b9856-01b6-11dc-8b8c-000b5df10621.html>>.

³⁸² Ben Davies, “Union’s election warning to Brown,” *BBC News* (May 17, 2006), <http://news.bbc.co.uk/2/hi/uk_news/politics/4986118.stm>.

establishing union recognition in workplaces. The public sector unions in particular opposed PPP/PFI and were willing to engage in industrial militancy in order to pressure the government to back down from its plans for privatization and restructuring of the public sector. Yet the unions failed to take advantage of Blair's plummeting popularity in the wake of the Iraq War to force a change in the Labour Party's leadership to one that was consistently pro-union. Despite opposition to the policies associated with Blair and his colleagues—policies which Gordon Brown vowed to continue, including the planned privatization in the NHS and Whitehall governmental administration—they did not support a candidate for leader, John McDonnell, who shared their priorities. They may have warned Brown that he could face strike action from more than 1 million public sector workers (civil servants, NHS staff and postal workers) over pay, privatization and job cuts;³⁸³ they said that “Labour [was] drinking in the last chance saloon and [would] lose the next general election unless it chang[ed] direction”;³⁸⁴ but they ultimately endorsed Brown, as they supported Blair in 1997, with no conditions attached. Even the left-led “big four” unions did not issue anything resembling a developed manifesto involving a critique of the New Labour elite, an alternative vision and a means of achieving it.³⁸⁵

³⁸³ The warning was delivered by Mark Serwotka, general secretary of the PCSU. David Hencke and John Carvel, “Public sector unions warn Brown over summer of discontent,” *The Guardian* (May 17, 2007), <<http://society.guardian.co.uk/futureforpublicservices/story/0,,2081562,00.html>>.

³⁸⁴ This is a paraphrase of a statement by Dave Prentis, the leader of Unison: “We will work with Gordon Brown to rebuild public confidence in our public services to usher in a new era that will see the restoration of real Labour values. . . . If he’s up for it—he can just say the word . . . if he’s not, our fight will continue until we get real change until we have public and health services we can all be proud of.” Yet “Mr Prentis insisted that he that he did not want to be seen as making an oppositionist speech.” David Hencke, “Change direction or lose election, Brown warned,” *The Guardian* (Jun. 19, 2007), <<http://society.guardian.co.uk/futureforpublicservices/story/0,,2106630,00.html>>.

³⁸⁵ Gall, *op. cit.*

Conclusion

The Labour Party led by Tony Blair was a very different party than that founded by British trade unionists and their allies in 1900. Its policies shared little with those traditionally identified with social democracy. It prioritized macroeconomic stability and imposed rigorous constraints upon its ability to tax and spend, thereby ruling out many redistributive policies associated with “Old Labour.” Moreover, the New Labour leadership explicitly rejected *in principle* the pursuit of greater equality through the redistribution of income, as it implied a “misguided” zero-sum trade-off between the interests of the haves and have-nots.³⁸⁶ Its option for tackling great poverty was to create a specifically targeted welfare state intended to stimulate re-entry into the labor market. New Labour’s social policies were generally constructed on the basis of reforms introduced by the Conservatives, combined with some modest measures of social-democratic inspiration as concessions to the party’s heritage and popular electorate: the minimum wage, a one-off tax on the “windfall” profits of privatized utilities to finance an unemployment program; increases in public expenditure on health and education; a family tax credit; legal recognition of union organization in the workplace; a maximum 48-hour working week; and new laws on sickness, maternity leave and redundancy payments.³⁸⁷

New Labour’s policies reflect its predominantly professional, middle-class individual membership. Individual working-class members largely exited the Labour Party in the late 1970s because of its declining performance in managing the British economy, while middle-class joiners remained. Rather than attempting to win working-

³⁸⁶ Glyn and Wood, pp. 220-1.

³⁸⁷ Moschonas, pp. 194-5.

class members back, or even to win back working-class voters, the party leadership decided to look elsewhere for support. In the mid-1980s Labour's electoral strategy became based on the assumption that the British people were generally becoming middle-class and it was necessary for the party to appeal to "large numbers of those who had done well out of the Thatcher revolution."³⁸⁸ As illustrated above, large numbers of such people did join the party and agreed with Blair's economic policy plans. The break between "Old" and "New" Labour was most forcefully symbolized by the New Labour leadership's success in removing the party's symbolic commitment to socialism after party members voted 9:1 to remove the famous Clause IV from Labour's constitution.³⁸⁹ In terms of electoral support, 1997 saw Labour's greatest breakthrough among the middle classes (though a mere 30.9 per cent of the total electorate voted at all). The June 2001 election consolidated this class realignment, with New Labour advancing moderately among the middle classes and falling back markedly among its traditional core voters.³⁹⁰

New Labour rejected the social-democratic tradition of giving unions a key position in policy-making. The TUC lacked the centralization necessary to make corporatism successful in the 1970s and did not attempt to revive such an arrangement in the 1990s. But Blair went beyond simply rejecting government intervention in wage determination—he was explicit that "the relationship [between the Labour government and the unions] in the 1970s was wrong, and shouldn't be repeated" and that unions

³⁸⁸ Cronin, p. 337.

³⁸⁹ Glyn and Wood, p. 216.

³⁹⁰ "Unrepresented in parliament are the 2.8 million Labour abstentions in Britain's former industrial heartlands—the metropolitan conurbations of Tyne and Wear, Manchester, Merseyside, the West Midlands, Clydeside and South Wales. It was the hard-core Labour vote that stayed at home: whites in the old colliery districts, Asians in the Lancashire inner cities, under-25s in particular. Turnout fell below 44 per cent in the blighted constituencies round the Tyneside shipyards, the bleak Glaswegian council estates and the semi-derelect terraces of Salford and central Leeds; below 35 per cent in the ruined zones of Liverpool's docklands." Watkins: 6; Coates, p. 43.

would have no greater influence than employers over his government's policy agenda.³⁹¹

The unions were still willing to support the New Labour leadership, having endured 18 years of anti-union Conservative rule. With its block vote at the party's annual conference reduced from 70 percent to 50 percent, and with the individual membership no longer reliably pro-union, union influence within the Labour Party was significantly diminished; unions found themselves unable to effectively pressure the government except through industrial militancy, exemplified by the public sector unions' strikes during Blair's second term. But union strategy subsequently swerved off into a verbal intransigence which was not matched by actual deeds. This inconsistency, combined with the changed character of the individual membership, minimized the unions' ability to blunt the sharpest edges of New Labour's policy deviations from traditional social democracy. Despite some difficulties, Blair proved able to realize his goal of ending the identification of Labour as a party that represented the particular interests of the trade union movement. He went far beyond Kinnock's strategy of "moving back to the centre"³⁹² towards the consolidation of the "Thatcherite paradigm"³⁹³—the continuous reproduction of the hegemony of neoliberalism.

³⁹¹ Andrew Scott, *Running on Empty: 'Modernising' the British and Australian Labour Parties* (Sydney: Pluto Press, 2000), p. 237-8; Glyn and Wood, op. cit.

³⁹² Seyd and Whiteley, op. cit.

³⁹³ Watkins: 10. See also Simon Jenkins, *Thatcher and Sons: A Revolution in Three Acts* (London: Allen Lane, 2006).

Chapter Four: The Australian Labor Party

In this chapter I analyze the Australian Labor Party's embrace of neoliberal policies under the governments of Bob Hawke (1983-1991) and Paul Keating (1991-96). The ALP of the 1980s had come to have a predominantly middle-class individual membership and a leadership committed to pro-market reform, much like the 1980s Labour government in New Zealand and the 1990s Labour government in Britain. However, the Australian Council of Trade Unions (ACTU) maintained an influence within its historic party which the unions of New Zealand and Britain both lost within theirs. I analyze how this influence affected policy outcomes, particularly within the realm of industrial relations. Through the relationship with Labor governments known as the Accord, the ACTU obtained a temporary "breathing space" from the results of financial deregulation which New Zealand unions did not obtain during the 1980s and which British unions did not obtain under Tony Blair.

The chapter is divided into three sections. The first section analyses the Labor Party's economic policy choices—its abrupt switch from Keynesian expansionism to a preoccupation with fighting inflation via the reduction of real wages and government expenditure, and with financial deregulation, as a response to economic crisis. It also discusses why the ALP agreed to the Accord and what the results were in terms of industrial policy, and how its social policy marked no great departure from prior Labor governments despite changes in the direction of greater means-testing. The second section focuses on the change in the social composition of the ALP's individual membership from working class to middle class, a change that the retention of the union

bloc vote helped to moderate in its effects. The third section explains the historical role of state-administered conciliation and arbitration in Australia and dissects union-labor party relations—specifically, how the ACTU’s strong internal organizational capacity and its promotion of an overtly political, rather than purely economistic, “strategic unionism” rendered it a credible partner to the ALP. The outcomes of union strategy through the Accord are then evaluated, with reference to the New Zealand Labour experience of the 1980s in particular.

1. Policy Changes

a. Economic Policy

By the time of the 1983 election that returned the ALP to federal office, the party’s image—if not structure—had moved significantly away from its trade unionist roots. The leadership had been influenced by polls which indicated that the unions were seen as “authoritarian, undemocratic, and uncaring of the public interest.”³⁹⁴ Hawke and his colleagues, despite their union roots, did not stress their link to this apparent liability while campaigning. Courting business and the media in the run-up to the election, they put forth an image of themselves as “responsible economic managers,” opposed to the “profligacy” of the last Labor government (1972-75) under Gough Whitlam.³⁹⁵ As

³⁹⁴ Dean Jaensch, *The Politics of Australia* (South Melbourne: MacMillan Education, 1992), p. 227.

³⁹⁵ Dean Jaensch, *The Hawke-Keating Hijack: The ALP in Transition* (Sydney: Allen & Unwin, 1989), pp. 161-2. After entering federal office in 1972, the Whitlam government dramatically increased welfare expenditure, ending the long period of stagnation under the Liberals, but by the end of its term in 1975 this was still not enough to have any significant impact on cross-national relativities in welfare spending. Whitlam introduced Medibank, which provided for universal health benefits, but this was not nationalized medicine; private sector medicine and health insurance companies were subsidized. Pensions were raised, and means tests were abolished for pensioners over seventy years old, but Australia, like New Zealand, still lagged behind the European welfare states. The basic pension rate was not raised to the level of the poverty line, nor was it accompanied by a substantial rise in supplementary assistance. Francis G. Castles, *The Working Class and Welfare* (Wellington: Allen & Unwin, 1985), p. 35; Greg Patmore and David Coates,

Labor's identity as the political expression of the union was minimized, so were "socialist" ideas of planning and government intervention into the market. Over the previous sixty years the ALP had frequently rewritten its official and avowedly socialist "Objective"; in Labor's 1982 platform the socialist aspects of the Labor Objective were watered down virtually to the point of dissipation.³⁹⁶ The party's economic platform stressed the need "to reject the policies of contraction and embrace the policies of expansion with the goals of restoring economic growth and the simultaneous reduction of inflation and unemployment"; specifically, the goal was to restore economic growth to 5 percent annually and create at least 500,000 jobs by the third year of the Labor government.³⁹⁷ "Policies of expansion" were to include increased expenditure to improve social infrastructure and infrastructure for industry and defense, so as to raise the productivity of private investment and improve the competitiveness of Australian industry.³⁹⁸

Labor had returned to power in the midst of an economic crisis, with a \$9.6 billion budget deficit inherited from its Liberal predecessor. Like New Zealand, Australia at that time experienced high unemployment—up to 11 percent—and inflation. Both economies relied on commodities for exports and protected their inefficient manufacturing sectors; given Australia's small domestic market and the growing scale and transnational links of capitalist firms elsewhere, protectionist measures were no

"Labour Parties and the State in Australia and the UK," *Labour History* No. 88 (May 2005): 128; Carol Johnson, *The Labor Legacy: Curtin, Chifley, Whitlam, Hawke* (Sydney: Allen & Unwin, 1989), p. 68.

³⁹⁶ Hawke said of the ALP's commitment to "socialism" in 1985: "To the extent that it may frighten some people and direct them from the real issues, it may be better that it's not here . . . In terms of what I need to do in party and in government, I'm not going to be wasting my time about something which I think is an irrelevancy." Jaensch, *The Politics of Australia*, p. 231.

³⁹⁷ John Langmore, "The Labor Government in a De-Regulatory Era," Brian Galligan and Gwynneth Singleton, eds., *Business and Government Under Labor* (Melbourne: Longman Cheshire, 1991), p. 75.

³⁹⁸ *Ibid.*, p. 76.

longer effective in advancing capital accumulation and maintaining profit rates. Long-term declines in commodity prices led to declining terms of trade, thereby precipitating a major external trade imbalance. Australia had traditionally relied on foreign investment to cover a balance on current account deficit, which in 1982-3 was A\$6.6 billion. Australia's foreign debt at that time was 14 percent of GDP.³⁹⁹

In the Hawke government's first two budgets, reducing unemployment was considered a high priority and led to an expansionary fiscal policy. As a percentage of GDP, budget outlays increased from 28.8 per cent in 1982-83 to 29.9 per cent in 1984-85—a percentage higher in relation to GDP than in any other year since the Second World War.⁴⁰⁰ But the government's economic policies were also characterized by a more neoliberal bent than those of prior Labor governments. Two days after the government's election, hostile world financial markets led the government to devalue the Australian dollar by 10 percent. In December 1983 the government floated the dollar, thereby giving unpredictable currency markets increased power over government economic policy.⁴⁰¹ It was Treasurer Paul Keating—who would become prime minister in 1991⁴⁰²—that spearheaded this policy, overcoming significant opposition within the parliamentary wing of the ALP. Keating claimed that rising speculative activities and the power of international financial institutions made it impossible for Australia to maintain a

³⁹⁹ Tom Bramble, "Managers of Discontent: Problems with Labour Leadership," Rick Kuhn and Tom O'Lincoln, eds., *Class and Class Conflict in Australia* (Melbourne: Longman, 1996), p. 49; Rick Kuhn, "The Limits of Social Democratic Economic Policy in Australia," *Capital & Class* 51 (Autumn 1993): 19.

⁴⁰⁰ Russell Mathews and Bhajan Grewal, *Fiscal Federalism in Australia: From Whitlam to Keating* (Melbourne: Centre for Strategic Economic Studies, Victoria University, 1995), p. 23.

⁴⁰¹ Andrew Scott, *Running on Empty: 'Modernising' the British and Australian Labour Parties* (Sydney: Pluto Press, 2000), pp. 218-9; Patmore and Coates: 132.

⁴⁰² Keating was able to mount a successful challenge for Labor leadership because although he, as Treasurer, was the key author of the Labor government's economic policies, it was Hawke who was generally blamed for the recession and high interest rates of the late 1980s. Brian Timms, "Keating Replaces Hawke as Australia's Prime Minister," *Washington Post* (Dec. 20, 1991), p. A40.

managed exchange rate; he and his co-thinkers also believed this policy shift would have the “positive effect of ensuring Australia’s rapid integration into the harsh realities of global competitiveness.”⁴⁰³ This move towards financial deregulation represented a fundamental break with traditional Labor practice.

In 1984 Australia dramatically recovered from recession with real GDP growth of 5.4 percent. But investment was not yet making a positive contribution to that growth; business asserted that it needed a lower budget deficit, reduced expenditure, and greater incentives—including tax reduction—as prerequisites for serious investment. Export markets were growing too slowly and not enough was being done to make Australian industry more competitive internationally.⁴⁰⁴ Though Labor won office promising expansionary fiscal policies which would cost an estimated net \$1.5 billion (less than one percent of GDP) in the first full financial year of government, the Labor government’s actual fiscal policies were characterized by restraint. The Treasury under Keating maintained that large deficits and an expansionary fiscal policy would drive up interest rates and retard economic growth, while tight monetary policies and the cutting of expenditure would promote recovery.⁴⁰⁵

During the 1984 election campaign—which was held 18 months early—Hawke promised that budget revenue, expenditure, and the budget deficit would not increase as a proportion of GDP, nor would government spending increase any faster than the rate of national economic growth. As the Hawke government was elected at the end of the recession, it was able to ride the crest of economic recovery, and hence more resources

⁴⁰³ John Wiseman, “A Kinder Road to Hell? Labor and the Politics of Progressive Competitiveness in Australia,” Leo Panitch, ed., *Socialist Register 1996* (New York: Monthly Review Press, 1996), pp. 97-8.

⁴⁰⁴ Ibid, p. 39.

⁴⁰⁵ Langmore, 79-80.

were available to ease the process of restructuring. As real economic growth expanded public revenue, the costs of industry plans and support for exports were met without solely shifting funds from some programs to others.⁴⁰⁶ But between January 1985 and August 1986 the financially deregulated Australian economy underwent a 38 percent currency depreciation and a balance of payments crisis, with the current account deficit rising to 6.3 percent of GDP. This arose from the pressures of worsening terms of trade, rising imports and the cost of servicing foreign debt. Industry Minister John Button claimed that there was a real possibility that the International Monetary Fund (IMF) would intervene in Australia just as it did in Britain during its currency crisis of the 1970s under Labour Prime Minister James Callaghan. In May 1986, Keating warned that Australia would become a “banana republic” unless resources were shifted strongly to the traded goods sector—export and import competing industries. Acceptance of the depreciation of the Australian dollar would, it was argued by the Treasury, encourage the transformation of Australia into a competitive producer and exporter of high value-added manufactured products and services.⁴⁰⁷

Federal government (Commonwealth) outlays fell from 28.9 percent of GDP in 1982-3 to 23.7 percent in 1989-90, largely as cuts to grants to other governments.⁴⁰⁸ From 1988-1990 until the next recession, the Australia Labor government proudly budgeted for surpluses; in practice it was even more monetarist than the Thatcher government in Britain, despite its lack of interest in open preaching of the monetarist gospel. Despite bitter battles within the ALP, the Labor government followed the

⁴⁰⁶ Kuhn: 23.

⁴⁰⁷ Cliff Walsh, “The National Economy and Management Strategies,” Galligan and Singleton, eds., pp. 40-1; Wiseman, p. 98.

⁴⁰⁸ Scott, p. 219; Langmore, p. 81; Walsh, p. 41.

Treasury's other recommendations and deregulated the banks, invited foreign banks to begin operations in Australia, and tariff protection for manufacturing industries (automotive, steel, textiles, clothing, and footwear, in particular) was reduced so as to facilitate their restructuring, despite the large job losses that resulted in traditional Labor electorates such as the northern suburbs of Melbourne.⁴⁰⁹ The company tax rate and the top marginal tax rate for personal income were both cut. Extensive modification of the public sector was pursued via taking ideas and models from the private sector. By 1990, Qantas and the Commonwealth Bank, both major state companies, were privatized, and the state-owned Telecom monopoly was broken up; concurrently, the number of public sector employees steadily fell.⁴¹⁰

Private sector investment was supposed to surge into productive export industries as a result of these market-enabling reforms. However, substantial problems emerged as a result of deregulatory policies. As Wiseman summarizes,

. . . much of the surge was into an orgy of unproductive (and in some cases criminal) financial speculation, company takeovers and other 'get rich quick' schemes. Such speculative investment actually made the balance of payments problems worse as large sums of money were borrowed abroad, leading to a sharp rise in private sector foreign debt. Throughout the latter part of the 1980s the terms of trade continued to worsen, imports continued to rise and inflation was again becoming a problem. The choice of high interest rates to slow economic growth accelerated and deepened the recession of the early 1990s.⁴¹¹

⁴⁰⁹ Scott, p. 224.

⁴¹⁰ Mark Bray and Pat Walsh, "Different Paths to Neo-Liberalism? Comparing Australia and New Zealand," *Industrial Relations* Vol. 37 No. 3 (July 1998): 367; Wiseman, p. 99; Scott, pp. 224, 229.

⁴¹¹ Wiseman, p. 100. Between 1985 and 1989 business debt increased by 25 percent a year, and by the end of 1989 the private sector owed the banks and other financial institutions close to A\$330 billion. Langmore, p. 84.

Not only did Australia's image suffer from "the financial excesses of the greedy speculators and the sloppy banks,"⁴¹² but by 1993 official rates of unemployment rose to over 11 percent, the highest levels since the Depression; almost one million Australians were unable to find work, with many others forced into low-wage, insecure casual employment.⁴¹³ Although 1992 saw the Labor government expand public expenditure in infrastructure development, education and training and community services, its White Paper on Unemployment in May 1994 still defined the key answer to unemployment in terms of eliminating the barriers to making Australia competitive in the global marketplace.⁴¹⁴ Though the number of students in tertiary education increased by 44 percent between 1987 and 1995—with the government pursuing the goal of increasing the Australian workforce's skill level—this was paid for not by increased taxes on business but by students themselves via a "graduate tax" paid upon the taking up of full-time work.⁴¹⁵ When economic recovery began in early 1992, business was the primary beneficiary: company profits doubled from 1992 to 1994 while corporate taxes were again reduced, and unemployment remained at a level of 8 percent or so.⁴¹⁶

Labor's economic strategy, then, under both the Hawke and Keating governments, was one of liberalization akin to the strategies of the New Zealand Labour government of Lange and the British Labour government of Blair, albeit less philosophic in its nature and more evolutionary and pragmatic.⁴¹⁷ The ALP's plans in 1983 were based on Keynesian-style expansionism to promote growth and employment. Very

⁴¹² Langmore, p. 85.

⁴¹³ Wiseman, op. cit.

⁴¹⁴ Wiseman, p. 100.

⁴¹⁵ Tom Bramble and Rick Kuhn, "Social Democracy After the Long Boom: Economic Restructuring Under Australian Labor, 1983 to 1996," Martin Upchurch, ed., *The State and 'Globalization': Comparative Studies of Labour and Capital in National Economies* (Mansell: New York, 1999), p. 37.

⁴¹⁶ Bramble, pp. 49-50.

⁴¹⁷ Walsh, p. 43.

quickly any lingering attachment to Keynesianism was overtaken by international pressures and all faith was put in making exports more competitive as a means of curing Australia's economic woes—by means of “economic rationalist,” neoliberal policies, albeit with *ad hoc* state interventions to secure the future of specific industries (subsidies for Kodak, support for Du Pont's takeover of Fibremakers in 1990, a series of changes in media ownership rules).⁴¹⁸ The most influential sections of the federal bureaucracy were the most committed to neoliberalism, echoing the strongly neoliberal worldview of the New Zealand federal bureaucracy in the 1980s. But the more consultative approach of the ALP “allowed that even its Treasury or Cabinet could make errors” and ensured that the government would not follow the “[Roger] Douglas blitzkrieg approach” of implementing economic adjustment.⁴¹⁹

b. Industrial Policy

The Hawke government made arrangements with Australian unions in order to make certain that economic growth would not be cut short by strong wage rises and inflation.⁴²⁰ These arrangements took advantage of the industrial relations system that had existed in Australia since 1904. Many unions were organized on a craft basis; wages and conditions were regulated through legally enforceable awards made by industrial tribunals; individual enterprises were often characterized by multiple awards, the presence of multiple unions, and clear job delineation; the possibility existed for over-award payments and enterprise agreements that differed from existing awards; wage relativities

⁴¹⁸ Kuhn: 39.

⁴¹⁹ Brian Easton and Rolf Gerritsen, “Economic Reform: Parallels and Divergences,” Francis Castles, Rolf Gerritsen and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Wellington: Allen & Unwin, 1996), p. 47.

⁴²⁰ *Ibid.*, p. 36.

were important and fairly stable; and the government operated a public job placement service.⁴²¹

Unlike the New Zealand or British Labour Parties, in the years immediately prior to the ALP's election, the party had begun to cooperate closely with its affiliated unions. That the unions would be consulted by the Labor government is not entirely surprising given that Hawke was the former ACTU president. While in Britain it was not until 1994 that a Trade Union Congress general secretary even spoke at any event at a Labour Party conference, Hawke had been simultaneously president of the ACTU and national president of the ALP from 1973-78, chairing the party's national conferences and acting as its official spokesperson. Hawke knew quite well that industrial disputation could damage a Labor government—he had been responsible for leading such disputation under Prime Minister Gough Whitlam, with over 30 million working days lost during 1974 alone. No real social contracts of any substance were negotiated between the ALP and ACTU during the Whitlam years and the government made little effort to develop an effective working relationship with the unions. ACTU representatives also found that their access to Whitlam through the Australian Labor Advisory Council (ALAC)—a liaison body founded in the late 1930s—was quite minimal.⁴²²

Hawke was determined to co-opt his successors in the ACTU leadership into the higher ranks of his own government's policy-making in order to prevent disputes.⁴²³ This contrasts with the lesson that British Labour Party leaders took after the public sector

⁴²¹ Peter Brosnan, John Burgess, and David Rea, "Labour Institutions, Government Policy and Economic Change in Australia and New Zealand," paper presented to the 18th Meeting of the International Working Party on Labour Market Segmentation (Bremen, Germany, July 11-16, 1991), pp. 1-2.

⁴²² Peter Beilharz, "The Australian Left: Beyond Labourism?," Ralph Miliband, John Saville, Marcel Liebman and Leo Panitch, eds., *Socialist Register 1985/86* (New York: Monthly Review Press, 1985), p. 212; Scott, p. 233.

⁴²³ Scott, pp. 233-35.

unions' strike over wage claims in 1979—that the marginalization of the labor movement's influence was necessary to ensure a Labour victory at the next election—and with the determination of the 1980s New Zealand Labour government to keep unions far away from any influence over economic decision-making. As a result of this close relationship, the ALP's electoral program committed the party to a prices and incomes policy and an essentially corporatist approach to policy-making. The initial version of the document which spelled out ACTU-ALP policy objectives on numerous issues, the “Accord,” guided the Hawke government's actions regarding incomes, prices, employment, industry development, government spending and taxation.⁴²⁴

Politically, the point of the Accord was to allow the Labor government to preserve some control over the labor market while allowing the ACTU to have some influence over government policy.⁴²⁵ In economic terms, it was part of a strategy to simultaneously reduce unemployment and inflation. The government agreed to commit to a centralized wage system with wage indexation;⁴²⁶ provisions to prevent non-wage incomes from rising faster than wages; price surveillance; tax reform; intervention in industry to improve economic performance and create jobs; a universal health insurance proposal; and the annulment of anti-union legislation. The unions, in turn, agreed to moderate the growth of award wages, i.e., “extra claims” outside the wage principles determined by the federal arbitration commission, and to take into account government economic policy

⁴²⁴ Bob Bennett and Kathryn Cole, “Industrial Relations,” Brian W. Head and Allan Patience, eds., *From Fraser to Hawke* (Melbourne: Longman Cheshire, 1989), pp. 178-9.

⁴²⁵ Brosnan, Burgess, and Rea, p. 3.

⁴²⁶ Unlike in New Zealand, where both the arbitration system and the introduction of social benefits predated the emergence of the Labour Party in 1916, in Australia the Labor Party was largely responsible for the creation of both. Social protection through wage control thereby became part of the Australian Labor Party tradition in a way that it did not for the New Zealand Labour Party. This shared belief by both the ALP and the unions in centralized wage-fixing helped make the Accord possible—though the Labor leadership would re-think that belief in the late 1980s.

when preparing wage claims.⁴²⁷ Despite the emphasis in the original Accord on both the maintenance of real wages (which would improve “over time”) and the “social wage,” and even on the abolition of poverty (which was presumed to be coextensive with unemployment), as Beilharz wrote in 1985,

The Accord also claims to address the question of equity, yet this problem is clearly beyond the scope of a wages deal based on indexation, which leaves the question of income distribution and relativities untouched...the different subtexts of the Accord bear no necessary relation to each other, are written in without guarantee; so, for example, the Accord’s proposition to restructure taxation progressively and to shift away from indirect taxation, a clause clearly inserted at the behest of the ACTU, floats freely in the text, unsecured by mechanisms which might guarantee its implementation . . . the Accord, then, contains at least three, largely independent subtexts—a bottom line, concerning wages; an intermediate level, addressing issues like taxes and health and safety; and a maximum programme, involving claims like the abolition of poverty . . . In terms of practical results it has been the lowest common denominator—the wages/prices deal—which has become the effective reality of the Accord.⁴²⁸

The National Economic Summit Conference of April 1983 which launched the Accord was a “brilliantly orchestrated . . . public relations coup, which effectively developed the Accord . . . by extracting capital’s consent to the arrangement.”⁴²⁹ Representatives of state governments and the national government, business, and labor, as well as other “interest groups,” attended the conference to present their views on how to achieve economic recovery. The conference proved to be a clever political device, as it secured the acceptance by employers of the principles of the Accord, despite their lack of involvement in its negotiation and despite the lack of formal support by the

⁴²⁷ Patmore and Coates: 133.

⁴²⁸ Beilharz, *op. cit.*

⁴²⁹ *Ibid*, p. 215.

Confederation of Australian Industry (CAI), the major employers' federation.⁴³⁰ Notably, in the 1980s the ALP governed in almost all states, ensuring that the Accord met no significant resistance within the political system.⁴³¹ This greatly contrasted with the New Zealand Labour government's approach to industrial relations at the time, which was to dismiss any suggestion of a corporatist arrangement, to severely circumscribe the role of the compulsory arbitration system, and to attempt to move toward more decentralized collective bargaining. The Australian Labor government opted to embrace the union movement, corporatism, and the compulsory arbitration system.⁴³² Unlike its New Zealand equivalent, and unlike Tony Blair's New Labour government in Britain in the 1990s, the ALP leadership was interested in ensuring *overt support* by the unions for overall governmental policy.

At first the Accord seemed to be wholly positive for workers. Unemployment fell from 9.9 percent in 1983 to 7.9 percent in 1985. Unit labor costs fell while retail sales and private investment both increased. Profits increased while, via indexation, the wages of at least the best-placed workers were effectively maintained. At this early stage the left wing of the ALP spoke of the "potential" of the Accord and argued that it could function as an Australian version of the Alternative Economic Strategy put forth by the left wing of the British Labour Party.⁴³³ But some on the Australian left believed that the Accord was little more than a means by which business—and the Labor Party leadership—could domesticate the unions and gut working-class living standards in the name of achieving

⁴³⁰ Ibid.; Brosnan, Burgess, and Rea, op. cit.; Patmore and Coates, op. cit.

⁴³¹ Bray and Walsh: 367.

⁴³² Ibid: 370.

⁴³³ Beilharz, pp. 217, 219.

economic recovery. Comparisons were made to the British Social Contract between 1974 and 1978, which restrained wages and discouraged workplace union organization.⁴³⁴

Under the Hawke government Australia began experiencing a clear decline in its terms of trade. Foreign debt exploded, from \$A23.3 billion in 1983 to \$A108 billion in June 1989. The current account deficit on the balance of payments worsened, reaching 6.3 percent of GDP in 1985-6, a consequence of Australia's high proportion of raw materials in exports and its propensity to rely on foreign capital to sustain local capital accumulation.⁴³⁵ Inflation also continued to be a problem. This led to "Accord Mark II," which focused on wage restraint and the improvement of productivity through microeconomic reform. It also initiated a shift—realized in subsequent Accords—towards more decentralized bargaining, to streamline and reduce the number of award classifications, i.e., job categories for the purposes of pay and conditions. This made possible the removal of "restrictive work practices" such as standard working hours, seniority, demarcations between duties of different categories of workers, and established staffing ratios, and the achieving of savings through the intensification of labor. In 1988 centralized wage fixing based on partial cost of living adjustments was replaced by the requirement that wage increases could only be achieved in return for productivity trade-offs.⁴³⁶

By the late 1980s the Business Council of Australia (BCA) had taken a position strongly in favor of decentralized enterprise bargaining and for weakening the role of

⁴³⁴ Rick Kuhn, "The Accord and Business," Brian Galligan and Gwynneth Singleton, eds., *Business and Government Under Labor* (Melbourne: Longman Cheshire, 1991), p. 69.

⁴³⁵ Bennett and Cole, p. 186; Richard Higgott, "International Constraints on Labor's Economic Policy," Galligan and Singleton, eds., p. 16; Cliff Walsh, "The National Economy and Management Strategies," Galligan and Singleton, eds., pp. 40-1.

⁴³⁶ Bramble and Kuhn, pp. 32-3.

arbitration tribunals. This view became dominant among Australian employers, including ones which had previously supported centralized bargaining. The Labor government was attracted by the BCA version of industrial relations reform, though its links to the unions limited the degree to which it could make it a reality.⁴³⁷ But the role of arbitration tribunals did change under Labor. The federal Industrial Relations Commission (IRC)—which replaced the Arbitration Commission and had wider powers—made a national wage case decision in October 1991 which focused nearly exclusively on wage increases being negotiated at the level of the individual enterprise. Between 1992 and 1996 the IRC lost any power to seriously affect the content of enterprise agreements. The role of awards was reduced to that of a “safety net”; though employees covered received some modest wage increases via national wage adjustments determined by the IRC, these lagged considerably behind increases through enterprise bargaining.⁴³⁸ In 1993, under Prime Minister Keating, the Labor government further encouraged enterprise bargaining by amending the federal arbitration legislation to allow non-union bargaining, thereby undermining the unions’ prior privileged position in bringing industrial issues before the federal tribunal.⁴³⁹ Australian unions thus lost their monopoly bargaining rights.

Over time, with each new version of the Accord, more trade unionists came to think that the arrangement had degenerated into merely a way to control wages, as major initiatives on such matters as industrial democracy—upon which the Labor government had published a discussion paper in 1984—vanished from the agenda.⁴⁴⁰ Paid real wages

⁴³⁷ Ian Hampson and David E. Morgan, “Post-Fordism, Union Strategy, and the Rhetoric of Restructuring: The Case of Australia, 1980-1996,” *Theory and Society* Vol. 28 No. 5 (Oct. 1999): 772.

⁴³⁸ Bray and Walsh: 373.

⁴³⁹ Patmore and Coates: 133. Keating, always on the right wing of the ALP, had “gained his economics education at the feet of Treasury mandarins, and thus was not receptive to the Accord (especially given its origins on the Left).” Hampson and Morgan: 767.

⁴⁴⁰ Scott, p. 239.

did in fact fall by 6 percent between 1983-4 and 1989-90, while the Gini coefficient for households' gross income rose from 0.40 to 0.43 between 1981-2 and 1989-90.⁴⁴¹ Contrary to the Accord's initial promise, then, real wages did not improve "over time." Furthermore, under the Keating government in particular, industrial relations moved towards greater labor market deregulation and decentralization, which cleared the way for work intensification. Overall, one can make a convincing argument that Australian workers did not do all that well out of the Accord. That said, the process of industrial-relations reform in Australia was slower and more complex than in New Zealand, a result of "the battle between corporatism and economic rationalism" embodied by the Accord.⁴⁴² Even after the 1993 Industrial Relations Reform Act, which cut coverage of the arbitration system to a handful of conditions, collective bargaining still covered a higher proportion of the Australian workforce than the New Zealand workforce.⁴⁴³

c. Social Policy

As in New Zealand in the 1980s, social policy in Australia was generally reactive rather than proactive, attempting to maintain existing levels of social protection despite an increasing welfare clientele and the opposition of capital markets to high levels of

⁴⁴¹ Kuhn, "The Limits of Social Democratic Policy in Australia": 51.

⁴⁴² Mark Bray and David Neilson, "Industrial Relations Reform and the Relative Autonomy of the State," Castles, Gerritsen and Vowles, eds., p. 83.

⁴⁴³ "A survey published in 1997 . . . found that 49 percent of all employees [in New Zealand] worked under some kind of individual employment contract, 34 percent worked under a single-employer collective employment contract, and only 11 percent worked under a multiemployer employment contract . . . Individual contracts in Australia, however, were far less common. The second Australian Workplace Industrial Relations Survey found that in 1995, 46 percent of Australian employees in workplaces of more than 20 employees worked under awards . . . 44 percent worked under collective agreements, and only 9 percent worked under individual contracts." Bray and Walsh: 376.

expenditure on health and social programs.⁴⁴⁴ There was, however, one great exception to this rule: in February 1984 the Hawke government introduced Medicare, a public health insurance scheme. It was compulsory for all Australians and was financed by a one percent tax levy on incomes. It included an 85 percent rebate on medical bills and free treatment at public hospitals when treated by a doctor appointed by the hospital, though in 1991 the government tried unsuccessfully to introduce fees. Medicare provided universal access to high quality health care at least cost and was consistent with the aims of traditional Labor social policy.⁴⁴⁵ Secondly, in 1992 the Keating government introduced legislation that required all employers to make a minimum contribution on behalf of their employees' salaries into private superannuation funds. This set-up included industry-based schemes involving unions, though a single central fund administered by the federal government was not created, despite union hopes. Superannuation benefits focused on workers in the paid workforce but also extended occupational pension schemes to women and low income earners. This at least partially offset the increase in social inequality associated with the government's deregulatory policies.⁴⁴⁶

Other social policies were more consonant with Labor's adoption of economic rationalist policies, as benefits were made more selective. Though Labor kept its promise to increase and preserve the single-aged pension at 25 percent of total male average earnings, this was funded by the reintroduction of the means test for those over 70 (in 1983) and assets testing (in 1985). Despite significantly increased funding for child care,

⁴⁴⁴ Francis S. Castles and Ian F. Shirley, "Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State," Castles, Gerritsen and Vowles, eds., pp. 94-5.

⁴⁴⁵ Patmore and Coates: 135.

⁴⁴⁶ Ibid: 135-6; Scott, p. 227.

families with over A\$50,000 in household income were excluded from the child care allowance.⁴⁴⁷ Combined with the graduate tax on higher education, fiscal drag (notwithstanding income tax cuts), and a move towards indirect taxation, many workers with moderate incomes had to pay for improvements in health, education and welfare spending through higher taxes. Between 1983 and 1988 tax rates for those with an income of between 50 and 75 percent of average weekly earnings declined, but for those with average weekly earnings it increased and those with double and quadruple the average received tax payment cuts.⁴⁴⁸ From Labor's election in 1983 until the end of the 1980s, spending on social welfare transfers gradually declined in both real and GDP terms, reflecting a comparable decline in beneficiary numbers as a percentage of the population. A major decline (33 percent) in unemployment benefit recipient numbers more than offset increases in the numbers of disability support and sole parent pensioners.⁴⁴⁹

Despite program cuts, however, the *distribution* of spending and cuts did not mark a break from a traditional social-democratic ethos. Between 1983 and 1992, in education, health, social security, and housing, new programs offset cuts and expanded overall outlays.⁴⁵⁰ In 1985 the tax net was broadened through the introduction of capital gains and fringe benefits taxes, and in 1989 the government moved to tax some foreign source income. Strong opposition from the unions and the ALP left rebuffed then-treasurer

⁴⁴⁷ Patmore and Coates: 135.

⁴⁴⁸ Bramble and Kuhn, p. 41.

⁴⁴⁹ Castles and Shirley, p. 95.

⁴⁵⁰ Mathews and Grewal note "an increase in basic health funding, from 0.74 per cent in 1982–83 to 0.94 per cent in 1992–93 as a consequence of the Government's Medicare program, and partly to a proliferation of recurrent programs in social security and welfare, housing and community services, culture and recreation, and legal aid. During the mid-1980s, employment programs were also important. The number of recurrent programs increased from 45 in 1982–83 to 72 in 1992–93 . . . Schools funding was roughly maintained, from 0.69 per cent to 0.71 per cent of GDP . . . while housing funding increased from 0.20 per cent to 0.24 per cent." Mathews and Grewal, p. 27; Easton and Gerritsen, pp. 30-1.

Keating's attempt to establish a new broadly based consumption or value-added tax.⁴⁵¹

Later, in the 1993 election, Keating strongly opposed the Liberals' promise of introducing a comprehensive consumption tax. At least up until 1992—after Keating became Prime Minister—the Labor government was willing to redistribute some of the social costs of economic adjustment. A case can be credibly made, then, that Labor in government led to a modest renewal of the Australian welfare state.

2. The Changing Class Character of Parliamentarians and Members

As with the British and New Zealand labor parties, the ALP leadership came to be less purely proletarian than the party membership. During the 1943 electoral campaign, H. V. Evatt, attorney general and external affairs minister, declared that Labor “could not govern as a trade union party” and that John Curtin had succeeded as (Labor) prime minister because he had refused to govern in the interest of any specific class.⁴⁵² But it was not until 1951 that the ALP developed a genuinely middle-class leadership (under barrister Herbert Evatt), while the British Labour Party leadership became bourgeoisified much earlier (1935, under the businessman George Lansbury).⁴⁵³ At the membership level, however, Labor remained dominated by manual workers through the 1960s. This was seen as an electoral hindrance by various ALP leaders for being socially unrepresentative of post-war Australia.

⁴⁵¹ Ibid, p. 39; Scott, p. 228.

⁴⁵² Peter Conrick, *A History of the Australian Labor Party* (Socialist Workers Party [Australia], 1979), <<http://members.optushome.com.au/spainter/Conrick.html>>. Not all Labor MPs agreed. E. J. Ward, Labor MP for East Sydney, openly opposed Evatt's reference to the party consciously drawing on middle-class sources of electoral support.

⁴⁵³ Scott, pp. 46-7.

By the late 1970s Labor's social composition had changed considerably. Victorian ALP Secretary Bob Hogg described the party as one where "policy is very much determined by the articulate; by the educated; by the middle class" and "input from the work-place has been, and still is, progressively diminishing."⁴⁵⁴ Yet the party continued to be rooted in the trade unions, with the industrial wing still holding the numbers in pre-selection of candidates. The question was then why the ALP's choice of parliamentary candidates had become increasingly drawn from the tertiary-educated, professional and business worlds. In South Australia, for example, a majority of middle-class parliamentary members were selected by an ALP branch which was more union dominated than other branches (93 percent of pre-selection votes to 1977; 75 percent through 1989).⁴⁵⁵

In 1982 longtime ALP member Professor L. F. Crisp argued from personal observation that Labor was dominated by white-collar and professional people not only at the parliamentary level but at the level of the local branch. Comparing the principal pre-parliamentary occupations of Labor federal parliamentarians in 1901, 1941, and 1981, he discovered that the blue-collar proportion of the membership had decreased from 63 percent in 1901 down to 12 percent in 1981. Where there were once as many manual workers as professionals among Labor MPs in the 1940s, in the 1980s there were over nine times as many professionals as manual workers. The social backgrounds of Labor frontbenchers had become quite close to those of their Liberal opponents, even as 57

⁴⁵⁴ Andrew Scott, *Fading Loyalties: The Australian Labor Party and the Working Class* (Leichhardt: Pluto Press, 1991), pp. 24-5.

⁴⁵⁵ Jaensch, *The Hawke-Keating Hijack*, pp. 50-1.

percent of the Australian workforce still belonged to unions in 1982 and blue-collar workers made up 48 percent of the workforce as of 1985.⁴⁵⁶

Table 4.1: Occupations or Activities of ALP Members, and Adults Generally, in New South Wales, 1961 and 1981 (percentage of total)

	ALP Members		Adults Generally	
	1961	1981	1961	1981
Managers and Administrators	5 %	6 %	8 %	6 %
Professionals and Paraprofessionals	9 %	24 %	7 %	10 %
Clerks, Salespersons, and Personal Service Workers	9 %	10 %	12 %	10 %
Tradespersons	23 %	10 %	12 %	10 %
Plant and Machine Operators, Drivers and Laborers	23 %	11 %	16 %	14 %
Unemployed	0 %	2 %	2 %	3 %
Students	1 %	4 %	3 %	5 %
Retired	9 %	20 %	12 %	9 %
Unpaid Domestic Workers	21 %	14 %	26 %	23 %
Total	100 %	100 %	100 %	100 %

Table 4.2: Occupations or Activities of ALP Members, and Adults Generally, in Victoria, 1961 and 1986 (percentage of total)

	ALP Members		Adults Generally	
	1961	1986	1961	1986
Managers and Administrators	9 %	5 %	8 %	7 %
Professionals and Paraprofessionals	10 %	28 %	7 %	11 %
Clerks, Salespersons, and Personal Service Workers	8 %	9 %	14 %	18 %
Tradespersons	21 %	6 %	12 %	9 %
Plant and Machine Operators, Drivers and Laborers	24 %	7 %	16 %	14 %
Unemployed	0 %	7 %	3 %	5 %
Students	1 %	8 %	4 %	6 %
Retired	10 %	16 %	10 %	8 %
Unpaid Domestic Workers	17 %	14 %	26 %	22 %
Total	100 %	100 %	100 %	100 %

⁴⁵⁶ Scott, *Fading Loyalties*, p. 25; Jaensch, *The Hawke-Keating Hijack*, p. 51; Jaensch, *The Politics of Australia*, p. 226; Jonathan Kelley and Ian McAllister, "Class and Party in Australia: Comparison with Britain and the USA," *British Journal of Sociology* Vol. 36 No. 3 (Sep. 1985): 389.

Table 4.3: Occupations or Activities of ALP Members, and Adults Generally, in the Other States, 1986 (percentage of total)

	ALP Members	Adults Generally
Managers and Administrators	5 %	7 %
Professionals and Paraprofessionals	24 %	10 %
Clerks, Salespersons, and Personal Service Workers	9 %	15 %
Tradespersons	9 %	10 %
Plant and Machine Operators, Drivers and Laborers	10 %	14 %
Unemployed	3 %	7 %
Students	8 %	5 %
Retired	21 %	9 %
Unpaid Domestic Workers	11 %	23 %
Total	100 %	100 %

Source: Scott, *Fading Loyalties*, pp. 36-9.

This middle-classing trend continued after the election of Hawke's Labor government in 1983. Hawke himself had passed from the industrial to the political wing of the labor movement, but the percentage of professionals among Labor ministers had grown to 71 percent.⁴⁵⁷ In 1987, hard evidence appeared via the doctoral thesis of Ian Ward that the social composition of party branches had also greatly changed. Ward showed that in the 1960s there was an influx of professionals into the Victorian ALP. While in the early 1960s manual workers were represented in Labor above their proportion in the wider workforce, and sales, personal service, and clerical workers were more-or-less proportionally represented, all these categories had become under-represented by the 1980s, particularly among active members and parliamentary candidates. This tended to discourage the involvement of manual workers in party branches.⁴⁵⁸

⁴⁵⁷ Jaensch, *The Hawke-Keating Hijack*, p. 52.

⁴⁵⁸ Scott, *Fading Loyalties*, pp. 26-7; Ian Ward, "The Middle-Classing of the ALP: the Victorian branch 1961-1981," *Australian Journal of Politics and History* Vol. 34 No. 2 (1988): 201-14.

This trend had in fact originated in developments in the late 1950s, when party and union structures proved slow to respond to new demographic and industrial changes. As those in the fast-growing white-collar and professional sections of the workforce felt financially secure and often considered themselves as “middle-class,” unions found it fairly hard to recruit them as members. As a result, over time the ALP in turn became more remote from the modern workforce, unable to rely on white-collar workers to give them loyalty.⁴⁵⁹ Labor’s formal connections with wage and salary-earners remained confined to the venerable, primarily manual and male-dominated organizations which were becoming increasingly less representative of the entirety of the working class. Simultaneously, the traditional assumption that people belonged to a common political movement as a natural extension of their position as workers and trade unionists was “fast receding.”⁴⁶⁰

An ALP Committee of Inquiry in 1979 stated that not only had the proportion of blue-collar workers in the male workforce been declining since the 1960s, but there had been a slow and steady decline in the proportion of those workers voting for the ALP since, at least, the Second World War.⁴⁶¹ Further, the ALP’s individual membership had declined significantly over the decades. Scott notes that whereas one in every 33 Labor voters was a party member in the late 1940s, only one in every 65 in the late 1960s was a

⁴⁵⁹ “There are many status groups with divided loyalties. Service workers, although blue-collar and low in status, are not especially sympathetic to Labor. Only 55 per cent of lower ranking service workers favour Labor and higher ranking service workers are mostly opposed, albeit by a narrow margin. On the other hand, higher clerical workers and lower professionals, although white-collar and well above average in status, are evenly split. Even higher professionals, clearly white-collar and at the top of the status hierarchy, are almost evenly divided. Higher ranking sales workers give nearly 60 per cent of their support to the Liberal-National Coalition, while low sales workers give only a little less.” Kelley and McAllister: 391-2.

⁴⁶⁰ Scott, *Fading Loyalties*, pp. 27-8.

⁴⁶¹ Jaensch, *The Hawke-Keating Hijack*, p. 63.

member, and only one in every 96 in the late 1980s was a member.⁴⁶² While the difficulties of maintaining participation may have been aggravated by the breaking up of old inner-city working-class communities, and by the failure of ALP branches in such areas to welcome the steady stream of working-class migrants from non-English-speaking backgrounds, participation by voters also fell in low-income areas that were demographically stable and remained ethnically homogenous.⁴⁶³

Jaensch argues that as Australian society transformed after the Second World War, non-class cleavages increased in importance and the issue of class became less salient and dominant. Ethnicity, religion, women's issues, and the rural/urban cleavage had all moved to the forefront of politics at the expense of class. Further, the effects of more affluence, better education, increased mobility, and occupational changes changed the nature and salience of the older cleavage bases of the parties, with voting patterns becoming more volatile, and a sizeable section of manual workers identifying as "middle-class."⁴⁶⁴ Jaensch claims that it was therefore virtually inevitable that the ALP would be transformed from a working-class mass party into a "catch-all" party, one which no longer represented an identifiable social base and expressed the ideology, policy and programs derived from that base but was rather a "responsive" party which "claims to have no specific base, to be beholden to no syndicate, and to have the function of 'representing' the whole society."⁴⁶⁵

This is essentially the "embourgeoisement of the working class" thesis used by the British Labour revisionists of the 1960s once again rearing its head—or, perhaps,

⁴⁶² Scott, *Fading Loyalties*, p. 30.

⁴⁶³ Ibid, p. 34.

⁴⁶⁴ Jaensch, *The Hawke-Keating Hijack*, pp. 64-66.

⁴⁶⁵ Ibid, p. 61.

Przeworski's "logic of electoral socialism" argument, with the working class defined as a minority class of manual laborers. Indeed, Jaensch's analysis of the ALP's electoral fortunes distinctly echoes Przeworski: as the industrial working-class suburbs—Labor's traditional heartland—proved less solidly pro-ALP in the 1980s than in previous decades, Labor was forced to appeal to the growing number of white-collar workers in residential suburbs with mortgaged homes by playing down its image as a class party, in order to win office, despite the risk of loss of support in the traditional blue-collar areas.⁴⁶⁶ This thesis is combined with Inglehart's "post-materialist" hypothesis to imply that the ALP had no choice but to become a "catch-all" party because of both the rise in the importance of non-class issues—and the corresponding diminished political importance of class—and because the blue-collar working class had diminished both in numbers and in its self-identification as working-class.

But the idea that the ALP *had* to become less of a class-identified party in order to address issues distinct from those of social class, or to attract previously alienated audiences, is not very persuasive. Scott illustrates that there is no necessary correspondence between a high percentage of women in ALP and a low percentage of manual workers; in 1986, for example, the Queensland and Tasmania branches had both more manual workers *and* more women than did that of Western Australia. Jaensch does not explain why female Labor members should be drawn disproportionately from the professions when the female presence in the labor force—in sales, personal service, and clerical work—has increased dramatically. Nor does Jaensch explain why the number of Labor members from non-Anglophone backgrounds increased but few of these members

⁴⁶⁶ Ibid, p. 60.

were drawn from the manual jobs where migrants were most likely to be found.⁴⁶⁷ It is not clear at all that, to use Jaensch's words, Australian society had "embourgeoisified" by the 1980s,⁴⁶⁸ any more than it is clear that the popular distinction between white-collar and blue-collar occupations amounts to a distinction between social classes. What is clear is that Labor's working-class *vote* between the 1940s and early 1980s declined much less severely than its working-class *membership*—the 1983 ALP vote in working-class electorates was only slightly less than in 1949. Changes in the party's class composition therefore did not cleanly reflect changes in its electorate.⁴⁶⁹ Nor did they simply reflect declining union membership. While unionists as a proportion of all Australian wage-earners fell by nearly one quarter from the 1950s to 1990, ALP branch members as a proportion of Labor voters fell by more than two thirds.⁴⁷⁰

An alternate explanation for the decline of working-class membership in the ALP is provided by MacIntyre. Historically, he says, the Labor Party had not been an open and democratic organization in its internal procedures. Decision-making was removed from the reach of party members and concentrated in the hands of peak bodies that meet privately to hash out agreements or "in the glare of the electronic media to establish a ritual consensus."⁴⁷¹ Labor governments acted as managers, balancing and resolving competing claims by unions and social movements—and business—in order to retain office. The result, MacIntyre explains, was that

. . . the forums of the ALP nowadays tend to be dominated by people in professional occupations, and a high proportion of them work as public administrators, or providers of public sector

⁴⁶⁷ Scott, *Fading Loyalties*, pp. 44-5.

⁴⁶⁸ Jaensch, *The Hawke-Keating Hijack*, p. 62.

⁴⁶⁹ Scott, *Fading Loyalties*, pp. 54-5.

⁴⁷⁰ *Ibid.*, p. 65.

⁴⁷¹ Stuart MacIntyre, "Decline and Fall?," David Burchell and Race Mathews, eds., *Labor's Troubled Times* (NSW: Pluto Press, 1991), p. 21.

services. . . [a] consequence is a feeling of neglect or disillusionment among wage-earners . . . who believe their needs are overlooked.⁴⁷²

This disillusionment translated into a decline in working-class votes over the course of the Hawke government's time in office. Support by manual workers for the ALP fell from 65 percent in 1983 to 44 percent in 1996, and by non-manual workers from 46 percent to 36 percent, with John Howard's Liberal Party picking up substantial support from these traditional Labor voters. This reflected alienation from the government's general orientation towards the middle-class "swing voter" at the expense of its traditional base.⁴⁷³

That said, the Labor Party of the 1980s and 1990s still made explicit appeals to the working class, and its conferences and conventions were still filled with rhetorical mentions of "the working class," "working people," and the "underprivileged"; its left factions retained a redistributionist ethos and demanded that the party "remember its roots."⁴⁷⁴ The party's vote still predominately came from working-class areas such as Sydney's western and southern suburbs and Melbourne's northern, western, and outer southeastern suburbs.⁴⁷⁵ Even as business became more inclined to endorse and contribute to ALP campaigns—union donations made up less than 10 percent of the contributions to Labor election funds in 1987⁴⁷⁶—the party was still a trade union party by virtue of its bloc vote, though by 1991 Labor-affiliated unions represented only 25

⁴⁷² Ibid, pp. 22-3.

⁴⁷³ Scott, *Running on Empty*, pp. 127-32. The ALP managed to be re-elected three times despite this steady drop in working- (and middle-)class support. Reasons include the failure of other parties to present a credible administrative alternative; the absence of other parties on the left; compulsory voting; and a far more advantageous distribution of working-class votes, due to a residential shift to outer fringe suburbs, particularly in Melbourne. Scott, *Fading Loyalties*, pp. 58-9.

⁴⁷⁴ Jaensch, *The Politics of Australia*, p. 224.

⁴⁷⁵ Bob Gould, "The People's Choice, electoral politics in 20th century NSW," *Ozleft*, <<http://members.optushome.com.au/spainter/Peopleschoice.html>>.

⁴⁷⁶ Rick Kuhn, "Labor in Power," *Arena* 88 (1989): 142.

percent or so of Australia's workers.⁴⁷⁷ And because it remained a trade union party, its leadership saw it as necessary to engage in negotiation with the unions on matters of industrial relations regulation and labor market reform.

3. Union Relations with the Labor Party

a. The Influence of Industrial Conciliation and Arbitration

The story of the Australian compulsory arbitration system is much the same as that of New Zealand. Federal arbitration legislation was enacted in 1904, and compulsory arbitration was introduced at different times in the various Australian states.⁴⁷⁸ Despite an initial ambivalence in the attitude of labor leaders to arbitration courts and processes of labor law, most soon decided that arbitration's spur to the growth of trade unionism—union density reached 60 percent by 1951—and its provision of a minimum guarantee of industrial conditions—to weaker unions in particular—was sufficient to make it desirable.⁴⁷⁹ For several decades, as in New Zealand, most union leaders—and employers—agreed that wage levels should not be determined purely by market forces, or “through the cut and thrust of class conflict,” but instead through a “quasi-judicial process.”⁴⁸⁰

However, as in New Zealand, the special legal recognition awarded to Australian unions brought with it a set of legislative constraints that defined their existence narrowly. They operated under strictly defined membership rules, which ensured a proliferation of small unions and an array of unions in any workplace; their financial

⁴⁷⁷ Lindsay Tanner, “Labourism in Retreat,” Burchell and Mathews, eds., p. 76.

⁴⁷⁸ Bray and Walsh: 361.

⁴⁷⁹ John Rickard, *Class and Politics: New South Wales, Victoria and the early Commonwealth, 1890-1910* (Canberra: Australian National University Press, 1976), p. 279; Hampson and Morgan: 760.

⁴⁸⁰ Hampson and Morgan, op. cit.; Bray and Walsh: 365.

resources were controlled by state limitations on membership fees; and they were heavily restricted in their range of bargaining issues. Strikes were prohibited, and the state could deploy a wide array of sanctions against striking unions, including monetary fines and the withdrawal of union registration under the arbitration system—that is, the dissolution of the union. Further, a narrow syndicalist perspective, concerned only with wages and benefits, was dominant in the Australian union movement as in that of New Zealand, reinforced by the relative absence of labor party governments after the Second World War.⁴⁸¹

It was after the mid-1970s that divergences between the two cases in bargaining structures and union strategy began. While in the 1960s and early 1970s decentralized bargaining at the industry, company, or workplace level outside the arbitration system had become more important in both Australian and New Zealand, this trend was reversed in Australia in 1975. There were various reasons for this. The end of full employment no longer made it easy for unions to put pressure on employers to offer wages and conditions better than those provided; the introduction of wage indexation strengthened the authority of the Conciliation and Arbitration Commission; and legislation was enacted by the Australian government to enforce greater observance by unions of regulations and awards under the Conciliation and Arbitration Act through stronger fines and penal provisions.⁴⁸² This restoration of centralized arbitration contributed to the strengthening of the ACTU, through its coordination role at an industry level and its role

⁴⁸¹ Bray and Neilson, p. 71; Bray and Walsh: 362-3.

⁴⁸² Russell Lansbury, "The Return to Arbitration: Recent Trends in Dispute Settlement and Wages Policy in Australia." *International Labour Review* Vol. 117 No. 5 (1978): 615.

in national wage cases. Mergers with white-collar peak organizations in 1978 and 1981⁴⁸³ and the ideological reconciliation between left- and right-wing forces within the labor movement also helped the ACTU grow in authority. Also of relevance was that the ACTU, unlike the New Zealand FOL, had established a research secretariat as early as 1959, when it employed an economics and law graduate: Bob Hawke. When Hawke became president of the ACTU in 1969, this research expertise expanded. By the late 1970s union leaders with university qualifications were starting to take on crucial positions.⁴⁸⁴

These factors led the Australian labor movement to become somewhat more cohesive and united than the New Zealand labor movement in the late 1970s and early 1980s. The ACTU began to cooperate more effectively with the Labor Party, and the Party became receptive to the possibility of a corporatist relationship. The ACTU demonstrated both a similar interest and an organizational capacity to move in a corporatist direction. It was no longer purely interested in the defense of wage rates; in the face of rising unemployment, unions became interested in taking on matters to do with social policy which were traditionally considered “beyond their turf.”⁴⁸⁵ At the same time, as shown previously, the New Zealand labor movement remained essentially disunited and, apart from a few individuals, was not ready to participate in corporatist

⁴⁸³ “The possibility of a merger between the ACTU and the white-collar peak councils was first raised publicly in 1969. By 1981, the Australian Council of Salaried and Professional Associations (ACSPA) and the Council of Australian Government Employee Organisations (CAGEO) had disbanded and most of their former members had affiliated to the ACTU. A number of factors, such as converging policies, the changing nature of white-collar unionists and, after 1975, a hostile federal government, pointed to the logic of unification. [. . .]The ultimate success of these discussions is largely attributable to the attitudes and actions of senior ASPCA officials and their belief in the concept of one peak council for all trade unions.” Gerard Griffin and Vincent Guica, “One Union Peak Council: the Merger of ACSPA and CAGEO with the ACTU,” *Journal of Industrial Relations* Vol. 28 No. 4 (1986): 483.

⁴⁸⁴ Bray and Neilson, *op cit.*; Bray and Walsh: 365-6.

⁴⁸⁵ Peter Beilharz, *Transforming Labor: Labour Tradition and the Labor Decade in Australia* (Cambridge: Cambridge University Press, 1994), p. 126.

arrangements, nor—with the FOL’s organizational weakness—did it have the capacity to do so.⁴⁸⁶ Furthermore, although both the ALP and the NZLP had seen declining numbers of manual workers and union officials who became parliamentarians, Australian unions remained closer to their historic party than New Zealand unions did to theirs because Australian unions did not undergo the process of depoliticization that characterized New Zealand unions. Former union officials assumed senior policy positions in the ALP; in the NZLP, no similar process took place.⁴⁸⁷

b. Union Strategy through the Accord

With the election of the Hawke government, the ACTU leaders gained unparalleled authority at the federal level of Australian politics, through representation on bodies such as the Economic Policy Advisory Council and direct access to key Labor ministers during the preparation of the annual federal budget and labor legislation.⁴⁸⁸ Hawke’s pledges in the Accord—to fight unemployment, increase social spending, and preserve wages in cooperation with the ACTU—seemed credible and attractive to Australian workers after the Liberal/National government’s attacks on the unions, working-class living standards, and the record of unemployment of 1982-83.⁴⁸⁹ A broad range of tripartite economic and industry consultative forums involving government, union, and business spokespersons were established.

⁴⁸⁶ Bray and Walsh, *op. cit.*

⁴⁸⁷ Bray and Neilson, p. 73. The trade unions already had considerable institutional power in the ALP; 1971 had seen the establishment of the 60:40 ratio of union delegates to delegates representing direct members of the party at most state conferences. Bob Gould, “Submission to the ALP committees of inquiry after the 2001 federal elections,” *Ozleft*, <<http://members.optushome.com.au/spainter/Laborsubmission.html>>.

⁴⁸⁸ Patmore and Coates: 132-3.

⁴⁸⁹ Rick Kuhn, “The Limits of Social Democratic Economic Policy in Australia”: 26.

It is generally agreed by commentators that union strategy went through a fundamental change by the late 1970s. After the fall of the Whitlam government, the ACTU began to distance itself from pure distributive bargaining and the attitude that inflation was solely the “bourgeoisie’s problem.”⁴⁹⁰ Rising unemployment led to increased interest by the unions in social and industry policy with an aim towards economic growth. By the time of election of Labor in 1983 Australian unionism seemed to have transcended its narrowly economistic “laborist” past and embraced a “political unionism” which would improve the wages and conditions of workers by affecting state policy and legislation, not merely by collective bargaining. This political unionism produced the Accord agreement with the ALP. The Accord’s most enthusiastic supporters in the union movement saw it as a means towards turning Australia into a sort of southern Sweden, where high value-added manufacturing exports were combined with humane social policies.⁴⁹¹ This goal was not reached, despite the differences between Australian Labor and New Zealand Labour in power in the 1980s. Some unionists’ hopes that industry policy would play a central role in the Accord and erode managerial prerogatives over investment were quickly disappointed.⁴⁹² What occurred was that an accommodation was reached between the government and the unions within the framework of making the Australian economy more competitive—that is, of promoting capital accumulation in Australia—despite the fact that business was not involved in the Accord and did not trust the Accord style of politics. This did not mean that the unions simply “played dead” for the sake of business; as McEachern summarizes,

⁴⁹⁰ Beilharz, *op. cit.*

⁴⁹¹ Wiseman, p. 101; Hampson and Morgan: 765-6.

⁴⁹² “One interpretation is that the commitment to industry policy in the Accord was a simple sop to the Left by other elements of the union movement, which would hopefully persuade the Left not to wreck the strategy through wages militancy.” Hampson and Morgan: 767.

The ACTU did not give up its role of representing the claims of workers nor did it passively concede to business what ever business wanted but it did change the framework within which these claims were recognized and pursued. Both the ACTU's goals and methods (such as the pursuit of national superannuation funded from productivity increases) were sufficient to upset sections of business and business organisations. Nonetheless, while pursuing its objectives, ACTU strategies made room for business to increase profits and to pursue growth and investment. Indeed, the accomodationist stance of the trade unions, with an emphasis on productivity bargaining, award restructuring and union amalgamations shifted the debates between capital and labour more firmly in the direction of capitalist development than before.⁴⁹³

Leading union figures agreed with the Labor governments that questions of profitability and competitiveness were primary. In 1989, ACTU secretary Bill Kelty argued that the economy was in good shape because the profit share had shifted back; seeing employer organizations as “hopeless” and “troglodyte,” he saw the union movement as a sort of savior for Australian capitalism, accepting it “not only on the basis of money being put into the hands of employers, but on the basis of money being put into the hands of employers so they can employ people.”⁴⁹⁴ But at the same time, the unions' support for the Accord was premised on the belief that workers generally would benefit from higher rates of economic and employment growth and that wage restraint would be counterbalanced by supportive social wage policies, industry policy, and favorable industrial relations reforms.⁴⁹⁵

The first incarnation of the Accord, in 1983, initiated a new incomes policy in which wages were very strictly regulated under a new form of wage indexation administered by the Conciliation and Arbitration Commission. It was strongly supported

⁴⁹³ Doug McEachern, “Taking Care of Business: The Hawke Government and the Political Management of Business,” Galligan and Singleton, eds., p. 137.

⁴⁹⁴ Kuhn: 27, 31.

⁴⁹⁵ Hampson and Morgan: 765.

by the ACTU, which wanted indexation to maintain real wages. In practice, the policy was effective in promoting wage restraint, which enabled rapid employment growth. This apparent success helped the Hawke government deflect union demands for industry policy.⁴⁹⁶ From 1985 through 1996 the agenda of the Accord progressively narrowed, in a sequence which echoed the deterioration of incomes policies in Britain under Labour governments between 1964 and 1979.⁴⁹⁷ The Accord Mark II (1985) began this process, as the partners debated the effects on the Consumer Price Index of the sharp depreciation of the Australian dollar and whether this should be considered in the wage indexation process. The ACTU agreed to discounting for international factors—a major concession that would be compounded in subsequent rounds of the Accord.⁴⁹⁸

Table 4.4: Years of Accord Wage Agreements

Version	Year
Mark I	1983
Mark II	1985
Mark III	1987
Mark IV	1988
Mark V	1989
Mark VI	1990
Mark VII	1993
Mark VIII	1996

Source: Ian Hampson and David E. Morgan, “Post-Fordism, Union Strategy, and the Rhetoric of Restructuring: The Case of Australia, 1980-1996,” *Theory and Society* Vol. 28 No. 5 (Oct. 1999): 765.

In a situation characterized by degenerating terms of trade, a growing foreign debt and inflation, many of the unions’ hopes for the Accord were dashed. The continuing balance of payments crisis exerted great pressure, with the ACTU leaders realizing that they could not expect the government to continue to agree to full indexation. In response,

⁴⁹⁶ Brosnan, Burgess and Rea, p. 3; Bray and Walsh: 368; Hampson and Morgan: 768.

⁴⁹⁷ Patmore and Coates: 133.

⁴⁹⁸ Brosnan, Burgess and Rea, p. 4.

rather than allowing the Accord relationship to collapse, the ACTU offered a modified approach which involved a two-tiered system of generalized wage increases from national wage cases and a second tier of specific increases for increased efficiency. In March 1987 the Arbitration Commission adopted this proposal. The unions were unable to prevent the government from announcing major tariff reductions in May 1988; this undermined the industry plans that were established in the Accord's early years. They were, however, able to ensure that the 1988 Industrial Relations Act was designed to meet the ACTU's desire to restructure the union movement into a small number of large industry unions (in contrast to the employers' desire for enterprise bargaining).⁴⁹⁹ The ACTU also offered a detailed strategic plan for addressing Australia's economic woes, entitled *Australia Reconstructed*. Hampson and Morgan summarize the plan:

[It] advocated recasting Australia's chaotic pattern of over 300 occupational and general unions to German-style industry unionism. It also advocated reforming Australia's skill formation and training system, in particular shifting from "front-end training" to "lifetime training" . . . In lifetime training, continual upskilling required major changes to awards, in particular the construction of skill-based career paths. This would become known as "award restructuring" . . . Workers' skills would be "objectively" determined by competency testing, rather than time served, or employer favoritism, and pay would be linked to skills acquired, rather than used. A national system of accreditation would help retain, recognize, and transfer skills otherwise potentially underutilized as industries restructure. National reference points for training, policed by a National Training Board (NTB), would help prevent workers being immersed in an organizational culture controlled by their employer, at the expense of solidarity with their union.⁵⁰⁰

Australia Reconstructed argued in favor of "the Swedish Third Way or Rehn-Meidner model" and "Austro-Keynesianism" and "revived the issue of industrial democracy," but

⁴⁹⁹ Bray and Walsh: 371; Brosnan, Burgess and Rea, pp. 5-6.

⁵⁰⁰ Hampson and Morgan: 771-2.

in doing so it “[flew] in the face of Canberra policies.”⁵⁰¹ It ran up against strong employer opposition and little interest from the Labor government, which became increasingly interested in industrial relations decentralization via enterprise bargaining, which would basis wage rises purely on increased productivity. Surprisingly, the ACTU accepted the idea that wages rises should be at least partly contingent on “productivity offsets,” and the fourth version of the Accord made wage rises conditional on union cooperation in award restructuring. The union leadership was not abandoning political unionism; during Accord Mark IV negotiations in 1988 it was at least implicitly trying to bring about the creation of a Euro-Scandinavian-style “human-centered” form of work organization which would provide workers with necessary skills.⁵⁰²

By 1989 the union leaders came to accept enterprise bargaining as an inevitability, but believed they could shape this move towards radical decentralization in union-friendly ways. They believed they could achieve a “managed decentralism” in which a “floor of rights” could be maintained and greater workplace bargaining could raise union visibility and boost union membership. But as the Business Council of Australia’s strong support for individual contractualism and the abolition of arbitration became the mainstream position among employers and was embraced by the most influential sections of the federal bureaucracy, the course of reform proved to be beyond the unions’ control. Most notably, in 1993, under the new Labor Prime Minister Paul Keating, the government further encouraged enterprise bargaining by amending the federal arbitration legislation to allow non-union bargaining. The Industrial Relations Reform Act undermined the unions’ prior privileged position in bringing industrial issues

⁵⁰¹ Beilharz, p. 140.

⁵⁰² Hampson and Morgan: 772-3.

before the federal tribunal. Employers could now negotiate collective agreements (enterprise agreements) directly with employees and have them certified without unions being involved. Australian unions thereby lost their monopoly bargaining rights.⁵⁰³ The political pressure that unions mounted on the government in opposition to non-union bargaining proved to be insufficient, and the fact that such provisions were raised at all illustrates the waning of the unions' power within the Accord. Neoliberal reforms introduced at the state level encouraged such developments at the federal level; conservative coalitions won office in many states in the early 1990s (New South Wales in 1990, Victoria in 1992, South Australia and Tasmania in 1993, Western Australia in 1994), implementing radical new labor laws characterized by anti-union measures and individual employment contracts.⁵⁰⁴

Enterprise agreements acted to eliminate common conditions for people doing the same work, and commonly resulted in longer working hours, increased use of shift work, more casual and part-time employment, and fragmentation of workplace unionism and redundancies. Between 1992 and 1996, the Industrial Relations Commission gradually lost any genuine power to affect the content of enterprise agreements. Though awards still operated, their role was reduced to that of a safety net. Employees covered by awards received modest wage increases through national wage cases, but such increases lagged notably behind those available through enterprise bargaining. As Hampson and Morgan note, wage restraint made workers more receptive to wage rises delivered via such mechanisms as individual contracts, where employers could create and exploit a wage

⁵⁰³ Bray and Walsh: 373; Bramble, p. 50; Hampson and Morgan: 773.

⁵⁰⁴ Bray and Walsh: 373-4.

differential between unionized and non-unionized labor. This contributed to a drop in union membership.⁵⁰⁵

The ACTU did not provide wholesale resistance to such attacks on the award system and working conditions. Largely this was because it hoped to preempt an even more extreme version of labor market deregulation of the sort introduced in New Zealand under the National government via the Employment Contracts Act of 1991. Union leaders were afraid that if they broke off from the Accord the result would be the end of the ALP government and the loss of the ACTU's privileged position in Australian politics. Moreover, the union leaders feared that if the Accord collapsed a conservative government with "distinct Thatcherist overtones" would be the result.⁵⁰⁶ Bargaining changes which were implemented by the government went sharply against the union movement's basic interest in preventing the segmentation of the labor market and the division of organized labor, yet the unions lacked a clear alternative strategy.⁵⁰⁷

That said, the unions were still able to fight for and win legislative concessions such as the introduction of federal unfair dismissal provisions and other employment rights. They were able to blunt some of the practical effects of non-union enterprise agreements by ensuring that the legal procedures for certification were very complicated. In practice, unions remained the primary representatives of workers when collective bargaining occurred.⁵⁰⁸ The changes in the arbitration system were more incremental than revolutionary; links with the established state-regulatory structure were preserved with

⁵⁰⁵ Hampson and Morgan: 777; Bramble, op. cit. Union membership fell from 51 percent of the workforce in 1976 to 30.3 percent in 1997. Padmore and Coates: 133.

⁵⁰⁶ Hampson and Morgan: 770.

⁵⁰⁷ Peter Ewer, Ian Hampson, Chris Lloyd, John Rainford, Stephen Rix, Meg Smith, *Politics and the Accord* (Leichhardt: Pluto Press, 1991), p. 55; Padmore and Coates, op. cit.

⁵⁰⁸ Bray and Walsh: 374-5.

the continued operation of awards and periodic wage adjustments available to workers, particularly the low paid, in sectors where enterprise agreements were not on offer.⁵⁰⁹ Even after the ALP lost the federal election of 1996, unions were still able to blunt the sharpest edges of the neoliberal trend in the party. For example, New South Wales Labor leader Bob Carr may have supported the economic policies of the federal Labor governments, but in 1997 the unions swayed his state government to repeal existing industrial legislation that stressed enterprise bargaining at the expense of both the state industrial tribunals and the unions. This experience provides evidence that the union movement's traditional view of the role of the state persisted despite the Hawke-Keating governments' emphasis on market forces.⁵¹⁰

c. Assessing the Accord

Critics of the Accord have characterized it as an “engine of wage restraint” and a conduit for economic rationalism from the ALP leadership to the base of the labor movement, as—in the face of economic crisis and militantly right-wing employers pressuring the government—the course of economic reform ran beyond the unions' abilities to control it.⁵¹¹ When wage increases did occur, they point out, it was through a centralized process that did not directly involve the participation of the union ranks, and while the actual reduction of real wages through the 1980s is debated, all Australian commentators claim that they fell by somewhere between 2 and 10 percent. According to Chris Lloyd, national research officer for the Amalgamated Metal Workers Union (AMWU)—a union which had been key in formulating demands which led to the development of the

⁵⁰⁹ Bray and Neilson, p. 84.

⁵¹⁰ Patmore and Coates, op. cit.

⁵¹¹ Hampson and Morgan: 773.

Accord⁵¹²—the Accord removed from workers “the belief that they actually have some power in the wage-fixing process . . . [this] has led a lot of them to be somewhat uninterested and cynical about the way industrial relations operates,” even if they believed that a centralized wage-fixing system was still necessary to guarantee wage protection.⁵¹³

Accord critics have also noted that the ACTU did little to oppose the privatizations which occurred under the ALP. The Labor government privatized a shopping mall in Canberra in 1985, and two years later the Williamstown Dockyard in Melbourne was sold. Little outrage was expressed in either case, except by the union concerned at the dockyard when all its members lost their jobs. Opposition to privatization by the unions was confined largely to the passage of resolutions at ACTU and ALP congresses. The government ignored these resolutions and approved the partial privatization of the Commonwealth Bank in August 1990, allegedly to prevent the state bank of Victoria from collapsing. What remained of the Bank was sold in 1993 and 1996. The publicly owned domestic airline was ultimately sold to private interests in 1995. Other state enterprises such as Australia Post and Telecom (now Telstra) were made to run along commercial lines. By the time of the 1996 election both Labor and the conservative Coalition Party had identical privatization policies, save that the Coalition promised to privatize 30 percent of Telstra, while Labor promised not to do so.⁵¹⁴

Some have argued that a more militant and confrontational strategy by the unions, independent of government economic and industrial policies and with an alternative

⁵¹² Beilharz, p. 113.

⁵¹³ Clare Curran and Chris Lloyd, “Accord in Discord,” *Australian Left Review* (July 1990), pp. 12-3.

⁵¹⁴ Peter Fairbrother, “The Ascendancy of Neo-Liberalism in Australia,” *Capital & Class* 63 (Autumn 1997): 6.

policy package ready, might have done more to stave off the neoliberal trend than did the Accord. Kuhn claims that

...it seems plausible to argue that given the international economic recovery and in the absence of the Accord, Australian workers could have achieved higher real wages during the 1980s, through confrontations with employers and possibly governments. These circumstances were much more propitious for effective responses to problems faced by the union movement and the working class than the recession of the early 1990s. . . . The experience of industrial struggle may have its downside in terms of wages lost. But it is also the essence of self-reliant shop-floor organization, necessary to resist concerted attacks from employers, on wages, conditions and jobs. The class-wide solidarity engendered by using industrial action to safeguard workers' living standards could have defended industrially weaker workers *more* effectively than the Accord, through "flow-ons," not only of higher wages but also of the militancy that makes them achievable.⁵¹⁵

That said, even if the ACTU debatably had the wrong strategy, the fact that it had a coherent strategy at all made it more effective than British unions under the New Labour government or New Zealand unions under the 1980s Labour government. The Australian unions took their special relationship with the ALP seriously and were able to negotiate effectively with the party leadership, with articulated objectives and plans in detailed, public documents.⁵¹⁶ Moreover, the union movement centralized itself in such a way that it was able to maintain enough influence in the ALP to at least partially counteract the middle-class character of much of the party's membership and leadership. Former ACTU leader Bob Hawke, for his part, proved willing to restrict the Labor government's

⁵¹⁵ Kuhn: 30-1. Notably, the ACTU was hostile to any union or section thereof which attempted to break discipline on the Accord. Unions which attempted to evade the Accord's wage principles, such as the Federation of Airline Pilots, which went on strike in 1989, were snubbed by the ACTU and the Labor government. Hawke used the military to break the pilots' strike; the ACTU did not publicly question the government's tactics. This was not a great departure from Labor tradition, however, as the Curtin and Chifley governments (1941-5 and 1945-9 respectively) had also used the military to defeat unions that challenged their industrial relations policies. Patmore and Coates: 134, 137; Bramble and Kuhn, pp. 33-4.

⁵¹⁶ Bray and Neilson, p. 84.

autonomy in order to ensure the loyalty of the unions—even if this was largely due to his desire to ensure that the unions refrain from industrial militancy.⁵¹⁷ The neoliberal Labour Party leaders in Britain and New Zealand, in contrast, felt no need to worry seriously about alienating the strategically aimless union leaders of their respective countries.

Simply because the ACTU maintained a close connection with the ALP—and did not merely acquiesce to Hawke as British unions initially did to Tony Blair—the Labor government was not able to pursue full labor market deregulation as quickly or completely as the Business Council of Australia wanted.⁵¹⁸ Awards remained more significant in Australia than multiemployer agreements in New Zealand, as they covered a far higher proportion of employees in the former than in the latter. Moreover, there was no equivalent in New Zealand to the Australian national wage cases. Even after the ALP lost the federal election of 1996, unions were still able to defeat neoliberal economic policy proposals at the state level; most notably, a series of resolutions opposing privatization were passed at the 1997 NSW ALP conference, including the privatization of the Pacific Power company.⁵¹⁹ Union influence in its traditional party may have diminished, but it was not as marginalized as in New Zealand or, later, in Britain. In comparison, the Accord—and the union authority within the ALP that it reflected—appears as, if nothing else, a “kinder strategy.”⁵²⁰

⁵¹⁷ “Although union industrial campaigns had played a key role in the demise of Labor’s opponents, the ALP’s ‘special relationship’ with the union movement allowed it to claim that it alone could ‘control’ the unions.” Hampson and Morgan: 748.

⁵¹⁸ Wiseman, p. 99.

⁵¹⁹ Patmore and Coates, op. cit.

⁵²⁰ Wiseman argues that the twelve years of ALP government “provided some breathing space and room to move for those sections of the labour movement . . . who continue to challenge the inevitability and irreversibility of globalisation.” Wiseman, p. 113.

4. Conclusion

Despite the justified criticisms of the ACTU's corporatist strategy during the Hawke-Keating years, one must take into account the difference between the fate of Australian unions vis-à-vis the Labor Party in comparison to their New Zealand "cousins," or the Trade Union Congress under British New Labour. The ALP remained sufficiently close to the unions, both in terms of personnel and policy, to see advantages in cooperation with them, while the 1980s NZLP government and Blair's New Labour saw the unions simply as obstacles to be overcome. Comparatively, the autonomy of the ALP government was thus restricted.⁵²¹ The Accord involved much wider and more substantial policy trade-offs, including commitments to job creation targets, by the Labor government than anything negotiated between the British Labour Party and the TUC from the Social Contract of the 1970s onward, and was a relatively better deal for unionists.⁵²² In addition, during the first half of the Accord, union membership was stable in Australia while it fell in New Zealand, and between 1983 and 1991, the number of union members fell 17 percent in New Zealand while rising 13 percent in Australia.⁵²³ Throughout the entire period of the Accord, the ALP conference delegate proportion remained fixed at 60 percent of delegates for trade unions and 40 percent for ALP electorate branches. This made possible instances of successful resistance to the Labor government's neoliberal economic agenda, such as the defeat of electricity privatization in NSW, and enabled union pressure on state Labor governments towards the removal of

⁵²¹ Bray and Neilson, p. 85.

⁵²² Scott, p. 235.

⁵²³ Admittedly, there was a steep decline in union membership during the second half of the Accord—a drop of 55,000 members between 1990 and 1997. David Peetz, *Unions in a Contrary World: The Future of the Australian Trade Union Movement* (Cambridge: Cambridge University Press, 1998), pp. 6, 159.

many aspects of industrial relations legislation that handicapped unions in the state arena.⁵²⁴

The ALP leadership, unlike its New Zealand and British counterparts, saw the securing of trade union support as a priority coequal with that of the modernization of Australian capitalism; indeed, the former was seen as necessary to ensure the success of the latter. It did not attempt to genuinely resist the international trend towards neoliberalism, but at least during the Hawke years under the ALP remained “tied closely to the unions and led by a union man,” and attempted to balance “historical tradition and contemporary loyalty against what seemed to be the weight of economic evidence.”⁵²⁵ Hence, Australia’s journey to neoliberalism was slower than in New Zealand, with the consequences of restrictive monetary and fiscal policy delayed for about seven years; Labor introduced at least some progressive changes in social welfare and social legislation, such as Medicare and supplementary pensions; and party-union relations were less antagonistic than in either David Lange’s New Zealand or Tony Blair’s (and then Gordon Brown’s) Britain. Even under Keating, when the movement to neoliberalism gathered speed, the government was still bound to consultation with the union movement in policy formation. Rather than splitting apart as in New Zealand, the ALP remained the party of Australian trade unions, structurally linked via federal and state industrial relations systems, most notably through the union vote at ALP conferences, which itself was not weakened as it was in Britain. And as the party of the unions, the ALP could not drive Australia at full speed onto the neoliberal highway, regardless of the desires of its leadership.

⁵²⁴ Gould, *op. cit.*

⁵²⁵ Bray and Walsh: 380.

Conclusion

In this work I have attempted to account for divergences in the choice of neoliberal policies by labor party governments. I have focused upon labor parties rather than social-democratic parties generally because of the particular common aspects of labor parties—they are parties that were created to be the political expression of the interests of trade unions and in which the unions had influence over party policy. The ranks of the unions affiliated to labor parties were (indirect) members of the parties, alongside the dues-paying members of labor party branches (as they are known in New Zealand and Australia) or constituency parties (the British equivalent). Labor parties could thus be guaranteed a virtual monopoly on working-class political representation, while other social democratic parties could not be so assured.

Explanations for the embrace of pro-market policies by social democratic parties have pointed to various factors, most commonly the globalization of production and finance, the shrinking of the blue-collar working class, and the rise of so-called postmaterialist politics. The dominant theme in the literature is the transformation of these parties—sometimes called “modernization”—under the pressure of the global capitalist economy. Global wage competition is a reality; non-inflationary demand-led growth within single countries is no longer possible; “profligate governments and uncompetitive economies” are “mercilessly punished,” and social democratic governments have no choice but to adapt to this reality by implementing benefit cuts, market deregulation, and commercialization and privatization of the public sector.⁵²⁶

⁵²⁶ Gøsta Esping-Andersen, “After the Golden Age?” Gøsta Esping-Andersen, ed. *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage Publications, 1998), pp. 2-3.

I have argued that such accounts are insufficient because they do not take three important factors into account. The first factor is the change in the class composition of the leadership and individual membership of social democratic parties, even in labor parties with trade union affiliations. These parties are increasingly dominated by the salariat—a stratum of intermediate executives and technicians, professionals and engineers, all of whom enjoy a high degree of economic security, job autonomy, and education. They are distinct from the white-collar working class, which works in offices and undertakes administrative, clerical or secretarial work—with little job autonomy—and is sometimes unionized.⁵²⁷ The second factor is the diminishing of the influence of the unions within the very parties that are supposed to be their political representatives. The third factor is the lack of a strategy by the union movement to ensure that the party leadership must listen to them and take their interests into account when formulating policies. This may be due to a longstanding lack of interest by the unions in engaging in politics (New Zealand) or a passivity by the unions which resulted from many years of anti-union Conservative rule (Britain). In the case of Australia the unions were sufficiently united, disciplined and strategically minded to ensure that a Labor Party government would integrate them into the making of policy—even before the ALP took office in 1983.⁵²⁸

The sociological change in the labor parties is directly connected to how their leaderships view market forces and thus how their governments regulate the capitalist economy. The New Zealand Labour government in the 1980s (commonly called the

⁵²⁷ For a useful analysis of the “white collar” job category as consisting of both managers, supervisors, and semi-autonomous employees who belong to “contradictory class locations” between the capitalist class and working class and of the large majority of white-collar employees who belong to the working class proper, see Erik Olin Wright, *Class, Crisis and the State* (London: Verso, 1978).

⁵²⁸ See Table 5.0 in the Appendix.

fourth Labour government) was the first to demonstrate that there is a direct connection between the changed class composition of left parties and their willingness to take for granted their traditional working-class constituencies and to initiate—or continue and deepen, as in the British case—radically pro-market economic policies. Such parties in office also seek to extend market mechanisms into social policy and industrial relations. Effectively doing this requires blunting the ability of trade unions to affect the party program and how the party governs. The degree to which neoliberal labor party leaderships are able to marginalize the unions depends on whether or not the unions—through their federation—have a coherent strategy to ensure that their interests are taken seriously. This requires that the unions be politically active within their historic parties and that they be both politicized and strategically coherent *before* the labor party takes office.

Ultimately it is union-labor party relations which determine how marginalized the unions affiliated to labor parties can become and, by extension, how hegemonic the middle-class individual membership can become inside the parties. The experience of the Accord between the Australian Labor Party and the Australian Council of Trade Unions (ACTU) suggests that *the central organization of union federations* makes the union movement appear as a credible force to labor party leaderships. The Australian unions communicated their objectives and plans in detailed public documents and pursued a policy agenda that was considerably broader than their previous “economistic” concern with wages and working conditions alone.⁵²⁹ As a result, rather than be dismissive of or even antagonistic to the unions in the manner of the fourth New Zealand Labour

⁵²⁹ Mark Bray and David Neilson, “Industrial Relations Reform and the Relative Autonomy of the State,” Francis Castles, Rolf Gerritsen and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Wellington: Allen & Unwin, 1996), pp. 81-2.

government or Tony Blair's New Labour government in Britain, the ALP leadership saw it as necessary to incorporate the union leadership into policy-making.

In this concluding chapter I will first compare the economic, social, and industrial relations policies of the three labor party governments that I have examined. The second section will discuss the changed class composition of all three parties. The third section will compare how the union movements in Britain, New Zealand and Australia attempted to influence the neoliberal governments of their respective labor parties, i.e., the strategies they employed. I will then argue for the relevance of my work as regards to the theory of working class power resources, revisit the counter-arguments which were presented in my initial chapter, and lastly discuss other relevant factors and suggestions for further research.

1. Comparison of Labor Government Policies

In this section it will be demonstrated that the economic policies of the three labor party governments are quite similar, with the 1983-96 Australian Labor governments only slightly at variance; that the social policy of the ALP governments was more in keeping with social democratic tradition than that of the fourth New Zealand Labour government and far more than that of the British Labour government of Tony Blair; and that Blair's industrial policies stand out as the most overtly anti-union of the three cases, with those of the New Zealand and Australian labor governments being essentially the same.

a. Economic Policy

All three Labor governments under review made a turn towards macroeconomic policies which involved adaptation towards market forces and a rejection of indicative economic planning. In the case of British New Labour, policies inherited from the prior Conservative government were simply not reversed. Tony Blair and his co-thinkers unequivocally endorsed the idea that the only way for a country to flourish under globalized capitalism is to guarantee monetary and fiscal stability and to ensure that its infrastructure and “flexible labour markets”—low wages, low social costs, weak trade unions, and a lack of legal constraints on firing surplus workers—are attractive to investors.⁵³⁰ Within the Labour Party, they successfully depicted alternatives to this agenda as inefficient and part of “old Labour,” i.e. an electoral liability. Notably, the “Blairites” portrayed neoliberal economics as the most effective means with which to realize traditional Labour aims such as welfare provision, employment, and economic growth, even as they sought to free themselves from the remains of the old Labour Establishment and realign themselves with capitalist forces.⁵³¹ Where New Labour acted as a policy innovator was in adopting such initiatives as public-private partnerships and private finance initiatives (PPI/PFI) in transport, the prison service, education, and healthcare, and in granting operational independence to the monetary policy committee of the Bank of England.

In New Zealand, the 1984-90 Labour government of Prime Minister David Lange and Treasurer Roger Douglas executed a drastic and sudden neoliberal program. The tax

⁵³⁰ Paul Anderson and Nyta Mann, *Safety First: The Making of New Labour* (London: Granta Books, 1997), pp. 183-4.

⁵³¹ Sara C. Motta and David J. Bailey, “Neither pragmatic adaptation nor misguided accommodation: Modernisation as domination in the Chilean and British Left,” *Capital & Class* No. 92 (Summer 2007): 118-9; Peter Kennedy, “Labourism and Social Democracy Post-1945,” *Critique* No. 35 (Apr. 2004): 94.

system was simplified, with marginal taxes and progressive tax programs reduced. State-owned assets and public enterprises were commercialized and corporatized. Controls on capital movements were abolished. The financial sector was deregulated; a value-added tax was introduced; the dollar was floated; and monetary policy was focused solely on keeping inflation levels low by containing wages, a result of the independence of the central bank.⁵³² New Zealand's party of the left thus voluntarily implemented orthodox macroeconomic stabilization policies of the sort often imposed on developing countries by the International Monetary Fund, and it did so unilaterally, without outside consultation. Those in the Labour government who designed this program—finance minister Roger Douglas and the Treasury—did not merely argue that economic crisis made it necessary, but that the values of classical liberalism and laissez-faire required the disembedding of the economy from society through an autonomous, self-regulating system of markets.⁵³³ After Labour's re-election in 1987, Douglas pushed an even more far-reaching economic program to privatize many state-owned assets, introduce market principles into social policy, and implement a flat-rate income tax. Lange opposed the flat-tax proposal but the tax system was still flattened from three to two steps.⁵³⁴

The Australian Labor government of Bob Hawke was elected in 1983 on a program of fiscal expansion, one that was far less vague in its details than the New

⁵³² Poul Erik Skov Christensen, *The Experiment in New Zealand: The Consequences and Experiences of the Reforms in New Zealand* (Economic Council of the Danish Labour Movement, June, 2001), p. 9; Mark Bray and Pat Walsh, "Different Paths to Neo-Liberalism? Comparing Australia and New Zealand," *Industrial Relations* Vol. 37 No. 3 (July 1998): 368.

⁵³³ Vivien A. Schmidt, "The Role of Values and Discourse in Welfare State Reform: the Politics of Successful Adjustment," paper prepared for delivery at the Council for European Studies Conference (Chicago, Mar. 30–April 2, 2000), p. 14.

⁵³⁴ Francis Castles, Rolf Gerritsen, and Jack Vowles, "Introduction: Setting the Scene for Economic and Political Change," in Francis Castles, Rolf Gerritsen, and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand* (Auckland: Auckland University Press, 1996), pp. 16-7.

Zealand Labour Party's initial program.⁵³⁵ But international economic pressures soon overtook the ALP's initial neo-Keynesian optimism. The government floated the Australian dollar and deregulated the financial system with the hope that this would encourage productive investment. In the run-up to the November 1984 election, Labor pledged that it would not increase public expenditure, taxes, or the deficit as percentages of GDP; in mid-1986, a rapidly falling dollar led Treasurer Paul Keating to declare that Australia was in danger of becoming a "banana republic."⁵³⁶ This sense of emergency allowed the Labor government to accelerate economic restructuring to ensure the competitiveness of Australian exports. Trade was deregulated through tariff cuts and both bilateral and multilateral free trade agreements were entered into. It rewrote tax laws, thereby exacerbating income inequality despite the introduction of a capital gains tax, and by 1988 it began to support privatization of state property on a case by case basis.⁵³⁷ After Keating became prime minister in December 1992, economic policy increasingly embraced market forces, and privatization of state enterprises was pursued further despite electoral promises to the contrary. Decisions on industry policy reflected a near-total reliance on reductions in tariff protection and market forces to make Australian business globally competitive.⁵³⁸

⁵³⁵ "In its election campaign, Labor had left its plans with regard to economic policy rather vague, although there was general acceptance that something had to be done. But there was certainly little suggestion that it would engage in such radical neo-liberal economic reform. Much the contrary, given campaign references to ensuring an 'active role for government,' instituting 'prices and incomes policy' and an 'investment strategy,' which gave the impression that a new Labor government would be as interventionist as its predecessor." Schmidt, op. cit.

⁵³⁶ Cliff Walsh, "The National Economy and Management Strategies," Brian Galligan and Gwynneth Singleton, eds., *Business and Government Under Labor* (Melbourne: Longman Cheshire, 1991), p. 40.

⁵³⁷ Castles, Gerritsen and Vowles, p. 15; John Wiseman, "A Kinder Road to Hell? Labor and the Politics of Progressive Competitiveness in Australia," Leo Panitch, ed., *Socialist Register 1996* (New York: Monthly Review Press, 1996), pp. 98-9; Greg Patmore and David Coates, "Labour Parties and the State in Australia and the UK," *Labour History* No. 88 (May 2005): 132.

⁵³⁸ Mark Bray and Pat Walsh, "Different Paths to Neo-Liberalism? Comparing Australia and New Zealand," *Industrial Relations* Vol. 37 No. 3 (July 1998): 372-3.

Though the Australian Labor governments were characterized by consultation with the union movement while the British and New Zealand Labour governments had no interest in incorporating unions into policy decision-making, the differences in macroeconomic policies between the regimes are not especially great. In all cases, privatization, financial deregulation, and the adoption of market-efficiency based criteria for the performance of state enterprises were embraced by labor governments, though the degrees of privatization differed, with New Zealand having implemented the greatest amount of privatization.⁵³⁹ The Australian experience differs from the others in that the tax system was made more progressive in certain instances via the introduction of capital gains and fringe benefits taxes, measures which ran against the regressive trend of 1980s OECD tax reform.⁵⁴⁰ It also differs in that certain reforms which met with substantial opposition by unions and welfare groups were withdrawn. Most notably, a goods and services tax (VAT) proposed by Labour governments in both Australia and New Zealand in the 1980s was abandoned in the former country and imposed in the latter country despite lack of popular support.⁵⁴¹

⁵³⁹ Privatized firms in New Zealand under Labour include state trading departments, telecommunications, the ministry of (public) works, interests in gasoline/petroleum, banks, airlines, electricity generation, seaports and airports. These privatizations “were accompanied by reforms to open markets, remove price and exchange rate distortions, and encourage the development of the private sector through free entry.” Sunita Kikeri, John Nellis, Mary Shirley, “Policy Views from the Country Economics Department” (World Bank, July 1992), <<http://www.worldbank.org/html/prddr/outreach/or3.htm>>.

⁵⁴⁰ Brian Easton and Rolf Gerritsen, “Economic Reform: Parallels and Divergences,” Castles, Gerritsen and Vowles, eds., p. 39; Francis G. Castles, “Needs-Based Strategies of Social Protection in Australia and New Zealand,” Gøsta Esping-Andersen, ed. *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage Publications, 1998), p. 105.

⁵⁴¹ Schmidt, p. 18.

b. Social Policy

British Labour's social policy under Blair included various reforms of a modestly social-democratic character. These included the establishment of a legal minimum wage; a one-off tax on the windfall profits of privatized utilities to pay for an unemployment program; increases in public expenditure on health and education; a family tax credit; legal recognition of union organization in the workplace; a maximum 48-hour working week; and new laws on sickness, maternity leave and redundancy payments.⁵⁴² Other elements of New Labour social policy design were more decidedly neoliberal, "reforming" welfare in ways that neither Margaret Thatcher nor John Major dared. The Blair government introduced workfare for social assistance recipients, which gave 18-25 year olds who were unemployed for over six months a series of routes back into work or training. Over time the requirements became ever more stringent; the "carrot" of subsidized training and initial employment was joined to a "stick" of reduced benefits.⁵⁴³ New Labour also introduced tuition fees for students in tertiary education at the same time that it continued means-testing in social assistance and went further with the introduction of the market into pension systems.⁵⁴⁴ New Labour claimed simply to be committed to the modernization of welfare provision, modifying it in light of the reality of capitalist globalization. One key element in that modernization was the extensive use of private finance in the capital expenditure programs of the health service, which proved to be greatly controversial. National Health Service (NHS) premises became increasingly owned and operated by private corporations. Non-clinical work—hospital cleaning,

⁵⁴² Gerassimos Moschonas, *In the Name of Social Democracy: The Great Transformation, 1945 to the Present* (London: Verso, 2002), pp. 194-5.

⁵⁴³ David Coates, *Prolonged Labour: The Slow Birth of the New Labour Nation* (Basingstoke: Palgrave, 2005), pp. 75-6.

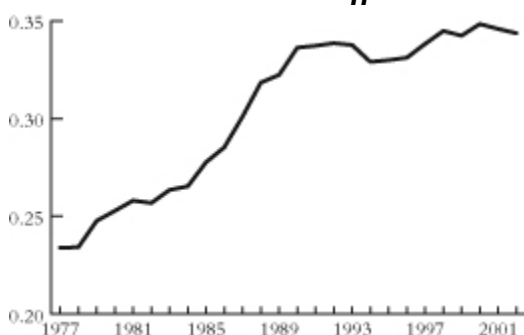
⁵⁴⁴ Schmidt, p. 12.

laundry, catering—was outsourced to private companies, and services such as radiology also began to be privatized. Though assurances were given that direct clinical work with patients would remain public—with hospital doctors salaried, and general practitioners (GPs) independently contracted with the NHS—clinical work also started being handed to private companies in the year 2000.⁵⁴⁵

Indirect taxes under New Labour remained higher than under Thatcher, while credits for low-paid parents and pensioners—which gave the poorest ten percent an extra £15 per week—were offset by larger changes in underlying income distribution, with the overall pattern of inequality remaining at historically high levels. The minimum wage was set below labor-market rates for most of Britain, while the UK Gini coefficient continued on the upward trajectory it had followed since 1979, reaching 0.35 in 2005-6.⁵⁴⁶

⁵⁴⁵ “Of course some clinical work has long been privatized . . . But now 15 per cent of all hospital procedures are to be provided by the ‘independent sector’. Privately-owned specialist treatment centres, undertaking routine hip and knee replacements and cataract surgery, have been given special risk-free terms, being paid at rates well above those of NHS hospitals, and with guaranteed revenues for five years. By 2008, when all hospital trusts will have become foundation trusts, 80 per cent of their income will come as ‘payment by results’—separate payments for every completed ‘episode of care’ – so that for all intents and purposes they will be like private businesses. They will no longer be subject to direction by the health secretary, and will be free to enter into joint ventures with private companies. Indeed next year, for the first time in the history of the NHS, they have been told to make a profit (described as a ‘surplus’).” Colin Leys, “Not Safe in Their Hands,” *Red Pepper* (Mar. 2006), <<http://www.redpepper.org.uk/article290.html>>; Patmore and Coates: 136.

⁵⁴⁶ Susan Watkins, “A Weightless Hegemony: New Labour’s Role in the Neoliberal Order,” *New Left Review* 25 (Jan.-Feb. 2004): 13; Sara Grainger and Sandy Stewart, “Income Distribution in Scotland,” *Scottish Economic Statistics 2007* (Edinburgh: Scottish Executive National Statistics, July 2007), p. 5.

Chart 1: The UK Gini coefficient

Source: Chris Harman, “New Labour’s Economic ‘Record,’” *International Socialism* No. 115 (July 2007), <<http://www.isj.org.uk/index.php4?id=335>>.

New Labour’s overall social policy was constructed on the basis of reforms introduced by the Conservatives. It did not involve a break with Tory neoliberalism, but rather what Moschonas labels its “enlightened and innovative administration”—a neoliberal “big picture” with social-democratic “accompanying images.”⁵⁴⁷

. In the 1980s, the New Zealand Labour Party’s initial social policy measures contained a series of cost-containing modifications of the existing system. A tax surcharge was added to national superannuation, which effectively amounted to an incomes test. Previously a flat-rate, pure lump-sum transfer from age 60 (a “demogrant”), the Labour government announced the gradual phased-out eligibility of the 60-65 age groups. In the realm of family support, despite an increase in family poverty, the real value of universal child benefits was allowed to decline, though a new target benefit was launched for low-income families.⁵⁴⁸ Finance Minister Douglas and the Treasury clearly intended to bring about changes in social policy akin to the changes they advocated in economic policy. In 1984 the Treasury recommended targeted rather than universal provision, provision-in-cash rather than provision-in-kind, the “market process” provision

⁵⁴⁷ Moschonas, p. 196.

⁵⁴⁸ Castles, p. 107.

of social services, and greater individual responsibility. Similarly, in 1987, the Treasury was primarily concerned to “harmonise systems for choice, payment, benefit and accountability” and for social policy to recognize the constraints of “scarcity, uncertainty, information costs, interdependence and incentives,” i.e., for there to be a significant rollback of social expenditure.⁵⁴⁹ This view was most notably contested by a Royal Commission on Social Policy, established by the government in October 1986. This was the largest exercise in public consultation ever undertaken in New Zealand; it reaffirmed a commitment to a society in which there is “a sense of community responsibility and collective values that provide an environment of security.”⁵⁵⁰ Regardless, the government established task forces and review committees which were headed by economists or people with business or management expertise, not social policy expertise. All the committees’ recommendations were ideologically consistent with the changes that Labour had made in economic policy: changes in organizational structures, improved efficiency, increased targeting of social services, increased reliance on market mechanisms, and the restraining of public expenditure, bureaucratic intervention, and public provision. Labour went into the 1990 election with proposals for a single base-rate for all benefits other than superannuation which would have imposed significant reductions for many categories of beneficiaries. These proposals lapsed when the National Party proved victorious.⁵⁵¹

Ultimately, regardless of the desires of Douglas and his co-thinkers, it was primarily Labour’s continued support of popular social policies which enabled it to win

⁵⁴⁹ Peggy G. Koopman-Boyden, “Social Policy: Has There Really Been One?,” Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Policy in New Zealand*, 2nd edition (Auckland: Oxford University Press, 1992), p. 221.

⁵⁵⁰ Castles, pp. 107-8.

⁵⁵¹ Boyden, 225; Castles, 108.

two consecutive terms in office, as they balanced out the strong and unpopular neoliberalism of its economic program. Despite its introduction of competition into the welfare system and its emphasis on market principles and user charges,⁵⁵² the Labour government remained fairly traditionalist with regard to welfare policy. As British New Labour would later do, the New Zealand Labour government claimed to be modernizing the welfare system in order to save it, by making it more sustainable even as it increased spending on social assistance. Similarly, Labour increased spending in health and education even as it introduced greater competition in the provision of education (e.g., through a voucher-like system for primary education) and charged tuition fees for tertiary education (which, however, provided low income students with targeted allowances, which made the reform redistributive).⁵⁵³

The case of the Australian Labor Party governments' social policies between 1983 and 1996 is less ambiguous, and certainly less neoliberal than those of Britain under Blair or New Zealand under Lange (and Douglas). The ALP maintained and in some ways expanded social welfare, mainly due to its accommodating "Accord" relationship in the employment relations sphere which traded wage restraint for a continued high level of social assistance (albeit means-tested) and universal social services in health and

⁵⁵² "The Labour government cut the unemployment benefit for teenagers and means-tested them against parental income. Temporary employment projects were scrapped and unemployed young people were forced onto training schemes. Benefit waiting times were increased and beneficiaries were expected to work for the dole plus a small supplement." Peter Brosnan, John Burgess, and David Rea, "Labour Institutions, Government Policy and Economic Change in Australia and New Zealand," paper presented to the 18th Meeting of the International Working Party on Labour Market Segmentation (Bremen, Germany, July 11-16, 1991), p. 11.

⁵⁵³ Schmidt, p. 15. Admittedly, by 1989 Labour had begun to reduce government spending on health services—between 1989 and mid-1991 there was a 6.7 percent reduction. Jim Delahunty, *Night's Black Agents: The NZ Labour Party Since 1984* (1999), <<http://www.thrall.orconhosting.net.nz/texts/nightblack3.-html>>.

education.⁵⁵⁴ Regarding social security income maintenance expenditure, it is true that selectivism was intensified during the years of Hawke and Keating, with an assets test imposed on age pensions, and child allowance—the single non-income-tested benefit—becoming tested against both income and assets. Various other minor adjustments were made in order to target need more precisely and to promote the transition from assistance to labor market participation. But public expenditure was not radically cut back; its growth merely became more controlled. (The costs of the new Medicare scheme led to a significant one-off increase in government expenditure during the early Hawke era, which was funded by a one percent tax levy on incomes.)⁵⁵⁵ As Castles notes, means tests were drawn not at the line separating the poor from the rest, but rather at the line which precludes so-called middle-class welfare. As of 1993, this meant that a one-child family earning less than A\$60,000 (approximately \$42,000) still received child benefit funds, and 72 percent of the aged qualified for benefits.⁵⁵⁶

Even if, via privatization, Labor cut public spending to a greater degree than did both Thatcher in Britain and Reagan in the United States,⁵⁵⁷ real benefits did gradually increase over the course of the 1980s, despite the welfare system being made more selective.⁵⁵⁸ When both social wage and indirect tax changes are taken into account, the living standards of the bottom three income deciles improved by 5 percent or more between 1984 and 1988. Labor policy specifically targeted one-parent families living in

⁵⁵⁴ Schmidt, p. 18.

⁵⁵⁵ Francis S. Castles and Ian F. Shirley, "Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State," Castles, Gerritsen and Vowles, eds., p. 95.

⁵⁵⁶ Castles, pp. 106-7.

⁵⁵⁷ Andrew Scott, *Running on Empty: 'Modernising' the British and Australian Labour Parties* (Sydney: Pluto Press, 2000), p. 224.

⁵⁵⁸ Tom Bramble and Rick Kuhn, "Social Democracy After the Long Boom: Economic Restructuring Under Australian Labor, 1983 to 1996," Martin Upchurch, ed., *The State and 'Globalization': Comparative Studies of Labour and Capital in National Economies* (Mansell: New York, 1999), p. 41.

poverty, introducing an additional child payment and a very sizeable augmentation of the rent allowance as a way of combating family poverty arising from the lack of private home ownership. These policies led to a considerable decline in both poverty rates and poverty gaps for families with children between 1989-90 and early 1994.⁵⁵⁹ Also notable was the Labor governments' concern with the provision of superannuation. Although the unions' hopes for a national development fund which would invest in new capacity for industry and be financed by a levy on superannuation funds were never fulfilled, the approach that Labor took—providing superannuation through privately run funds, including industry-based schemes involving unions—provided better and more lasting outcomes than were achieved by the prior, 1970s Labor government of Gough Whitlam.⁵⁶⁰

Overall, there was a greater balance between liberalizing the economy and maintaining social policy during the “Labor decade” in Australia than there was in Britain under New Labour or New Zealand under the 1980s Labour government. Australian Labor's social policy essentially reflected a social democratic ethos which had to make concessions to powerful neoliberal interests, while the British Labour government's social policies reflected a neoliberalism which had to make concessions to the social-democratic heritage and expectations of the electorate.⁵⁶¹ Despite the image of “fiscal rectitude” that the ALP promoted, the majority of its budgets created more new spending than savings through program cuts, particularly with the post-1990 counter-

⁵⁵⁹ Castles, p. 107.

⁵⁶⁰ Scott, p. 227; Patmore and Coates: 135.

⁵⁶¹ Colin Crouch, “A Third Way in Industrial Relations?,” Stuart White, ed., *New Labour: The Progressive Future?* (Basingstoke: Palgrave, 2001), p. 104.

cyclical strategies.⁵⁶² The Blair government in Britain, by contrast, was able to build upon what Margaret Thatcher had already achieved in terms of social policy via the decidedly liberal nature of its welfare-to-work program, which sharply demarcated the “deserving” poor (those individuals who were poor despite their best efforts to secure paid work, in particular working families) and the “undeserving” poor, and through its attempts to refigure the NHS as “a logo attached to the provision of healthcare by private hospitals and GP surgeries.”⁵⁶³ As for New Zealand Labour, it is obvious that Roger Douglas and the Treasury aimed to radically restructure access to and provision of social services in the interests of market-defined efficiency and fiscal constraint. Overall, they did not succeed, and the neoliberal economic policies implemented by the Labour Party in the 1980s did not lead to a great decline in aggregate spending on the welfare state.⁵⁶⁴ Most Labour MPs calculated that despite supporting neoliberal economic policies they could still expect to retain the loyalty of their traditional constituencies—including poorer workers—provided that they continued to support the welfare system.⁵⁶⁵ However, what Douglas and the Treasury were able to achieve resulted in public-sector job losses, greater community responsibility, user-pays, and cuts in public expenditure.⁵⁶⁶ Social provision based on citizenship was no longer prioritized.

⁵⁶² “Examination of the portfolio areas that between 1983 and 1992 suffered cumulative cuts—defense and transfers to the states—and the areas where new programs offset cuts and expanded overall outlays—education, health, social security, housing, industry assistance, labour and employment programs—reveal a traditional Labor fiscal policy pattern.” Easton and Gerritsen, pp. 30-1.

⁵⁶³ Leys, *op. cit.*

⁵⁶⁴ “The Department of Statistics records a rise in general government expenditure (excluding transfers) of 8.1 per cent between 1983/84 and 1990/91 (while volume GDP grew by 8.4 per cent), but this increasing expenditure was offset by population growth of 5.5 per cent, leaving a per capita volume increase in government expenditure of 0.25 per cent per annum. In specific social policy areas such as health, total spending as a percentage of GDP remained stable as did per capita expenditure.” Castles and Shirley, *op. cit.*

⁵⁶⁵ Schmidt, p. 14.

⁵⁶⁶ Koopman-Boyden, p. 230.

c. Union-Party Relationships and Industrial Relations Policies

Until 1991—when the conservative National government in New Zealand implemented the Employment Contracts Act (ECA)—New Zealand and Australia shared similar industrial relations regulation and labor market outcomes. Many unions were organized on a craft basis; wages and conditions were regulated through legally enforceable rulings (known as “awards”) made by industrial tribunals; individual enterprises were often characterized by multiple rulings, the presence of multiple unions, and clear job delineation; the possibility existed for over-award payments and enterprise agreements that differed from existing rulings; wage relativities were important and fairly stable; and the government operated a public job placement service.⁵⁶⁷ Such conditions did not exist in Britain and attempts by the British Trade Union Congress (TUC) in the 1980s to introduce the idea of state intervention in wage determination to the Labour Party fell on deaf ears. Tony Blair was unambiguous in 1995 when he said that the next Labour government would not attempt to emulate the ALP government’s corporatist Accord, and that there would be no further attempts at a “Social Contract” between the unions and the party as there were in the 1960s and 1970s.⁵⁶⁸

It was clear by the time of the 1997 election in Britain that the relationship between the Labour Party and the union movement had fundamentally changed. Blair promised the unions only “fairness, not favours,” i.e., no privileged position in determining governmental policy. Though New Labour promised to support a statutory

⁵⁶⁷ Brosnan, Burgess, and Rea, pp. 1-2.

⁵⁶⁸ Scott, pp. 235-6. There had been corporatist-type arrangements throughout all of the “Old Labour” governments. Union access to MPs was extensive and frequent during the Attlee governments (1945-51); the later Wilson governments of the 1960s created corporatist bodies and entered into a pattern of national bargaining with unions and wages and productivity; and the 1970s Labour governments negotiated a series of national wage policies directly with union leaders, which led to rank and file resistance to those policies—the “winter of discontent.” It was this fear that union leaders would again lose control over the ranks which led to Labour leaders’ total opposition to corporatism. Patmore and Coates: 127.

right to trade union recognition and to end Britain's opt-out from the European Union's Social Chapter, it also refused to revoke most of the very restrictive labor laws imposed during the Thatcher years. What little regulation of the labor market it allowed for generally took the form of individual legal rights, enforceable through labor courts and state agencies rather than collective rights designed to strengthen trade unions which would then take on the role of regulating social relations through collective bargaining. Notably, in contrast to previous Labour governments, unions had very little formal or institutional access to the Blair government. Union influence was effectively informal, dependent upon personal relations between with individual—usually junior—ministers.⁵⁶⁹ The unions' share of party funding also fell from 90 percent in 1994 to 40 percent in 1998. Correspondingly, unions donated 35 per cent of Labour's 2001 election campaign spending—half of what they contributed to the 1992 campaign.⁵⁷⁰ Blair also backed a sweeping overhaul of party funding to further curb the remaining influence of the unions on the Labour Party, which would have required union members to agree to annual donations to the party through their unions and subject the total donation made by each union to a cap.⁵⁷¹

Particularly in its attempt to introduce private finance initiatives and public-private partnerships, the Blair government found itself in conflict with public sector unions. Strict public-sector spending limits made new spending dependent upon selling off national assets or raising money from the private sector, resulting in the shrinking of the relatively protected state sector and thereby affecting public sector unions' ability to

⁵⁶⁹ Chris Howell, "From New Labour to No Labour? The Industrial Relations Project of the Blair Government," *New Political Science* Vol. 22 No. 2 (2000): 210, 222.

⁵⁷⁰ Motta and Bailey: 125-6.

⁵⁷¹ Will Woodward, "Blair supports plan to weaken unions' grip on party, MPs told," *The Guardian* (Dec. 12, 2006), <<http://politics.guardian.co.uk/unions/story/0,,1970176,00.html>>.

maintain recognition and full representational rights and their ability to engage in industrial action. Blair was eager to emphasize his commitment to efficiency and effectiveness within a public sector he portrayed as resistant to change; his government's Comprehensive Spending Review (CSR), conducted in the summer of 1998, set spending plans for the next three years and was intended to expand performance-related pay in the public sector, as teachers and health care professionals were told that real pay increases would be dependent upon productivity improvements.⁵⁷² Overall, in its industrial relations policy, the Blair government consolidated the legacy of Thatcherism, rather than departing from it.

Table 5.1: Trade Union Membership and Density in Great Britain 1997-2006

Year (Autumn)	Membership	Density
1997	approx. 6,433,000	30.4 %
1998	approx. 6,430,000	29.8 %
1999	approx. 6,423,000	29.7 %
2000	approx. 6,430,000	29.6 %
2001	approx. 6,332,000	29.0 %
2002	approx. 6,336,000	28.9 %
2003	approx. 6,307,000	29.1 %
2004	approx. 6,296,000	28.5 %
2005	approx. 6,172,000	28.7 %
2006	n/a	28.1 %

Source: Heidi Grainger, *Trade Union Membership 2005* (London: Department of Trade and Industry, 2006); Heidi Grainger and Martin Crowther, *Trade Union Membership 2006* (London: Department of Trade and Industry, 2007).

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

⁵⁷² Howell: 213; Motta and Bailey: 126. Howell notes that for Blair “the primary task of industrial relations institutions (collective bargaining as well as legislation) is not to correct an imbalance of power in the workplace, but to create a context in which the productivity and creativity of workers is properly harnessed for the good of the firm.” Howell: 223.

economy. In 1984 the government abolished compulsory arbitration of interest disputes, which had been the heart of the industrial relations system since 1894. This let employers in weakly organized industries to refuse to settle a national ruling that proscribed conditions of employment and, on its expiration, to revert to individual contracts or house arrangements.⁵⁷³ The Labour Relations Act of 1987 made an even more significant step in undermining the framework of national rulings. Though it restored compulsory unionism, it also prohibited unions from seeking access to enterprise bargaining (second-tier agreements) while still maintaining award coverage for the affected workers. Though relatively few unions deserted the award system, this stipulation promoted a process of union and award fragmentation as stronger groups of workers were encouraged to opt out of rulings, leaving their defense in the hands of weaker unions and non-union workers; it promoted the devolution of collective bargaining down to the enterprise level.⁵⁷⁴ In conditions of considerable unemployment and economic recession, some employer groups were able to use the Labour Relations Act to their advantage. Between 1983-4 and 1989-90, real wages fell by A\$1032.21 on an annual basis, barely offset by an increase in the social wage of A\$57.07.⁵⁷⁵ The Labour government thus paved the way for the ultimate abolition of rulings on conditions of employment and wages by its National Party successor in 1991.⁵⁷⁶ The State Sector Act of 1988 undermined public-sector

⁵⁷³ Brosnan, Burgess and Rea, p. 10.

⁵⁷⁴ Tom Bramble with Sarah Heal, "Trade Unions," Chris Rudd and Brian Roper, eds., *The Political Economy of New Zealand* (Oxford: Oxford University Press, 1997), p. 131; Paul G. Buchanan and Kate Nicholls, *Labour Politics in Small Open Democracies: Australia, Chile, Ireland, New Zealand and Uruguay* (New York: Palgrave, 2003), p. 100.

⁵⁷⁵ Peter Ewer, Ian Hampson, Chris Lloyd, John Rainford, Stephen Rix, Meg Smith, *Politics and the Accord* (Leichhardt: Pluto Press, 1991), p. 32.

⁵⁷⁶ During negotiations on the Labour Relations Bill, the unions "argued the issue in terms of the interests of workers in small enterprises, who would be vulnerable to pressure from their employers. However, a more pressing problem from the union point of view was coverage. The union structures were based on their coverage of various occupations. The abolition of rulings and the centralised wage-fixing mechanism

unions, as it became easier for state organizations to hire and fire (although redundancy conditions remained generous relative to private sector norms) and the previous boundary in working conditions and incentive structures between the public and private sectors was broken down.⁵⁷⁷ And yet the Labour government also implemented legislation such as the Employment Equity Act (1990), which sought to solve the problem of gender discrimination in the workplace by requiring that employers provide “equal pay” for work of “equal value.” This reflected the government’s “internal contradictions”; or, rather, its attempt to use concessions to its core labor constituency—and to its militantly feminist members—to distract them from radical economic changes.⁵⁷⁸

Regardless of these contradictions, the economic policies imposed by the Labour government had a decidedly anti-union effect. A rise in the exchange rate reduced the return in New Zealand dollars for most export industries in 1986-7, which put those industries’ unions under great pressure as enterprises closed, unemployment rose, and the right wing of the business community became much more aggressively anti-union. They were not willing to allow wages to keep up with inflation; they demanded concessions in return; and they challenged established conditions such as bonus payment for weekend and night work.⁵⁷⁹ But while its *economic* policies were objectively anti-union, Labour’s *industrial* policies proved to be far less pro-business than employer organizations

would be costly to the union in terms of members and fees, and might set in motion a process of disintegration.” Bruce Jesson, *Fragments of Labour: The Story Behind the Labour Government* (Auckland: Penguin Books, 1989), p. 90.

⁵⁷⁷ Ian Duncan, “Public Enterprises,” Brian Silverstone, Alan Bollard, Ralph Lattimore, eds., *A Study of Economic Reform: The Case of New Zealand* (Amsterdam: Elsevier Science B.V., 1996), p. 399; Bramble and Heal, op. cit. Jesson argues that there was “a new aggressive labour relations regime within the new [state] corporations; in the most extreme case, Forestcorp, the industry has been largely deunionised.” Jesson, p. 89.

⁵⁷⁸ Buchanan and Nicholls, pp. 100-1; Herman Schwartz, “Small States in Big Trouble: The Politics of State Reorganization in Australia, Denmark, New Zealand and Sweden in the 1980s,” *World Politics* Vol. 46 No. 4 (July 1994): 547; Schmidt, op. cit.

⁵⁷⁹ Jesson, p. 95.

expected. Despite the Labour Relations Act, and despite the decline in real wages, the traditional bargaining system remained untouched in most respects—until the National Party was elected in 1990 and began to radically alter the labor relations regime via the Employment Contracts Act.

Table 5.2: Trade Union Membership and Density in New Zealand 1985-1991 (selected years)

Year	Membership	Annualized Decline	Density
Dec. 1985	683,006	-	43.5 %
Sept. 1989	648,825	1.3 %	44.7 %
May 1991	603,118	4.2 %	41.5%

Source: Raymond Harbridge and Anthony Honeybone, “External Legitimacy of Unions: Trends in New Zealand,” *Journal of Labor Research* Vol. XVII No. 3 (Summer 1996): 431.

The relationship between the Australian Labor Party and union movement between 1983 and 1996 contrasts with the party-union relationships of the other governments under review. The Labor governments sought consultation and negotiation with the unions in the Australian Council of Trade Unions (ACTU), and as a result the liberalizing reforms sought by the ALP leadership were implemented over a much longer period of time, with care taken to temper their socioeconomic impact and to debate their merits with the ACTU in order to assure consensus.⁵⁸⁰ In fact, the first version of the Accord was negotiated before Labor was elected, and was renegotiated several times throughout both the Hawke (1983-91) and Keating (1991-96) Labor governments. Initially, the Accord brought a new incomes policy in which wages were strictly regulated under a new form of wage indexation, administered between 1983 and 1986 by the federal Conciliation and Arbitration Commission. This system was nearly wholly centralized, effective in controlling wage increases, and strongly supported by the ACTU.

⁵⁸⁰ Schmidt, p. 17.

Though some decentralization to industry and workplace levels occurred between 1987 and 1990, this was closely “managed” within a national framework by the arbitration tribunals.⁵⁸¹ Real wage decline fell primarily on public sector workers, but this was deemed acceptable by most of the labor movement because it also generated above-average growth and a significant decline in open unemployment—Australia generated jobs at about twice the OECD average until the 1990 recession.⁵⁸²

By the late 1980s the mix of substantive policy outcomes coming out of the Labor government moved gradually away from corporatism toward neoliberalism. The ALP government showed little interest in the unions’ detailed strategic plan for addressing Australia’s economic problems, *Australia Reconstructed*.⁵⁸³ It became insistent on decentralizing bargaining towards the enterprise level, particularly once Keating took over from Hawke as prime minister. Over time, the increased importance of enterprise bargaining paralleled developments in New Zealand, as did the role of unions; in 1993 the government made it possible for employers to negotiate enterprise agreements directly with employees and have them certified without union involvement.⁵⁸⁴ However, the arbitration court still imposed minimum wages and conditions on enterprise bargains. And while nonunionized firms could sign an enterprise agreement, doing so exposed them to the possibility of union intervention. Union pressure led to complications in the legal procedures for certification of nonunion enterprise agreements, thus blunting their

⁵⁸¹ Mark Bray and Pat Walsh, “Different Paths to Neo-Liberalism? Comparing Australia and New Zealand,” *Industrial Relations* Vol. 37 No. 3 (July 1998): 367-8.

⁵⁸² Herman Schwartz, “Social Democracy Going Down vs. Social Democracy Down Under? Institutions, Internationalized Capital, and Indebted States,” *Comparative Politics* Vol. 30 No. 3 (Apr. 1998): 268.

⁵⁸³ Bray and Walsh: 371.

⁵⁸⁴ *Ibid*: 374-5.

practical effect. By 1995 individual contracts remained uncommon—only 9 percent of Australian employees in workplaces of more than 20 employees worked under them.⁵⁸⁵

Table 5.3: Trade Union Membership and Density in Australia 1984-1996 (selected years)

Year	Membership	Density
1984	3,028,000	55.0 %
1986	3,186,200	55.0 %
1991	3,382,600	53.0 %
1996	2,800,500	40.0 %

Estimates of union density based on figures submitted by union officials. Sources: Dean Jaensch, *The Politics of Australia* (South Melbourne: MacMillan Education, 1992), p. 226; Bray and Walsh: 363.

Overall, of the three cases it is the British New Labour government which stands out as the most aggressively anti-union in its industrial relations policies. It inherited, without significant alteration, the most stringent labor laws in Western Europe, and attempted to construct an industrial relations policy which envisioned “a dwindling role for collective representation and action; in its place, individuals will have certain minimal rights at work, consistent with labor market flexibility, and the encouragement of a skilled, cooperative, and adaptable workforce.”⁵⁸⁶ The dominant forces in the fourth New Zealand Labour government had much the same desires—to make the industrial relations system more “flexible”—but failed to implement pro-market policies of “significant stringency.”⁵⁸⁷ Much the same can be said of industrial relations in Australia under the Labor governments of Hawke and Keating; the difference is that changes to the system were implemented over a longer period of time, a result of the process of negotiation

⁵⁸⁵ Herman Schwartz, “Internationalization and Two Welfare States: Australia and New Zealand,” Fritz Scharpf and Vivian Schmidt, eds., *Welfare and Work in the Open Economy, Vol. II: Diverse Responses to Common Challenges* (Oxford: Oxford University Press, 2000), p. 114; Bray and Walsh: 375.

⁵⁸⁶ Howell: 228.

⁵⁸⁷ Brosnan, Burgess and Rea, p. 11.

between the government and the union movement. If the New Zealand Labour Party only ever conceded anything of importance to the unions within their “core domain”—the industrial relations system itself—the ALP’s strategy of cooperation with the union movement ensured that the Labor government was bound to consultation in policy formation, which affected policy outcomes in a significant way at least during the Hawke years.⁵⁸⁸ For a time, via the Accord, Australian unions were able to affect not only industrial relations policy, but economic and social policy, as the “social wage” was used to offset wage reductions and to move income support out of the industrial relations system and into the social welfare budget. For all the criticisms that one could make of labor market reforms under the Accord,⁵⁸⁹ the ALP did not undermine Australia’s traditional labor market institutions as New Zealand Labour did via the Labour Relations Act, which not only constrained wage growth but *reduced* labor market flexibility via the elimination of second tier (enterprise) bargaining.⁵⁹⁰

2. The Changed Class Composition of the Parties

The story of all three labor parties is similar with regard to class composition. All three were founded by trade unions and were initially made up of a principally industrial working-class membership, both in terms of direct, paying members and indirect members who were members via their unions’ affiliations to the parties. Over time, all three parties went from a leadership derived from the manual working-class to one

⁵⁸⁸ Bray and Walsh: 380.

⁵⁸⁹ Left critics have argued that “from 1987 the Accord . . . narrowed to little more than an engine of wage restraint, a mechanism to achieve minimum award wage adjustments, and an agent to enforce the neo-liberal agenda on the workforce As greater costs were born by workers, the national income share to employers rose, but was often squandered on inept investment strategies or increases in executive salaries.” Ian Hampson and David E. Morgan, “Post-Fordism, Union Strategy, and the Rhetoric of Restructuring: The Case of Australia, 1980-1996,” *Theory and Society* Vol. 28, No. 5 (Oct. 1999): 784.

⁵⁹⁰ Brosnan, Burgess and Rea, p. 13.

primarily derived from the lower ranks of the professions or white-collar occupations (lawyers, consultants, journalists, teachers, political organizers, welfare and social workers) without a trade unionist background.⁵⁹¹ And the individual dues-paying branch membership of all three parties changed from predominantly working-class to domination by “lawyers, administrators, academics, professionals, artists, designers, researchers and others from the new middle class.”⁵⁹² In all cases the change in class composition preceded the embrace and implementation of neoliberal policies.

Table 5.4: Summary of Argument Regarding Class Composition

Party	Ascendancy of Middle-Class Leadership	Start of Working-Class Membership Decline	Year of Election of Government with Neoliberal Leadership
British Labour	1932-1935	circa 1978	1997
Australian Labor	1951-1967	circa 1954	1983
New Zealand Labour	1957-1972	circa 1971	1984

Britain’s Labour Party was the first to develop a middle-class leadership, in 1935, under businessman George Lansbury. Australian Labor’s leader in 1951 was a barrister, Herbert Evatt, though Gough Whitlam, who became Labor leader in 1967, was the first without a working-class background. New Zealand Labour’s leadership underwent a process of professionalization between 1957 and 1972, and when Labour formed its fourth government in 1984, the party’s caucus and cabinet were overwhelmingly professional (72.3 percent of MPs).⁵⁹³ It was not until the late 1970s that the decline in the British Labour Party’s working-class individual membership began falling, as a result

⁵⁹¹ Dennis Kavanagh, “Still the Workers’ Party? Changing Social Trends in Elite Recruitment and Electoral Support,” Dennis Kavanagh, ed., *The Politics of the Labour Party* (London: Allen & Unwin, 1982), pp. 99-103.

⁵⁹² Daphne Lawless and Grant Morgan, “The Journey to Social Liberalism,” *Unity* (Feb. 2006), p. 33.

⁵⁹³ Jack H. Nagel, “Social Choice in a Pluralitarian Democracy: the Politics of Market Liberalization in New Zealand,” *British Journal of Political Science* Vol. 28 No. 2 (Apr. 1998): 229.

of the Labour government's inability to meet the economic needs of its core supporters. By 1995, 49 percent of Labour's individual members were professionals or members of the professional salariat, and between 1990 and 1997 the number of members with incomes in excess of £40,000 increased five times.⁵⁹⁴

Table 5.5: Class Composition of the British Labour Party (1998)

	Old Labour (joined pre-1994)	New Labour (joined from 1994)
Salariat	67 %	62 %
Routine nonmanual	12 %	13 %
Petty bourgeoisie	2 %	2 %
Foreman/technician	7 %	8 %
Working class	12 %	16 %
<i>Trade Union Members</i>	38 %	29 %

Source: Patrick Seyd and Martin Smith, "Whose Party Is It?," *Socialist Review* No. 221 (July 1998), <<http://pubs.socialistreviewindex.org.uk/sr221/seyd.htm>>.

The ALP remained dominated by manual workers through the 1960s but by 1981 the blue-collar proportion of the membership was down to 12 percent. Between 1960s and the 1980s the decline in blue-collar workers was offset by an influx of higher level white-collar professionals, managers and administrators, and by the mid-1980s there were over nine times as many professionals in the party as manual workers, even though blue-collar workers still made up 48 percent of the workforce.⁵⁹⁵ In New Zealand, by 1970 only one out of every two blue-collar workers was a member of the Labour Party, with the proportion falling even further throughout the 1970s and 1980s.⁵⁹⁶ As workers over the

⁵⁹⁴ Patrick Seyd and Paul Whiteley, *New Labour's Grassroots: The Transformation of the Labour Party Membership* (Basingstoke: Palgrave, 2002), p. 38.

⁵⁹⁵ Andrew Scott, *Fading Loyalties: The Australian Labor Party and the Working Class* (Leichhardt: Pluto Press, 1991), pp. 25, 37-38, 46.

⁵⁹⁶ Barry Gustafson, "The Labour Party," Hyam Gold, ed., *New Zealand Politics in Perspective*, 2nd edition (Auckland: Longman Paul, 1989), p. 210.

course of the 1960s (when Labour was out of office) left the Labour Party, they were increasingly replaced by middle-class activists who lacked loyalty to the union movement.⁵⁹⁷

In the British and Australian cases the changed class character of the leadership predated the change in individual membership; in the New Zealand case they occurred essentially in tandem. Yet the key contrast where the influence of middle-class party members is concerned is between Australia and the other two examples. Middle-class members in the British Labour Party in the 1980s and early 1990s did not protest the attempts by the party leadership (Neil Kinnock and then John Smith) to reduce the weight of the unions' bloc vote at conferences, from 90 percent to 70 percent in 1993 and then down to 49 percent in 1995; Kinnock had already made it a priority for Labour to overcome its working-class image and appeal to the middle class; his efforts to minimize the influence of unions in the party and to make the party membership more cross-class paved the way for the triumph of Tony Blair and the influx of middle-class members that accompanied the creation of "New Labour." In New Zealand, as workers dropped out of the Labour Party, they were replaced by university-educated activists from prosperous professional, business or farming backgrounds. They came to dominate the party and they steered its electoral orientation towards young and rising professionals concerned with non-economic issues. Because of their lack of concern with—or knowledge of—issues of class and economics, they were willing to go along with the arguments made for the neoliberal policies of the fourth Labour government. Australian Labor, like the NZLP, had attracted middle-class members in the 1960s and 1970s, on the basis of the party's opposition to the Vietnam War and support for feminist issues and environmental

⁵⁹⁷ Jesson, p. 24.

protection. However, the Hawke and Keating governments proved to be insufficiently committed to these causes in the 1980s and 1990s, leading to a considerable loss of such members.⁵⁹⁸ More importantly, the ALP conference delegate proportion remained fixed at 60 percent of delegates for trade unions and 40 percent for ALP electorate branches. This in effect balanced out the influence of professionals within the party. If, as Scott argues, professionals and para-professionals within the ALP “succeeded in redefining Left politics to reflect their own interests, and in a way which marginalises the more ‘boring’, bread-and-butter concerns of the less privileged,” the sheer weight of union influence within the party could not be ignored, especially since the former head of the ACTU (Bob Hawke) had become Labor prime minister. This leads to the question of union strategy towards their historic parties in the neoliberal era.

3. Union Strategies in Relation to Neoliberal Labor Governments

Both the British and New Zealand trade union federations acted passively in response to the neoliberal policies implemented by their historic parties. The New Zealand Federation of Labour (FOL) had long enjoyed the benefits of New Zealand’s arbitration system—state protection and compulsory unionism—as well as a welfare state and a healthy economy that had remained essentially unchanged under governments of both the left and right. The result was that for many years the FOL did little to involve itself in Labour Party matters, as there appeared to be no need. It was only after the onset of economic crisis and the National government of Robert Muldoon antagonized the unions that they again made politics a priority. Though the unions worked hard to elect the Labour Party

⁵⁹⁸ Ian Ward, “Two Faces of the ALP in the 1980s,” *Australian and New Zealand Journal of Sociology* No. 25 Vol. 2 (Aug. 1989): 175-184; Scott, *Fading Loyalties*, p. 48.

in 1984, their plan for a corporatist arrangement was dismissed by the party leadership. In their eyes the FOL was insufficiently centralized, and the union movement as a whole too divided between the FOL and the public-sector Combined State Unions (CSU) to make effective corporatism possible. Despite the belief propounded by Roger Douglas and the Treasury that strong unions were in part responsible for New Zealand's economic woes, the unions did little to publicly oppose market liberalization, instead acting as a loyal opposition to the government. This loyalty was primarily based on the government's continued support for compulsory unionism, but little else was gained by the unions' stance.

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

British unions did not enjoy the benefits of compulsory unionism and never became depoliticized in the manner of the New Zealand union movement. However, they too became strategically adrift in the face of a Labour government which was, if anything, even more hostile to union power than was the fourth NZLP government. British unions' passivity towards the Blair government was the result of 18 disastrous years under the Conservatives, during which the movement lost 40 percent of its members. By the early 1990s the leaders of the Trade Union Congress (TUC) were so desperate they were willing to accept that the anti-union legislation of the 1980s would not be reversed. Throughout New Labour's first term the union leadership supported the government essentially without criticism, in the vain hope that it would reward their loyalty with pro-union legislation.

By the middle of the second Blair government the TUC had become more vocal in its frustration, particularly over private financing initiatives (PFI) in transport, education, the prison service and the national health service, public sector spending limits, and privatization, all of which promised wage retrenchment, job insecurity and/or job cuts, and the creation of a two-tier labor force.⁵⁹⁹ Strikes in 2002 and 2003 by council workers, teachers' unions, London Underground unions and the firefighters' union seemed to indicate that the labor movement had moved towards a stance of challenging the Blair agenda both inside and outside the Labour Party. But the great chance given to the unions by Blair's unpopularity over the Iraq War was not taken; they made no attempt to find parliamentary allies to force his resignation. Even though Blair himself was not all that stood between New Labour policies and union preferences, had the TUC taken the initiative to help force him from office, it would have sent a clear message to the party

⁵⁹⁹ Coates, p. 93.

leadership that the unions were serious about challenging their neoliberal agenda. But even after Blair announced his resignation in May 2007, the major unions did not try to find Labour MPs competent to stand for leader and deputy leader who would be supportive of the labor movement. Ultimately, given the absence of a centralized wage bargaining apparatus or the possibility of an Australian Accord-style agreement, there was no other option for the union movement to achieve its goals than consistent militancy both within the Labour Party and in industrial relations; yet despite temporary militancy in opposition to public-sector restructuring and privatization, the British union movement proved just as passive and strategically uncertain as the New Zealand movement.

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

sufficiently close to the unions, both in terms of personnel and policy, to see advantages in corporatist cooperation.⁶⁰⁰

The ACTU was not able to prevent the Hawke and Keating governments from instituting programs of deregulation, corporatization and privatization. Left critics of the Accord find the ACTU complicit in the erosion of many wage determination principles, the compromise of equity in favor of efficiency, and the failure to address problems faced by disadvantaged groups in the labor market.⁶⁰¹ They critique the general drift of ACTU strategy “from asserting the merits of economic intervention (the first Accord) to grudgingly accepting economic deregulation and workplace change.”⁶⁰² In comparison to the strategies undertaken by the union movement under the fourth Labour government in New Zealand and British New Labour, however, it is clear that Australian unions were able at least to slow the “relentless process” of labor market deregulation because of the Labor government’s commitment to the Accord, despite how diminished that commitment became.⁶⁰³ The ACTU would not have been able to accomplish this had it not radically consolidated itself in such a way that it was able to maintain its influence within the Labor Party, an influence that at least partially counteracted the middle-class character of much of the party’s membership and leadership. Both British and New Zealand union federations failed to do this with respect to their labor parties. Because of the ACTU’s influence, the ALP of 1983-1996—despite the counter-influence of a pro-

⁶⁰⁰ Mark Bray and David Neilson, “Industrial Relations Reform and the Relative Autonomy of the State,” Castles, Gerritsen and Vowles, eds., p. 85. Rawson notes that “During the 1970s and 1980s, the Australian trade union movement became one of the most consolidated in the world, by bringing manual and non-manual unions within the same federation . . . This is an example of adjustment which strengthens rather than destroys the core rationale of the labour movement, including the ALP.” Dan Rawson, “How Labour Governs: Labor in Vain?,” Galligan and Singleton, eds., p. 198.

⁶⁰¹ Brosnan, Burgess and Rea, p. 7.

⁶⁰² Hampson and Morgan: 783-4.

⁶⁰³ Bray and Neilson, p. 87.

neoliberal federal bureaucracy and employer organizations—remained more of a genuine labor party than did the New Zealand Labour Party of the 1980s or the British Labour Party under Tony Blair.

4. Class Politics and Working-Class Power Resources

From these cases we can come to the conclusion that if union movements cannot cohere around consistent political and economic strategies, and if they do not attempt to limit the autonomy of labor parties when they take office, then it ultimately will not matter if a governing party is a labor party; given the pressures of the global capitalist economy, that party will instigate neoliberal economic policies, and even labor market deregulation, quickly and decisively—especially when the nation is undergoing an economic crisis. The party leadership may even seek to sever the link between the unions and the party in order to more easily implement a neoliberal agenda—and the unions will effectively be disenfranchised. If the popular parties of the left cease to be associations of working people specifically organized as workers, if their membership as well as their leadership becomes overwhelmingly professionalized and the parties' affiliated unions make no attempt to counteract this sociological shift, then *the organization of politics in terms of class* will have reached an end, unless new parties emerge which are explicitly organized along class lines and capable of gaining mass votes and mass membership.

As Przeworski has correctly noted, there is nothing inherent in capitalism or in the logic of history which makes the emergence of classes as collective subjects inevitable. Class only becomes relatively salient as a determinant of voting behavior as the result of strategies pursued by leftist political parties. Class politics, strictly defined, only exists

when class is an issue raised by political parties; specifically, parties which organize workers—the only class which is a potential proponent of the image of a society divided into class—as a class. In the absence of working-class political parties, the class image of society does not exist within a country’s (mainstream) political discourse.⁶⁰⁴ This is what makes the transformation of social democratic and labor parties so profound. As Moschonas remarks, this transformation is not purely ideological-programmatic; it “simultaneously affects the power structure and class character of the organizations, the membership culture, location in the arena of partisan competition, ideas, economic and social policies, political style, image—everything that goes to make up an identity.”⁶⁰⁵ What Moschonas labels the *old coherence* of social democracy—“party of the working class, organization with a strong working-class presence, strong link with the trade unions, bi- and tripartite negotiation, semi-working-class/semi-catch-all ideological profile, etc.”—has near-universally unraveled.⁶⁰⁶ Social democracy’s *organizational* tradition, not merely its *cultural* tradition, has been mostly abandoned. As a result, the party elites and the leadership—which, in the union-based labor parties, became dominated by professionals of prosperous backgrounds long in advance of the individual membership similarly changing—have gained a near-exclusive privilege in defining party identity. That identity is not a class identity; not only is it not anti-business, it does not even seek to be organizationally *separate from business* any more than are social democracy’s bourgeois party rivals.⁶⁰⁷

⁶⁰⁴ Adam Przeworski, *Capitalism and Social Democracy* (Chicago: University of Chicago Press, 1985), pp. 99-102.

⁶⁰⁵ Moschonas, p. 313.

⁶⁰⁶ Ibid, p. 314.

⁶⁰⁷ Or, more specifically, than the U.S. Democratic Party is. Bill Clinton and his wing of the Democrats “provided Tony Blair and other modernizers in the British Labour Party with a model . . . The international

With the rejection of social democracy's organizational tradition comes a rejection of a commitment to the active role of government specifically on behalf of the popular classes. More often than not, the content of state interventionism under center-left parties is *deregulatory*. Social democratic and labor parties may not embrace market forces as surely as their right-wing opponents. But they have moved from an approach of tempering and modifying markets to, at least, one of adapting to them.⁶⁰⁸ This is certainly true of the Hawke government in Australia (1983-1991). The Blair government in Britain may not have made a full ideological embrace of the market, but its claim that capitalist globalization made neoliberalism unavoidable provided a justification for policies that deepened the "Thatcher revolution." In the case of the fourth New Zealand Labour government there was indeed a full ideological embrace of the market. Moschonas may claim that Friedrich Hayek "has not become the social democrats' favourite prophet,"⁶⁰⁹ but in the 1980s the influence of the Hayekian, rationalist Chicago School of economics was pervasive within the New Zealand Treasury. It permeated crucial elements of the Labour Party, Finance Minister Roger Douglas in particular.⁶¹⁰ Monetarist doctrine had a similar influence in the Australian Treasury during the 1980s and a similar effect on the Labor Party via treasurer (and later prime minister) Paul Keating between 1983 and 1996.

The "left" version of the "neoliberal paradigm" pioneered by the fourth New Zealand Labour government has been largely consolidated; the victory by New Labour in the 2001 British election provided confirmation. With social democratic parties removing

reference point for political comparisons and inspirations in the New South Wales [Australian Labor Party] Right is also, almost invariably, the US . . . " Scott, *Running on Empty*, p. 163.

⁶⁰⁸ Ibid, pp. 321, 323.

⁶⁰⁹ Ibid, p. 323.

⁶¹⁰ Len Richards, "Class Struggle and Traveling Theory: From the Chile Experience to the New Zealand Experiment," *New Zealand Sociology* Vol. 18 No. 2 (2003): 126-7.

all traces of their self-images and perception as specifically class parties, their electoral fortunes are increasingly tied to the middle classes rather than the increasingly disaffected working class. With the working class no longer the “privileged sociological marker of social-democratic electorates,” such electorates “are now constructed on the basis of a profoundly inter-classist format, by far the most inter-classist in the whole history of social democracy.”⁶¹¹ The sub-tradition of social democracy known as *laborism*—the tradition of the union-affiliated labor parties, characterized by a focus on higher wages, wealth redistribution through social policies, a refusal of both highly-defined ideology or theory and long term strategy, with a core blue-collar membership base—has effectively died.⁶¹²

That the laborist parties would attempt to reinvent themselves as liberal parties in all but name, however, was by no means inevitable; it was a conscious choice. With that choice comes what Howell dubs a “unitarist” industrial relations project: one that recognizes “no distinction between the interests of labor and capital, no inherent sources of conflict between them, and thus no need for labor to have power to counterbalance that of the employer.”⁶¹³ That project was explicit in both the New Zealand and British cases; in the Australian case, given the formal compact between the Labor Party and the unions, it could not be so simply pursued. This is not to say that the Australian unions could not have or should not have acted differently vis-à-vis the Labor government. I am merely claiming that a labor government which finds it necessary to govern through an arrangement *with* the unions will be forced to implement neoliberal policies more

⁶¹¹ Moschonas, pp. 353–4; Willie Thompson, *The Long Death of British Labourism: Interpreting a Political Culture* (London: Pluto Press, 1993), p. 158.

⁶¹² Max Ogden, *The ALP, Social Democracy, and a New Relationship with Unions* (Melbourne: Australian Fabian Society, 2007), <<http://www.fabian.org.au/954.asp>>.

⁶¹³ Howell: 228.

gradually, and with a greater concern for the “social wage,” than one which tries to govern directly *against* the unions. It is, in fact, *only* the persistence of this union link which mitigates the dominance of the middle classes within labor-party and social-democratic apparatuses and permits the category of “class” to exist within mainstream political discourse.⁶¹⁴ Union movements do this simply by virtue of being movements specifically of workers, organized separately from their employers and managers.

Unions are, to be sure, very imperfect vehicles for working-class interests. The evidence suggests that Bramble’s assertions that the unions’ full-time representatives “constitute a conservatizing layer which . . . tends to restrain workers from militant struggles” and that there exists a “tendency towards a concentration of power in the upper echelons of the union officialdom” are correct.⁶¹⁵ Trade unions and the working class should not be conflated. But as unions remain organizations constituted by working people, and as they remain workers’ defense organizations, despite the distance between the union bureaucracy and the rank and file, it remains a *workers’ bureaucracy*, an expression—however distorted—of working class power. When labor party leaders with neoliberal inclinations have to assent to the influence of the union bureaucracy, they are assenting to a power *based on the organized working class*. Because of this, it is possible to apply *working-class power-resources theory* to the question of how the strength of the unions within their historic parties affects the parties’ policies.

The working-class power-resources perspective claims that it is primarily strong unions and left parties which account for the growth of social programs which limit the economic vulnerability of wage-earners and increase worker solidarity. The relevance of

⁶¹⁴ Moschonas, p. 225.

⁶¹⁵ Tom Bramble, “Managers of Discontent: Problems with Labour Leadership,” Rick Kuhn and Tom O’Lincoln, eds., *Class & Class Conflict in Australia* (Melbourne: Longman, 1996), pp. 40, 45.

this outlook has been repeatedly challenged. Pierson, for example, states that the power of the union movement and social-democratic parties has greatly diminished in many advanced capitalist societies, but there is very little proof that this decline has fundamentally impacted welfare states:

Cutbacks in social programs have been far more moderate than the sharp drop in labor strength in many countries might lead one to expect, and there appears to be little correlation between declines in left power resources and magnitude of retrenchment . . . Cutbacks, if recognized, are likely to incense voters, and political competitors stand ready to exploit such opportunities . . . the unpopularity of program cutbacks . . . will give politicians pause even where unions and left parties are weak.⁶¹⁶

My work has demonstrated that it is, indeed, difficult for *left parties* to implement social-program cutbacks. The fourth New Zealand Labour government did not cut welfare programs or benefit levels even as it engaged in wide-ranging privatization, corporatization, and financial deregulation. Though the Blair government in Britain did not reverse the welfare-state retrenchment that occurred under Conservative governance, it did not seek further rollback (as opposed to restructuring). And while spending on social welfare transfers progressively declined under the Australian Labor governments between 1983 and 1996, new programs in education, health, social security, and housing were introduced.⁶¹⁷ Yet the parties most associated with the *expansion* of the welfare state no longer have any interest in their traditional goals—a relatively equitable

⁶¹⁶ Paul Pierson, “The New Politics of the Welfare State,” *World Politics* 48 (1996): 150-1.

⁶¹⁷ Mathews and Grewal note “an increase in basic health funding, from 0.74 per cent in 1982–83 to 0.94 per cent in 1992–93 as a consequence of the Government’s Medicare program, and partly to a proliferation of recurrent programs in social security and welfare, housing and community services, culture and recreation, and legal aid. During the mid-1980s, employment programs were also important. The number of recurrent programs increased from 45 in 1982–83 to 72 in 1992–93 . . . Schools funding was roughly maintained, from 0.69 per cent to 0.71 per cent of GDP . . . while housing funding increased from 0.20 per cent to 0.24 per cent.” Russell Mathews and Bhajan Grewal, *Fiscal Federalism in Australia: From Whitlam to Keating* (Melbourne: Centre for Strategic Economic Studies, Victoria University, 1995), p. 27.

distribution of wealth, full employment, and the strengthening of the labor movement. When left parties no longer espouse Keynesian policies and indicative economic planning, and when what economic interventionism they do promote is consciously deregulatory, how safe can the welfare state be expected to be in their hands? Pierson writes of welfare-state defenders and recipients of its programs “exacting punishment at the polls”⁶¹⁸ against parties enacting cutbacks. But if all major parties—of the left and right—attempt to roll back or radically restructure the welfare state, how can voters “exact punishment”? This is a particular problem in states with Westminster-style electoral systems—such as Britain, Australia, and New Zealand before 1993—where alternative left parties face great barriers to electoral success.

The relevance of the working class power resources theory becomes more apparent when it is applied to left parties themselves. With the diminution of the “privileged representative link between social democracy and working class/popular strata,”⁶¹⁹ the parties’ view of market forces changes. The more a labor party has lost its base in the working class—i.e., has lost working-class membership and is less directly a political expression of organized labor—the easier it is for the party leadership to quickly and radically impose neoliberal policies. That is, the policy shift is a result of the *diminishing power resources* that unions have within their historic parties. These changes do not represent merely a pragmatic adaptation to the world economy, or a (misguided) accommodation to ascendant neoliberal values, norms and practices, but an abandonment of the parties’ status as representatives of the political and economic interests of the working class. They no longer challenge any of the hierarchies that constitute capitalism.

⁶¹⁸ Ibid: 151.

⁶¹⁹ Moschonas, p. 291.

When British New Labour echoes American New Democrats by espousing “welfare-to-work” programs which presume that *social* problems are the result of *individual* failure, it is apparent that the party of Clement Atlee and the National Health Service is not merely compromising in the face of difficult conditions; that party is now an entirely different creature.⁶²⁰

Certain assumptions of the power-resources perspective must now be modified, however, in light of the transformation of mainstream left parties. It was once obvious that when social democratic parties were in office, they routinely made trade union organization easier.⁶²¹ This can no longer be presumed. Public sector unions in particular have been a favorite target for neoliberal left governments; the fourth New Zealand Labour government made an overt attempt to undermine them by eliminating job tenure and reducing other long-established employment conditions in the public sector, while British New Labour found itself in struggle—and in an open war of words—with public-sector employees over the government’s attempt to introduce private finance initiatives and public-private partnerships. Tony Blair repeatedly made it clear that the days “when a large trade union would pass a policy and then it was assumed Labour would follow suit” were “over”⁶²²; New Labour clearly found its institutional relationship with the unions an embarrassment, and British unions were reduced to a “barely tolerated pressure group” within the party.⁶²³ Even the Australian Labor government of Paul Keating (1991-96)—crucially, with the unions’ consent, though the unions were able to win legislative concessions—gradually deregulated the labor market, with the 1993 Industrial Relations

⁶²⁰ Motta and Bailey: 107, 109, 121.

⁶²¹ John Stephens, *The Transition from Capitalism to Socialism* (London: MacMillan Press, 1979), p. 99.

⁶²² Motta and Bailey: 126.

⁶²³ Howell, op. cit.

Reform Act giving employers the power to negotiate enterprise agreements directly with employees and have them certified without unions being involved. With the ebbing of trade-union influence, left parties cease to be effective forces for even the moderate promotion of equality and working-class influence. Via the “middle-classing” of their leaderships, their individual membership, and their electoral base, they become incorporated as active agents in the reproduction and hegemony of neoliberal capitalism.⁶²⁴

5. Revisiting Initial Counter-Arguments

In my introduction I discussed the various other explanations for the pro-market shift in the policies of left governments. The idea that capitalist globalization forces a uniform response by all governments—right or left—has been discredited, though certainly the fear of un-competitiveness in the world market is ever present and directly affects left governments’ economic policies, if not necessarily their social policies or industrial relations policies. But the shape of class politics inside each country affects how neoliberal economic policy is realized—all at once or gradually through negotiation.

The idea that the shrinking of the industrial working class in advanced capitalist societies requires a rightward shift by parties of the left to remain electorally viable has also been discredited; in fact, in the cases discussed, there is little evidence of a dramatic decline in the number of people who could easily be categorized as working class. In New Zealand, in the mid-1980s, 47 percent of the workforce consisted of manual laborers

⁶²⁴ Moschonas, *op. cit.*; Motta and Bailey: 109.

and low-wage service workers, with another 18 percent in clerical occupations.⁶²⁵ Blue-collar workers made up 48 percent of the Australian workforce as of 1985.⁶²⁶ Though by 1996 this number had dropped to 33 percent—and Australia had become a society with even higher rates of home ownership than in Britain—the ALP still won five consecutive elections between 1983 and 1996.⁶²⁷

Table 5.6: Civilian Employment by Occupation, Australia and New Zealand, 1996 (percentages)

Occupation	Australia	New Zealand
Professionals, technicians and related occupations	27.4 %	24.6 %
Administrators and managers	7.5 %	11.6 %
Clerical and related workers	n.a.	13.9 %
Sales workers	31.8 %	14.4 %
Agriculture, animal husbandry and forestry workers, fishermen and hunters	(a) n.a.	9.1 %
Production and related workers, transport equipment operators and laborers	33.4 %	26.3 %
Not elsewhere classified	--	0.2 %

(a) In Australia, most of these occupations are included in the occupational category: “Production and related workers, transport equipment operators and laborers.”

Source: *Labour Statistics, Australia, 1997* (Canberra: Australian Bureau of Statistics, 1997), p. 215.

In Britain, by 2004 only 12.1 percent of workers were employed in manufacturing—their numbers having fallen by 32 percent in 20 years—while finance and business services employment grew by 80 percent over the same period, until they accounted for 19 percent of workers. But such figures ultimately exaggerate the changes in the nature of the workforce; some of the shift from the “industry” to the “service” sector amounts to

⁶²⁵ Jack Vowles, “Who Joins the Labour Party and What Do They Think?” in Margaret Clark, ed., *The Labour Party after 75 Years* (Wellington: Victoria University of Wellington, 1992), p. 78.

⁶²⁶ Jonathan Kelley and Ian McAllister, “Class and Party in Australia: Comparison with Britain and the USA,” *British Journal of Sociology* Vol. 36 No. 3 (Sep. 1985): 389

⁶²⁷ Scott, p. 123.

merely a change in name for essentially similar jobs. A worker in a factory who puts food in a can for people to warm up to eat at home is a “manufacturing worker,” while one who works in the fast food industry to provide near-identical food to people who lack the time to warm it up at home is a “service worker.”⁶²⁸ The working class—even narrowly defined as manual workers—was still key to the electoral victories of the governments I have examined.⁶²⁹

Table 5.7: The Changing Structure of British Industry (percentages)

Occupation	1973	1979	1990	2001
Agriculture, forestry and fishing	2.9 %	2.2 %	1.8 %	1.0 %
Mining and quarrying	1.1 %	4.5 %	2.1 %	2.9 %
Manufacturing	30.4 %	27.9 %	22.5 %	17.6 %
Construction	7.3 %	6.2 %	6.9 %	5.4 %
Electricity, gas and water	2.8 %	2.6 %	2.1 %	1.8 %
Distribution, hotels and catering	13.1 %	12.7 %	13.5 %	15.6 %
Transport, storage, post and telecommunications	7.0 %	7.3 %	7.6 %	8.0 %
Financial intermediation, real estate, Renting and business activities	17.7 %	18.3 %	22.6 %	24.7 %
Public administration, national defense and social security	6.1 %	6.1 %	6.3 %	4.8 %
Education, health and social work	7.7 %	8.1 %	8.9 %	13.0 %
Other services	5.1 %	5.7 %	5.5 %	5.2 %

Sources: Hardy, *op. cit.*; Alan Griffiths and Stuart Wall, *Applied Economics: An Introductory Course*, 10th edition (London: Financial Times/Prentice Hall, 2004), p. 6.

There also remains no evidence that the rise of postmaterialist politics was responsible for the rightward drift of labor party policies. Many activists in New Zealand

⁶²⁸ Hardy further notes that “This distinction between the sectors has been further blurred by the way many manufacturing firms have responded to competition by transforming themselves into service or part-service firms. For example, a large part of Xerox’s activity is now in servicing as well as making and selling office equipment, and Volvo not only make buses but design local transport systems. The outsourcing of cleaning, computer programming, transport and a whole range of other functions which used to be carried out in-house inflates the scale of the shift from ‘manufacturing’.” Jane Hardy, “The Changing Structure of the British Economy,” *International Socialism* No. 106 (Apr. 2005), <<http://www.isj.org.uk/index.php4?id=92-&issue=106>>.

⁶²⁹ Labour in Britain received 61 percent of the manual worker vote in 1996-7. Scott, *Running on Empty*, p. 127.

who identified with feminism, environmentalism, indigenous people's rights, and opposition to apartheid in South Africa may have joined the Labour Party in the 1970s and 1980s, but this did not reflect a lack of interest in class-related issues by Labour Party voters. The British Labour Party was not radically affected by the rise of postmaterialism and never attempted to seriously integrate the themes of the "new politics" into the way it governed, despite frequent reference to the environment in its 1997 Election Manifesto. In Australia, while those concerned with postmaterialist issues may have usually voted for the Labor Party, this had nothing to do with how the ALP governed. There is also no proof that the ALP had to become less of a class-identified party in order to address issues apart from those of social class or to attract new supporters.

6. Other Factors and Suggestions for Further Research

Various other factors besides changes in labor party class composition and union movement strategy must be given their proper weight in explaining the policy choices of these labor party governments. As has been noted, common political systems based on the British Westminster model developed in both New Zealand and Australia, with party structures also developing along similar lines. There are, however, some noteworthy differences. Power in Australia is shared between the federal and state parliaments based on a written constitution. New Zealand and Britain, in contrast, have unitary systems with single national governments. Also, both state and federal jurisdictions in Australia have bicameral parliaments, with the upper houses elected through different systems to the lower houses, while New Zealand is unicameral (since 1951) and the power of Britain's House of Lords pales in comparison to its House of Commons. New

Zealand and British governments therefore have had considerably greater power than their Australian counterparts to execute radical policy changes without substantial challenge.⁶³⁰ In Schmidt's view, this institutional difference partially explains why Australia's journey to neoliberalism differed from New Zealand's (or Britain's):

Australia got adjustment with a human face not only because change required consensus, given a more multi-actor system that demanded much more consultation and negotiation, but also because the politicians themselves, such as Prime Minister Hawke, valued this, in sharp contrast to Douglas in New Zealand. In Australia, the reforms themselves were implemented over a much longer period of time, with care taken to moderate their socioeconomic impact and to debate their merits with the relevant actors in order to assure consensus. In multi-actor Australia, this meant negotiating with a wide set of actors at the federal and state level; with the House of Representatives, elected on the basis of constituencies (like New Zealand), and the Senate, elected by proportional representation; and with the trade union movement, which most importantly for Australia and unlike New Zealand were willing and able to be cooperative.⁶³¹

The effect of the existence of ranked-ballot preferential voting in Australia is another institutional factor which has not figured into my analysis, and warrants further study. Similarly, it would be worthwhile to investigate the effect of Australia's system of compulsory voting on the ALP, compared with the system of voluntary voting in Britain and New Zealand. Scott argues that Australian compulsory voting "may have tended to make the ALP take . . . safe seats for granted and focus its policies on middle-class swinging voters in marginal seats to a greater extent than the British Labour Party, which has had to reaffirm its basic ideology in order to ensure the faithful voters . . . actually have something to come out and vote for."⁶³² Yet since the rise of Tony Blair, Labour's

⁶³⁰ Bray and Walsh: 360-1.

⁶³¹ Schmidt, p. 17.

⁶³² Scott, pp. 116-7.

basic ideology has changed decisively, and the party leadership had become much less concerned about the faithful voters even in the late 1980s.

In general, more research needs to be done on the changing class character of individual social democratic parties, on what Moschonas has termed the loss of social democracy's "sociological specificity."⁶³³ This research would extend beyond the "labor party" sub-category and extend to the entirety of the parties which were formed with the intent of representing working-class interests. The "continental" (European) social-democratic party model differs significantly from the labor party model: it has no indirect membership because unions do not affiliate with the party; there is no union bloc vote. The influence which unions have—or no longer have—on such parties therefore takes on an institutionally different character than with the union-founded labor parties. More research also needs to be done regarding the ideological and sociological directions of the parties which I have discussed, as well as the strategic directions of their affiliated unions. For example, in 2007, New Labour Prime Minister Gordon Brown—Tony Blair's successor—further reduced the role of unions in his party by removing the power of unions (and local Labour Parties) to submit political motions for debate at party conferences through a ballot process. The unions on Labour's National Executive Council did not fight Brown on this issue, as they did not "wish to hand valuable ammunition to the Tories by provoking an early confrontation with the prime minister."⁶³⁴ This refusal by Britain's unions to mount an all-out struggle for influence within their historic party may yet lead to an end of the "organic link" between the two,

⁶³³ Moschonas, p. 296.

⁶³⁴ Jean Eaglesham and Andrew Taylor, "Brown Wins Support to Reduce Union Influence," *Financial Times* (Sept. 19, 2007), <http://www.ft.com/cms/s/0/9c416ebe-6642-11dc-9fbb-0000779fd2ac,dwp_uuid=-ce240942-6a88-11dc-9410-0000779fd2ac.html>.

leaving the Labour Party with a largely non-unionized, professional individual membership and a professional leadership committed to neoliberal policies and reliant on corporate funding. Thus, a party founded to politically represent the working class would become a pure-and-simple bourgeois party. It would be proven that even in a labor party the power resources of the union movement may become so depleted that the unions lose all influence over “their” party.

I will conclude with a quote from Perry Anderson:

once, in the founding years of the Second International, [social democracy] was dedicated to the general overthrow of capitalism. Then it pursued partial reforms as gradual steps towards socialism. Finally it settled for welfare and full employment within capitalism. If it now accepts a scaling down of the one and the giving up of the other, what kind of a movement will it change into?⁶³⁵

⁶³⁵ Perry Anderson, “Introduction,” Perry Anderson and Patrick Camiller, eds., *Mapping the West European Left* (New York: Verso, 1994), pp. 15-6.

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