

# **TOWARDS A NEW THEORY OF HISTORICAL POLITICAL ECONOMY: EXPLAINING REGIME CHANGE IN 1980s AUSTRALIA:**

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## **A PEACEFUL REVOLUTION**

Shifts in regimes of political economy can be revolutionary in scale and significance even without overturning the formal structure of government. The neo-liberal transformation of Australia in the 1980s and 90s amounted to such a pervasive change in the regulatory regime that we are justified in seeing it as revolutionary. Like all revolutions it had deep roots and overturned much of the institutional structure; but much also survived from the old regime to the new. We are apt to be too dazzled by the world-wide neo-liberal and globalising revolution of recent times and a certain ahistorical and unreflective perspective tends to divide the history of Australia too sharply into pre and post-1983 eras (or before and after Keating) or the history of Britain into pre and post-Thatcher or the history of central and eastern Europe into pre and post-communism. Obviously such periodisations describe real discontinuities. But the continuities are also there. The neo-liberal era of post-1983 Australia has preserved important features from the labourist-protectionism era that preceded it, which in turn preserved important features of the political economy of the 1840s-1890s era.

Two connected approaches to explanation of this transformation – adaptationism and collective choice – have focused on the ideas of the supposed necessity of adaptation to changing global conditions and the collective choices that societies somehow make to adapt to these conditions by constructing new institutional arrangements.<sup>1</sup> While there is obviously some truth in this theory, it overemphasises global forces in the present and tends to downplay or ignore the complexity and history of Australia's inherited political economy and the role of structured agency. In this paper I argue that regime survival and change has little to do with rational choices in the past or present and that socio-institutional change in reality is not a process with an adaptation-oriented or progress-oriented goal or purpose. In these current debates about political economy and policy there is also an

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<sup>1</sup> An example of adaptationism is Kelly, *End of Certainty* and 'Labor and Globalisation' and of collective choice is Olson *Rise and Decline*, 'Australia in the Perspective' and 'Varieties of Eurosclerosis'.

unfortunate, ever-present tendency to write history backwards and so to denigrate past arrangements as failures compared with the present. Contemporary policy arguments often show little understanding of the long-run strengths, coherence, and legitimacy of previous regimes or regulatory arrangements.

The old Australian regime survived more or less unchanged since before the Great War. The key feature was the historic compromise between the classes and leaders of capital and labour, mediated via the state and the institutions created to implement it, including the arbitration court, the protectionist system, white Australia and the immigration program, agricultural marketing, the federal/state financial arrangements, and the state-owned banks.<sup>2</sup> This was one of the first, if not the earliest, such historic compromises between capital and labour and the subsequent institutional history of Australia owes much to the early date of a system that became widespread in industrial countries elsewhere only from the 1940s.<sup>3</sup> Of course the system worked imperfectly and often with contention but it survived more or less intact until the early 1980s.<sup>4</sup> There had been a high degree of political and social consensus around its central tenets, including even during most of the Fraser period, and Australian history since the beginning of the century was remarkably free of serious political strife in comparative perspective, even during the 1917-19 and 1930-34 periods. But in the early 80s a new consensus quickly emerged at the state level on the necessity for wholesale change. The deep recession helped galvanize ideologies but ideas, cultural attachments, economic forces, and geopolitics had been shifting for a decade or more.<sup>5</sup>

What forces were driving towards the transformation? Why was the old regime transformed when it was, and so easily, rapidly, and extensively? In order to answer these questions we also need to ask why the old regime survived so long and why, when we take a long-run perspective, we can see that the 'archaeological record' of regimes and of social formations is one of punctuated equilibrium.<sup>6</sup>

This paper tries to articulate a theoretical framework, derived from the relational-structurist tradition and emphasizing historicity, a form of institutionalism, agency, and neo-darwinian evolutionary theory, in which questions such as this can be answered adequately. The essence of the argument can be stated thus:

- Regimes of regulation of political economy are the vital intermediate organizational level that provides the necessary stability for economic, social, and political life.

<sup>2</sup> See Lloyd 'Economic Policy' for a history and discussion of labourist-protectionism.

<sup>3</sup> See Castles, *Australian Public Policy* and Eichengreen, 'Institutions' on the European pattern of historic compromises and their connections to industrialisation.

<sup>4</sup> Mancur Olson argued that such longevity induces sclerosis and crisis but his public choice approach is too rationalist in that he paid insufficient attention to the evolution of historical processes beyond the design of consciousness.

<sup>5</sup> cf Hall, *Political Power*, and Battin, *Abandoning Keynes*, on the significance of the decline of Keynesianism in the 1970s.

<sup>6</sup> A term coined by Eldredge and Gould to describe the pattern of speciation in biological evolution. Marx's much earlier insight into and articulation, if not actual discovery, of this pattern in social history should not be neglected. Theorisation of the pattern is a task that has to build on and transcend his ideas about stability and revolution. Perhaps such a pattern is common to the history of all integrated systems. See Somit and Peterson, *Dynamics*.

- Such regimes have a dynamic integration with their social formations and are reproduced through human agency.
- Changes in regimes generate as innovations at the micro level of institutions that are integrated together to form a regime's structure.
- Innovations arise as responses to macro conditions at political economy, societal, and global levels, which in turn act as the selection environment for innovations.
- Eras of stability of regimes and social structures are interspersed with short phases of transformations so that the long-run history of regimes and societies presents a pattern of punctuated equilibrium.

### POLITICAL ECONOMY AND MULTIDIMENSIONALITY

The broad relational-structurist tradition, that began with Smith and Marx and was built on in different ways by Weber, Durkheim, Schumpeter, Polanyi, Moore, Boyer, and many others, seeks to explain the anatomy of social formations by examining the systemic set of organized social relations that lies at the heart of material production and the governance system with which it's intertwined. In this tradition, regimes of political economy are particular sets of institutionalised interconnections between capital, labour, and government that exist in time and space. Political economies are sub-systems of social formations. These systems and sub-systems are neither abstractions nor aggregations of behaviour but real structures that require reproduction by social agents.<sup>7</sup> The key area of contention between this tradition and its two chief rivals – the rational choice, public choice, neo-classical tradition<sup>8</sup> and the Parsonian structural-functional tradition – has involved the conceptual definition of institutions, organizations, and political economy, and of their systemic interconnections with social structures and cultures. And the role of teleological essences – the supposed long-run tendencies towards rationalization, growth, and modernity – has always been highly problematic in these approaches. The argument of this paper rejects the use of teleological arguments, which should have no place in a scientific approach to social change just as they have no place in biological evolution.

The basic definition of an institution here is of an integrated set of rules, roles, and relations that constitute a bounded organization of social actors whose behaviour is oriented, through that institution, towards a specific common purpose or task. Institutions are social structures that are irreducible to collective behaviour but need collective behaviour to reproduce them on a daily basis. This definition rejects the Northian distinction between institutions and organizations for that ignores the social relations that, along with the rules and roles, help make the institution into a real social structure. Institutions of political economy within capitalist societies are almost

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<sup>7</sup> The tradition is thus underpinned by critical realist philosophical foundations. See Archer, *Realist Social Theory*, Lloyd, *Structures*, and Lawson, *Economics*.

<sup>8</sup> The rational choice tradition in the social sciences is anti-realist in that it denies the reality of relational structures and builds a social theory from the observational ground of behaviour, including information about decisions by interacting rational actors. On rational choice see Green and Shapiro, *Pathologies*.

always formal. But within other areas of a social formation there are many informal institutions that meet this definition.<sup>9</sup>

Political economy is a sub-system of a social formation, as in Fig 1. The world system consists of many social formations as well as many markets and other organizations. A social formation is a system that exists on many levels and unites social structure, culture, economy, and the institutionalised rules and arrangements of the organizations that exist within and carry the system. More concretely, the approach used here views political economy as a system existing on three integrated levels or sub-systems.

- (a) **The production regime or social system of production**, which refers to the capital/labour relationship within the production process and the labour-technical composition of production and its social organisation, eg. the Fordist and Taylorist assembly line structure or the Toshiba dense network structure. This level involves the system of organisation, control, management, and reward of labour; the technological composition or substitution of capital and labour; the structure, ownership and management of organizations; the rate and distribution of profits; and the process of innovation and change.
- (b) **The regime of regulation**, which is the system of conventions, rules, laws, and institutions that regulates an economy, including regulation of employment relations, monopoly and competition, public/private ownership and investment, rules and styles of organizational management, financial structure and control, international exchange and trade, and taxation.
- (c) **The governance regime**, which is, most broadly, the system of voting, legislation, executive administration, political parties, political ideologies, bureaucracy, justice, welfare, and usually the news media and educational institutions.<sup>10</sup>

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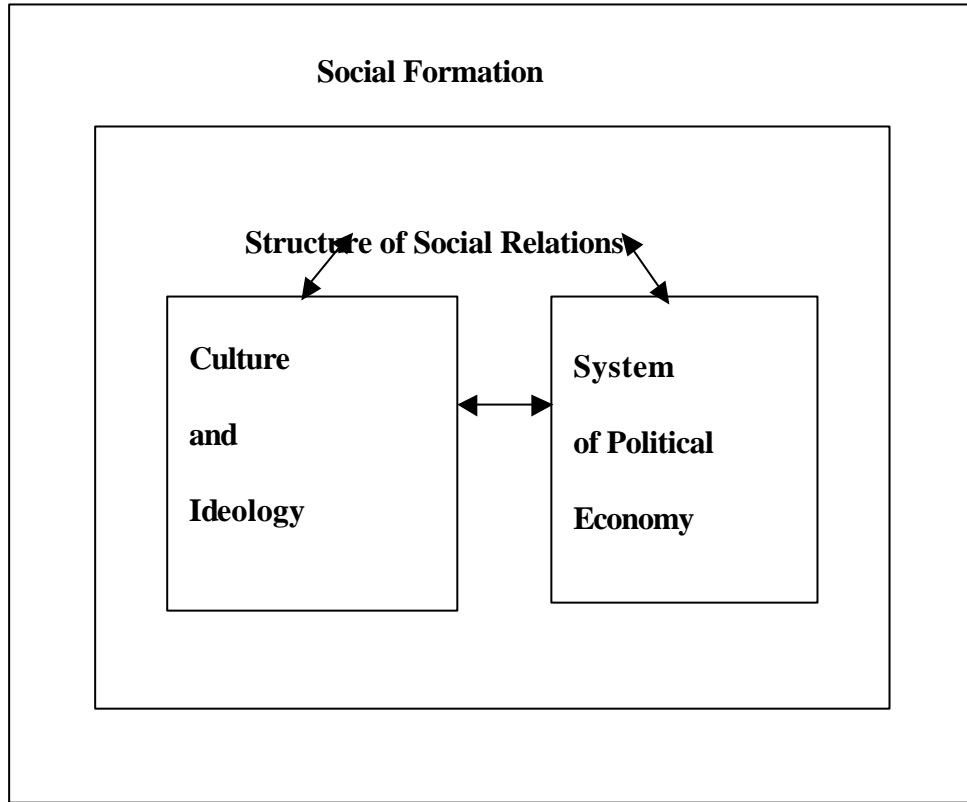
<sup>9</sup> The approach taken by the so-called ‘new institutionalist economics’, such as by Douglas North, is in fact better referred to as the ‘new neo-classical institutionalism’ for it is only one of many forms of institutionalism claiming our attention (cf Rutherford, *Institutions*) and is based upon neo-classical philosophical tenets and widened to deal with ‘institutions’, conceived either as sets of rules for behaviour or as patterns of rule-governed collective behaviour. See North, ‘Towards a Theory’, and *Institutions*. See the recent critique of the neoclassical theory of firms as organizations by Langlois and Robertson, *Firms*, who argue for the necessity to analyse firms as socially structured institutions that foster or hinder innovations because of their internal structural nature.

<sup>10</sup> This definition owes a good deal to the French Regulation School, which in turn has been influenced by the work of Marx, Weber, and Polanyi, but the analysis here diverges from their theory particularly in the area of historical institutional analysis. For most of the French School, ‘regulation’ is restricted essentially to level (a) of the definition used here. See Aglietta, ‘Capitalism at the Turn’, Boyer, *Regulation School*, and ‘The Political’. The French theorists are part of a wider cluster of similar approaches to theorizing regulation, social systems of production, and economic governance, that diverge in various ways. One of the main sites of divergence is over the issue of the level and type of regulation and/or governance that systems of political economy are organized through. See, for examples, Campbell, et al, *Governance*, Hollingsworth and Boyer, *Contemporary Capitalism*, Hall and Soskice, *Varieties of Capitalism*, Whitley, *Divergent Capitalisms*, Kitschelt et al, *Continuity and Change*, Kotz, et al, *Social Structures*, and Coates, *Models*. See also the useful discussion of approaches in Jessop, ‘The Regulation Approach’.

Levels or sub-systems (a) and (b) and very closely interconnected. Together they form the institutional structure or organizational regime of a political economy. Some may argue they are a single system, level (b) being but the expression of the structure of (a), but this makes it more difficult to see how crucial disjunctures could arise between the two levels and result in regime change. When regimes do change it's a matter of the structure changing rather than every part within it. That is, patterns of investment, organization, control, regulation, management, and law can all shift over a relatively short period of time. The relationship between this political economy regime and the wider governance structure (or state) is looser and there is a much wider range of possibilities open for the connection between them. Nevertheless, there is a limit to the tolerance between government and economic system, just as there are also the wider contextual constraints of social structure and culture. It's important to emphasise that the regulatory modality of the system is endogenous in the sense that political economy is a self-regulating system. The state does not simply exogenously impose a regulatory regime.

Figure 1.

**World System**



These concepts provide the framework of a systematic approach to the historical regimes of the political economy of any country or region of the capitalist world. Regimes should thus be examined from within four overlapping contexts or dimensions, all of which have an essential temporality.

(i) *World and Global Systems*. This examines every part of the world as a component of worldwide systems and processes of capital, labour, governance, and geopolitics. So the connections between local and global institutions, events, and processes, complexities and peculiarities of structures, organizations, and ideologies, have to be examined in order to explain both the local and the global levels. The global environment constrains and enables the forces of social agency at a local, institutional, level.

(ii) *Institutional Analysis and History*. This examines the nature of key institutions, their genesis, roles, and evolution, and draws upon general theoretical concepts and arguments about institutional formation and functions, including about regimes of regulation.

(iii) *Socio-Cultural History*. This examines the details of the history of social structure and culture, especially as they form and impact upon political economy.

(iv) *Economic History*. This is concerned with the history of the macroeconomic processes of growth and development, including how regulatory institutions have set a context for that history and how markets and firms have been organized and interact. Of crucial importance here is the interconnection between the regulatory regime and the rate of profit. The collective support for or rejection of institutional structures by profit-maximising capitalists is a significant force in any capitalist economy.

After discussing these dimensions I shall be in a position to outline an account of the process of transformation of regimes in terms of agency, reproduction, and social selection, and hence of the long-run evolution of successive regimes.

## **WORLD AND GLOBAL SYSTEMS: AUSTRALIA'S PLACE IN LONG-RUN CYCLES AND PROCESSES**

It's clear that the global system sets the context for all local peculiarities. As the world system developed up to the Great War so did Australia's integration with and contribution to it on many levels. The Wallersteinian analysis of Australia as locked into semi-peripheral status in the second half of the 19<sup>th</sup> century downplays too far the place of the world's biggest recipient of British overseas investment for some of that time, the world's largest provider from 1845 of the strategic material of wool for Britain's industrialization, the world's largest supplier of gold for some of that time, one of the largest suppliers of base metals and exporters of foodstuffs, and one of the largest destinations for British surplus population and political radicals. These were not of semi-peripheral significance but vital cogs of the British-centred system with its division of labour. And beyond economics and demography, Australia played a central role in the late 19<sup>th</sup> century in influencing the governance system of modern liberal states – universal suffrage, secret ballots, political parties, universal legal rights, liberal democratic ideology.<sup>11</sup>

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<sup>11</sup> Important exceptions to this set of modern governance principles was the destruction and denial of rights to indigenous people and racially discriminatory immigration. But racial discrimination was a common feature of all modernising states in the early 20<sup>th</sup> century even if not always as formalized as in Australia. On the importance of the establishment of due

And then the creation (along with New Zealand) of the world's first functioning form of social democratic capitalism in the period between 1905 and 1911 – the labourist-protectionist model – was a major institutional innovation that became widespread elsewhere only after 1945.<sup>12</sup>

Explaining why Australia could develop what turned out to be such a relatively 'progressive' regime of political economy and government compared with the North Atlantic core states (including the imperial power) and most other settler societies of the late 19<sup>th</sup> century, must take us beyond the semi-peripheral designation. The peculiarities of Australia's place in the British Empire in the 19<sup>th</sup> century – economically, socially, and politically – turned out to be relatively advantageous for a time. Counterfactually and comparatively, given the constraints of geography and demography, how much better (or worse) could Australia have been in the era between 1848 and 1890?<sup>13</sup> Not only did Australia have the highest incomes per capita by the 1880s but also one of the most egalitarian distributions and one of the most democratic polities. And industrialisation was more advanced than in most of Europe. Recent jibes that Australia was the Kuwait of the 19<sup>th</sup> century or that it was simply a lucky country surfing effortlessly to prosperity on a wave of gold, wool, and wheat, are well short of the truth. How Australia's regimes of political economy after the 1840s crisis structured this outcome within this context is the real issue. The contingency of history, especially in the 1840s turning point, in a context of emerging global industrialization and new local class alignments, perhaps could have taken Australia onto a different path, *a la* Argentina's failed liberalization in the 1820s and subsequent oligarchical reaction that locked it onto a path of great inequality, illiberality, and dependency<sup>14</sup>

So, the three key interconnected processes that have moulded the history of the world system from the early 19<sup>th</sup> century and therefore set the context for Australia's history are (a) long-run swings, waves, or cycles, essentially of economic growth and development, that are driven by technological change and profitability; (b) geopolitical conflicts, constructions, and constitutions; (c) the developing struggle between the social classes of capital and labour and the ongoing struggles between sub-classes of capitalists, with the resulting development of state structures that mediate and equilibrate the conflicts.

Long swings, waves, or phases are a reality but their causation and periodicity, let alone their cyclicity, are open questions.<sup>15</sup> Quite obviously, there have been phases of rapid technological and organizational change or industrial revolutions (closely associated with "changes of regime", which I will discuss in more detail in a moment). These successive

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legal processes from the beginning of the penal settlement and the subsequent respect for law and justice, see Braithwaite, 'Crime in a Convict Republic'.

<sup>12</sup> The innovatory nature of the Australian model was recognized by some commentators at the time, even if sneeringly, such as Lenin and the Webbs. Reeves, in *State Experiments*, on the other hand, understood clearly the significance of what had been achieved by 1902.

<sup>13</sup> See the analysis of Australia's comparative place in Davis and Gallman, *Evolving Financial Markets*, Denoon, *Settler Capitalism*, and Lloyd, 'Australian and American'.

<sup>14</sup> On the significance of the 1840s see McMichael, *Settlers, passim*, Dyster, '1840s Depression', Fitzpatrick, *British Empire*, Ch 3, Buckley and Wheelwright, *No Paradise*, Ch 5. On Argentina in the the early 19<sup>th</sup> century see Rock, *Argentina*, Ch 3.

<sup>15</sup> There is a huge literature on long waves. For recent overviews see Goldstein, *Long Cycles*, and Kleinknecht, Mandel, and Wallerstein, *New Findings in Long Wave Research*.

revolutions, in areas such as textiles, energy generation, chemicals, transport, and telecommunications, had galvanizing effects on the structure of the world system. Types and volumes of flows of goods, capital, and labour have shifted partly according to these revolutions. Long swings of technological improvement and accumulation are not, however, exogenous – they are always geopolitically and socially located. The technological and associated organizational change (or regime change) in the British woolen industry after the Napoleonic Wars was the initial impetus to which Australia's pastoral capitalism was able to respond so dramatically because the other essential elements within and without the colony were also conducive. The new colonial regime of pastoralism emerged very rapidly in this new climate.

The increasingly integrated system that evolved after 1815 required powerful governance of inter-state rivalries and intrastate conflicts. Differential rates and degrees of industrialization, with a good deal of division of labour, and fierce competition between national capitalisms and cultures in the cores states for markets and materials, was unstable and the system collapsed politically in 1914-18 because of the fundamental failure to find either an overarching equilibrium form of governance or a way of making peaceful transitions to new regimes. The interwar period fared even worse as an era of world stability. But Australia's experience stands out. After the 1890s crisis, which had been induced by a combination of external forces and the particular way in which the local political economy had developed after the transformation of the 1840s,<sup>16</sup> a new, more or less stable, labourist-protectionist regime had been developed before 1914.<sup>17</sup> This was then able to withstand attacks upon it from left and right during the Great War and in the late 20s. Indeed, the ANZAC culture that came out of the war added to the foundations of the regime. This strength was apparent only in hindsight.<sup>18</sup> Although the regime could not protect the country from the ravages of falling agricultural export prices and the depression, it was actually further strengthened in the mid-to-late 30s despite a return to conservative government. The crisis of protectionism of the late 20s was overcome or at least postponed by even greater protection in the face of the world crisis. That is, the regime consolidated itself against its conservative, *laissez faire* critics and by then a high degree of consensus had emerged, which was further strengthened by the short-term effects of protection, the war experience and Keynesianism. Therefore, Australia was one of only a few countries in the world (perhaps the only other one being New Zealand) not to experience a change of regime on either constitutional or political economy levels in the 1914-48 period. The continuity of the post-war social democratic regime of political economy with the interwar structure is quite striking.

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<sup>16</sup> On the political economy of the 1840s to 1890 era in Australia see Fitzpatrick, *British Empire*, Chs iv-vi, and on the global situation see Schwartz, *States Versus Markets*, Ch 6.

<sup>17</sup> There isn't the space to examine why the 'advanced' regime emerged so early in Australia. Castles, *Australian Public Policy*, argues it was defensive rather than progressive in that it sought to reconstruct the golden age of pre-1890s.

<sup>18</sup> Hancock thought in 1929 it was unsustainable (cf *Australia*) but he did acknowledge the popular support for protectionism. The Bruce government was defeated in 1929 when it tried to undermine centralised industrial relations.

The Australian-type historic compromise became widespread after the war in the core North Atlantic states.<sup>19</sup> At the macro level a new regime for the capitalist world system emerged out of the same kind of ideology in 1944-45, combining cold war geopolitics; the Bretton Woods arrangements; social welfare democracy; competitive and state-centred catch-up development policies; agricultural protection; and Third World developmentalism. This world structure was vital for the continuation of Australia's labourist-protectionist regime for it underpinned the continuing internal growth path. After this structure had broken down in the late 80s and early 90s with the end of the Cold War, certain important elements from that era remained in the capitalist world system, including agricultural protection in the OECD heartlands. The geopolitical, economic, and cultural significance of the Common Agricultural Policy and Japanese agricultural protection in shoring up the post-war settlements is underappreciated in Australia. It could be argued that these policies were the centerpiece of the successful operation of the post-war capitalist world system. Several Mediterranean countries remained liberal democratic as a consequence and the Japanese "miracle" probably required the maintenance of the form at least of the pre-industrial culture centred on rice agriculture. Of course such protection is now having a large impact on the economic growth and development of Australia and other agricultural exporters but it was only in the 1980s that Australian post-war agricultural protectionism itself was dismantled. When it comes to rhetoric about protectionism, self-interested hypocrisy always abounds.

The supposed shift from a world to a global system in the 1980s, in which states started to lose their autonomy, involves examining the role of global rather than inter-state governance. The adaptationists have argued that this is but the latest world development to induce change in Australia. The argument of the hyperglobalisers is that all local variants of capitalism are converging institutionally on a single regime.<sup>20</sup> However, globalisation is much overstated. States are not disappearing and there have been transport and communications revolutions before. The world system has always been an uneven process globally and locally, although in the past two centuries there has been a tendency towards economic growth and development due to industrialisation. Indeed, the latest episode of globalisation is but the latest stage of the history of the capitalist industrialization of the world, especially now that the alternative communist route has disappeared. Thus the assertion that the globalising process is something new is greatly exaggerated. On the other hand, the ongoing integration of national economies via trade and capital flows has grown greatly in the 1990s.

In the latest phase of globalization, since about 1973, the old equilibrating relationship between capital, labour, and the state that persisted in the core states since the 1940s has been breaking down. Capital has become increasingly mobile, circulating (or finance) capital becoming more important than fixed, and no longer needing states to protect it; in fact, states have come to be seen by some capitalists as a hindrance to circulating capital. New industrialised states began to rise to prominence based not on a stable capital-

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<sup>19</sup> Castles is right to draw attention to the significant differences from Australia but the compromise between capital and labour over income shares, social welfare, and agricultural protection were all of the same pattern. See Castles, *Australian Public Policy*, Ch 6.

<sup>20</sup> On hyperglobalisation see Gray, *False Dawn*, and Lloyd 'Globalization'. Against this there are much more cogent arguments in support of the actual continuation of multiple models of capitalism rather than convergence. See, for example, Hall and Soskice, *Varieties of Capitalism* and Coates, *Models of Capitalism*.

labour-state nexus, as in the core areas after the war, but on a high rate of exploitation of very cheap labour. Under such conditions, labour institutions in the core states have had their conditions of power and prosperity undermined and many newly-industrialising states have not yet produced or permitted a balance of class forces in favour of a new equilibrating compromise between capital and labour, as the old core states experienced in their industrialisation phase.

Overall then, in the dynamic between global and local, it's crucial that we don't impose a single global determinism. Long economic swings, global geopolitics, and the logic of capitalist industrialisation and accumulation might set a context but do not directly determine the precise local outcomes. One helpful perspective is that of Von Thunen's spatial geography, recently resurrected to good effect by Herman Schwartz, who argues that the key dynamic between states and markets is about 'how markets create distinct spatial patterns in what was produced and how states attempted to influence that distribution of production' (p.4)<sup>21</sup> The transformation of the world consequent upon the British industrial and transport revolutions brought into being an international political economy which was and is about 'how market pressures cause actors to constantly relocate productive activities in a global space, about how states try to bend those market forces when it hurts them and allow them to work when it helps and about the essential unity of modern states and capitalist markets. Market pressures on individuals and firms motivate them to relocate production and consumption. States intervene to help or hinder this market-driven redistribution, but often with unintended results.' (p.2)

In summary, within the world system the local 'Australian' state at the behest of certain liberal and urban class interests and in concert with the British authorities proved strong enough from the late 1840s to break the power of the landed oligarchy (in contrast with southern South America), end most coercion of labour, maintain Wakefieldian systematic colonization and associated economic diversification, extend the franchise, and carry out land reform. Together, these enabled Australia to boost output of raw materials and food because of the consolidation of efficient family farming. Greater output meant greater exports, thus greater imports, hence greater customs duties and foreign borrowing capacity by states, enabling greater infrastructure building (Schwartz p.125). There developed the possibility of agricultural-led industrialization on the basis of family farming and the protected, very prosperous, home market. But the vast inflow of British capital and the speculative land boom were unsustainable in the context of the slowing growth path, partly due to falling wool prices in the global market. The 1890s crisis eventually led to a new regime. When a coalition of labour and liberal elements coalesced before the First World War around a protectionist consensus that favoured local capital raising, local manufacturing and heavy industry, infrastructure provision, and welfare redistribution that had the effect of extending the local market. But the path dependency of location in the world system in terms of efficiency and wealth of primary exports, economic symbiosis with Britain, and later imperial trading preference, all remained crucial. That is, crucial until the 1960s, whereupon the diversification of the Australian economy and growing integration with Asian markets began to transform Australia's place in the world economy and the old settler capitalist compromise.

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<sup>21</sup> Schwartz *States Versus Markets*.

## INSTITUTIONAL REPRODUCTION AND CHANGE

Now, while the interacting macro components of the world system are states and markets, which are in dynamic relationships with national societies, neither states, nor markets, nor societies are holistic entities and so do not have autonomous powers of generation, decision-making, and agency. Their internal institutional and socio-cultural structures are the key to the dynamics of the whole system. And those institutions themselves, while also presenting their own unified face to the world, are internally differentiated in reality.

Therefore, for the purposes of historical political economy the main questions concern the generation, history, interconnections and transformations of several kinds of formal institutions – firms, government businesses and service organisations, regulatory agencies, governmental administrative organizations, political parties. Outside this system are other institutions of formal and informal culture, politics, justice, social class, ideology, and so on. There is a hierarchy of integration on several levels and each formal institution is itself a system with an internal structure of and mode of integration between sections and groups. Social systems and institutions are neither holistically integrated entities, which are far greater than the sums of their parts, nor are they mere aggregations of components with little integration. The structuralist way of seeing the connection between action and behaviour, institutions, and social systems,<sup>22</sup> has certain advantages over rational choice approaches, which tend to ignore the structured and historical nature of systems of social relations and the patterns of social behaviour within them, or more holistic structuralism *a la* Parsons that overemphasizes the supposed powers of social systems (including institutions) to control their own trajectories. In particular, it enables a clear conceptualisation of the locus and powers of agency, and the conditions of constraint and enablement under which it can be exercised. Social agency does not require rationality any more than biological agency does. And a more viable theory of institutional evolution also arises out of this kind of conception for it permits a Darwinian-type, arational, non-teleological, theory of social innovations and selection.

Stability and change within institutions essentially arise out of the relationship between processes of innovations at the micro (genotypical) level and processes of selection or rejection at the macro (phenotypical) level. That is, neither the system as a whole nor particular institutions have emergent, holistic powers of decision making, innovation, or action. Firms, for example, do not actually decide on and take courses of action. Decision-making executives or managers are agents not controllers and like all agents their power is constrained by the institutions their agency works within. And furthermore, all behaviour by all persons, which always is institutionalized, is always agential to a greater or lesser extent. All institutions require routine reproduction and maintenance by their agents. Only the people within them are agents and their degree of agential power is very differentiated. Structures have powers of constraint and enablement but not rationality and agency.

Thus social systems exhibit path dependency in the sense of strong continuities at a certain deep level of structure, leading to resistance against adoption of innovations (even ones that are superior) in existing practices, technologies, or organisations. As with all

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<sup>22</sup> Methodological structuralism is articulated at length in Lloyd, *Structures* and draws in part on Mandelbaum, *Purpose and Necessity*.

systems, forces of equilibrium are almost always greater than those of transformation. And initial conditions, usually arising out of historic moments or revolutions, play a strong role in determining long-run development. As O'Brien showed in a recent discussion of French and British industrialisation, initial conditions of geographical and institutional kinds, going back to the 16th century, continued to play an important role right up to the 20th century.<sup>23</sup> While globalization and path dependency are both essential components of a complex historical understanding of the present, we do have to be able to account for enormous local variation and adaptiveness over time. Part of the problem with analyzing the role of initial conditions is of when to say a process began. Obviously 1788 was foundational for Australian economy and society but, with hindsight, the 1840s was clearly another crucial moment, as I've argued, for the power of atavistic rural forces dependent on servile labour was eclipsed and never really recovered in spite of several attempts at revival.<sup>24</sup> Mercantile, and later industrial capitalism, as well as rural capitalism, then flourished under a regime of liberalism and state support and Australia made a decisive break with the kind of regime that continued in southern South America.

### **SOCIO-CULTURAL HISTORY AND ITS ECONOMIC SIGNIFICANCE**

Institutionalised relationships between capital, labour, and the state are intricately interconnected with informal culture and social structure both in terms of the genesis of institutions of governance and the socio-cultural embeddedness of such institutions. The institutionalist and sociological returns in economics and economic history, not yet followed by all economists and economic historians certainly, was necessary; and equally necessary, in addition, is a culturalist turn, in the sense of the reintegration of the place of cultural norms and rules of social relatedness, behaviour, and structure, into the study of historical political economy and economic history. Changes in political economy may be non-synchronous with and/or strongly effected by cultural changes or the cultural shifts may either lag behind or precede changes in political economy.

Economies are socially-organised production systems. Class structures, with their ideological and cultural connectedness, are implicated in the organization of political economies and the social formations that they exist within. There seems little doubt that particular cultural and ideological dimensions are essential to the emergence, maintenance, and transformation of economic regimes, as Max Weber saw so clearly. For example, the ways in which the Australian legends of the white bush working class, masculinist mateship, ANZAC, egalitarianism, the fair go, and the framework of protection for all these, have been intricately interconnected with political economy have to be understood. We cannot begin to understand the debates and policy developments over native title, for example, without an understanding of such a cultural structure. Native title is not peripheral to Australia's political economy or culture – it's at the very heart of colonialist settler capitalism and of attempts to transform the country away from such a path and onto some other, perhaps neo-liberal, or perhaps more developed social democratic, and certainly post-settler, trajectory. We could make the same point about changes to centralised industrial relations and the republican movement. That is, protectionism, labourism, industrial

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<sup>23</sup> O'Brien, 'Path Dependency'

<sup>24</sup> See Darnell, *The Chinese Labour Trade*, on attempts to revive coerced labour in the 1840s.

arbitration, the land title system, Aboriginal exclusion, and constitutional monarchy, with its attendant social class and cultural trappings, have been pillars of Australia's historical formation. All are currently being transformed or are under threat of such. The ways in which they are being reformed or dismantled and the arguments revolving around these moves are all occurring within this inherited cultural context. But, can it be any accident, that the ANZAC legend, more than eighty years old, is deliberately being reinforced at the beginning of the 21<sup>st</sup> century? That is, the old legend is being restored as an apparent pillar of stability in a world of growing uncertainty and disorientation. The success of this endeavour is yet to be gauged.

Culture and ideology play a vital role in social change because they cannot actually contradict the rest of the social totality and especially the governance regime for any period of time without a crisis. Such a crisis occurred in Australia, as elsewhere, in the 1970s (see below). Furthermore, however, the nature of the changes in the 80s and 90s and the resulting more unstable regime that emerged in the 1990s have perhaps sown the seeds for further imminent change within the overall social formation. Unlike the preceding era of relative regime stability and legitimacy up to the 1970s (especially 1941-74), the new regime has proven so far to be relatively unstable and its future contested, especially outside the main political coalitions. This is because the adoption of neo-liberal globalisation at the political economy/policy level has not been reflected in a corresponding shift of popular culture or national legends or social attitudes of all social groups. Part of the argument that is usually made about multiculturalism and its partial displacement of White Australia as a central component of the shift from labourist-protectionism to a globalising regime, is that global economic and social change influenced Australian policy makers and political groups towards a new consensus around the necessity for neo-liberal openness, including the need for skilled and wealthy migrants from Asia with their business connections and the concomitant need to open to the capital sources and markets of newly industrialising Asia. Multiculturalism was a necessary part of this. But this apparent shift, while maintaining the rhetoric of egalitarianism at the same time as significantly undermining or abolishing the institutions of the egalitarian social compromise (protection, ethnic uniformity, arbitration, state ownership of banks and infrastructure), masked the very limited nature of both the actual egalitarianism and class inclusiveness in the previous situation and of the new supposed ethnic openness of multiculturalism. These are serious disjunctures, perhaps reflecting a strong path dependency of the White Australia culture, and resulting in growing political realignments. The Labor Party is a prominent site of this disjuncture.

## REGIMES, GOVERNANCE, AND PROFITABILITY WITHIN ECONOMIC HISTORY – THE NON-LINEARITY OF CAPITALISM

Part of the argument of this paper, then, is that the Ricardian and Neo-classical approach to economic history via aggregate, deinstitutionalised, purely economic, factors of production does not get us far in explaining economic change and development, especially in a comparative and long-run context.<sup>25</sup> Differential levels and rates of development and capital accumulation, as well as different market formations and degrees of success in market development, cannot be explained by factor endowments, investment, and market developments alone. Long-run historical political economy at global and local levels and local socio-cultural history are the keys to explaining economic history. For example, even though the major neo-European settler capitalist (or frontier) societies – USA, Canada, Australia, New Zealand, Argentina, Uruguay, Chile – had certain important economic similarities (or initial economic conditions) in the early 19<sup>th</sup> century, they did not have similar outcomes economically, let alone socially or politically, at various moments in the 20<sup>th</sup> century.<sup>26</sup> Indeed, instead of constituting an economically convergent group they in fact diverged from the late 19<sup>th</sup> century in several directions both as national economies and politics and each internally. This divergence can be made sense of only through the multidimensional framework. The later convergence on a neo-liberal regime in the 1980s and the varying social and political effects of that change in recent years also needs a multidimensional explanation.

The importance of the non-economic dimensions have been well understood in Australia and there have been many attempts ever since the early 19<sup>th</sup> century to theorise the institutional history of the economic development. There has been recourse to concepts about liberal imperial division of labour within the Empire (eg Wentworth), systematic colonization and liberalism (eg Wakefield), frontiers (eg Alexander), imperial exploitation (eg Fitzpatrick and Wheelwright), colonial socialism (eg Butlin), world-systems and dependency (eg McMichael), utilitarianism (eg Collins), settler capitalism (eg Denoon). Now I'm arguing that the history of Australian economic and institutional change can (should) be read through the regulationist theory that I've outlined in this paper. The basic idea is that local variants of capitalism have exhibited over the centuries a non-linear pattern of relatively sudden shifts to new modes of integration and relative equilibrium. (The logic of the system produces the business cycle but such short-term cycles are not changes of modes of integration.) Superimposed on local distinctiveness and non-linearity has been their integration, to greater

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<sup>25</sup> An examples of such an approach is Sinclair, *The Process*. When discussing Ricardo, Schumpeter commented in a footnote that “I do not think Ricardo ever did much historical reading. ... The trouble with him is akin to the trouble I have, in this respect, with my American students, who have plenty of historical material pushed down their throats. But it is to no purpose. They lack the historical *sense* that no amount of factual study can give. This is why it is so much easier to make theorists of them than economists.” Schumpeter, *History*, 472

<sup>26</sup> The major study by Davis and Gallman, in *Evolving Financial Markets*, of Britain and four “frontier” states, for all its virtuosity of detail and economic analysis is seriously vitiated by a lack of attention to institutional and socio-cultural factors. On the other hand, Denoon's pioneering book, *Settler Capitalism*, still provides an excellent starting point for comparative historical political economy of the settler societies.

or lesser extents, into a world-wide system. That system has also had a non-linear trajectory. Thus, to use a currently fashionable terminology, we could say capitalism is a chaotic system with various local and global poles of attraction. Those poles are best described as regimes of regulation, which I've spelt out above.

Using this concept, we can argue that in Australia's history there have been four eras of stable regimes of political economy, broken by three major pulses of institutional innovation roughly in the periods 1840-51, 1894-1911, and 1983-91. Altogether this gives the following seven periods or phases:

1788-1840 – *First Regime* – state-centred regulation of labour imports and production to overcome basic problems of labour shortage and trade imbalance in the nascent, state-directed, economy. But large-scale squatting caused a crisis of governance and development by the late 1830s.

1840-1851 – economic crisis in early 1840s – end of unfree labour and greater state assistance to mercantile and finance capital via greater legal protection and infrastructural investment. Economic and political power shifted to commercial rather than pastoral interests, aided and cemented by imperial liberal constitutionalism. Gold rushes further tipped balance against rural oligarchic interests.

1851-1894 – *Second Regime* – growing power of commercial capital consolidated by gold rushes – prevented revival of servile labour control systems and their associated rural oligarchs – a golden age of resource and mercantile capitalism and liberalism (constitutionalism and democracy), assisted by state infrastructural investment and large-scale immigration – beginnings of colonial socialism (protection and state ownership) and class conflict; emergence of bush culture of workers and small farmers.

Crisis of regime in early 90s due to state-induced speculation and indebtedness and associated decline in productivity in leading sectors.

1894-1911 – Innovative response to crisis of depression and class struggle – foundations of labourist-protectionism resulting from consolidation of lib-lab settlement, and necessary resort to domestic sources of investment funds. Rise to dominance by Labor Party.

1911-1983 – *Third Regime* – ascendancy of labourist-protectionism. Regime had eight key features, some of which continued from previous eras:

- (i) marginalisation, denigration, and expulsion of Aborigines
- (ii) white Australia and protestant monarchical ascendancy with ambiguous nation-building ideology
- (iii) centralised bureaucratic conciliation and arbitration system for industrial relations and labour market
- (iv) large-scale assisted immigration to supply labour for industrial and agricultural growth
- (v) rural closer settlement, irrigation schemes, agricultural Protection

- (vi) all-round secondary and tertiary protection
- (vii) extensive social welfare and public health provision
- (viii) state ownership of key sectors of national economic infrastructure and productive capacity, eg railways, telegraphs, airlines, postal services, banks.

Crisis from late 1960s to late 70s on economic (stagflation), cultural (Asian immigration, feminism, Aborigines), and geopolitical (EEC, Asian engagement) levels – shift of ideology by early 80s – external influence.

- 1983-1991 Transformation period – implementation of neo-liberal, globalisation regime – privatisation, deregulation, multi-culturalism.
- 1991- present *Fourth Regime* – consolidation of neo-liberalism – free market allocation, limited state intervention in markets (cf labour, telecommunications, and transport markets), privatisation, free trade, non-racial immigration of skilled workforce – emergence of new form of regulation as the public microeconomic enforcement of market rules against monopolisation by private or state interests – reduction of power of distributive coalitions. (But also continuities with previous regime)

This outline can form the foundation of a new way of describing and analyzing the history of Australian capitalism.<sup>27</sup> The problem is to try to provide a general theory of the pattern that adduces the causal mechanisms of regime stability and change.

## **TOWARDS A NEO-DARWINIAN THEORY OF REGIME CHANGE IN GENERAL**

I've been arguing that the causes of regime change cut across all the dimensions discussed above. Crises that lead to the 'failure' of regimes or the desire for change among sufficient social actors with sufficient social power, organized into classes, interest groups, social movements, and political organizations, provide a basic impetus for change. But crises can also be withstood. And pressure from the global environment, such as declining profitability or shifts in global technological systems or geopolitical conflicts and revolutions, do not direct precisely how local changes will occur or turn out. The contingency of history is always present.

In trying to articulate in a more systematic way the kind of approach I'm advocating, it helps to see it in the light of other broad kinds of theories of socio-institutional change that jostle for our attention. Some of these overlap a good deal of course and most arguments employ aspects of more than one.

### **Ideology and Theory**

Here the power of ideas is seen as dominant. Changes in ideologies and theories of economics and government spread around the world to strongly influence public policy. Governing elites and leaders are often influenced by intellectual fashions as well as deeply-

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<sup>27</sup> Currently being attempted by the author

held philosophical commitments to ideologies. The power of liberalism and utilitarianism from the 1830s in Australia, democratic socialism from the 1890s, Keynesianism from the late 1930s, and monetarism and neoliberalism from the 1970s, are all testament to this process.<sup>28</sup> But such ideological shifts can only be implemented if the rest of the regime of political economy is both sufficiently receptive and the balance of power is such to permit the change. All the ideological power in the world cannot shift an unreceptive social class or social formation but the alliance of class or elite power and a new ideology is very powerful.<sup>29</sup>

### **Techno-Economic**

This locates the source of social/institutional/ economic change in the supposedly autonomous power that technology and the disembodied economic factors have to combine in mysteriously new ways. Markets, which are thought to be mere aggregations of face-to-face interactions or comings-together for the purposes of particular exchanges, are the places in which these disembodied categories meet. Changes in supply, demand, and price of factors are the crucial determinant of economic development, which is essentially driven by the resulting trajectory of technological change.<sup>30</sup> There is a kind of incoherent teleology here and a bracketing of economic categories as if they were not part of the system of social relations. This kind of theory is usually associated, implicitly at least, with rational choice theory of human motivation, action, and social relatedness.

### **Rational/Public Collective Choice**

This analyses aggregations or collections of individual choices, expressed through markets and the attempts to distort markets by collective action, the sum of which, the behavioural pattern, constitute the economy. Markets distortions through rent seeking have the unintended consequence of sclerotic growth patterns. The key issue is efficiency. Agents make supposedly collective choices to construct arrangements that hinder or promote efficiency. However, these theorists mistakenly equate agency with rational choice and also see agents as severely limited in the direction of their creativity. To be truly an agent involves the process of routinised, collective, social reproduction and that means there must be something to reproduce rather than create. Historical public choice theory has tried to overcome the problems of the neo-classical approach by emphasizing precisely the consequences of past institution building, especially property rights systems, political constitutions, and semi-formalised or formalised structures of rent seeking. The public choice theory of Olson, for example, emphasises path dependency and regime shifts. But the emphasis on behaviour, choice, and rationality leads to the neglect of social structural imperatives and constraints of agency and the unintended consequences of social reproduction.<sup>31</sup>

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<sup>28</sup> On the spread and power of Keynesianism see Hall, *Political Power*. Hood, *Policy Reversals*, is a general discussion of the issue.

<sup>29</sup> C/f Pusey, *Economic Rationalism*

<sup>30</sup> C/f Chandler, *Visible Hand*

<sup>31</sup> For examples of this type of approach see the contributions to Knight and Sened, *Explaining*, including North, 'Five Propositions'. Butlin, Barnard, and Pincus, *Government and Capitalism*, when examining the history of Australian economic policy, provided little real analysis of the social, political, and ideological contexts of policy changes except a general, more or less implicit, collective choice argument.

### **Adaptationist Social Darwinism**

This theory, which overlaps with rational choice, sees social change as necessary adaptations forced by exogenous shifts in the global economic environment. A dichotomy is assumed to exist between an autonomous environment of global socio-economic processes, which are impelled somehow by their own endogenous inexorability, and dependent national forms of socio-economic structure that do not have the possibility of an autonomous trajectory. The relationship to Social Darwinism is fairly obvious for the central claim is that survival depends on fitness – be fit to survive or face ‘extinction’ or at least decline into irrelevance.

The idea of socio-institutional adaptation is attractive. Its value, however, lies only in metaphorical usefulness rather than as a theory of change. Of course adaptation in a general sense occurs in the social world but the important question concerns the causes of adaptation and resistance as part of a wider theory of social change. The great mistake of Social Darwinism has always been an overemphasis on fitness, adaptation, and struggle for survival. In biology adaptationism focuses exclusively on the functions that bodily components of organisms supposedly have as parts that contribute to the survival of each organism and species. The better the adaptation or fitness of the parts or characteristics the more likely the organism is to reproduce. By closely ‘tracking’ the environment through numerous small changes, species remain adapted and so the perfection of adaptation never alters. Over long eras organisms thus remain adapted via the competitive struggle for survival. If adaptation fails to keep pace with environmental change extinction occurs. A strong adaptationist theory would say, therefore, that we can explain everything about form and function of a species or a social structure or a social organisation by its mode of adaptation to its environment. Perfect adaptation (however that would be understood) through selection or some other process is possible whenever the environment remains stable or changes very slowly. That is, the outcome in terms of form and function has no epiphenomenal component

There are three basic problems here. First, species don’t simply adapt, come what may (otherwise there would have been little evolution, which is the process of speciation), they are often extinguished, and they are rarely, if ever, perfectly adapted. In the social world the disjunctions between social ‘organisms’ and their environments can be large. Second, the implicit teleology denies contingency, chance, epiphenomenalism, and the possibility of imperfection of adaptation. In short, it denies the actuality and potentiality of history. Thirdly, the causal process is only one-way. The adapting level has no capacity to influence the environmental level. The adapting level is passive with regard to the environment. But of course in biology it’s well known that species and ecosystems mould their own environments in a process of co-evolution. In the social world, even more so, there is of course mutual interaction between levels. Structural change occurs at all levels of integration and scale and occurs to differing degrees and at different speeds.

### **A Neo-Darwinian Systems Theory of Social Evolution**

A certain kind of Neo-Darwinian social selectionist theory that avoids the problems of Social Darwinism is best able to explain social evolution for it takes full account of the historicity of social organization, in that all human behaviour occurs within pre-existing social contexts, and full account of the sources of social change at the micro level of social

systems.<sup>32</sup> This shares with rational choice theory the emphasis on the micro origins of change. In social selectionism, the idea of genotypes and phenotypes is used as a basic heuristic in the sense that it's postulated that there is a hierarchy of causal structure akin to that in organism and species in which there is a micro generative level of innovations, which are selected at the macro level. And the macro level stimulates and conditions the innovations at the macro level. Innovations arise within the micro level and some have the potential to alter the whole macro structure if propagated widely. Institutions are the population of organisms at the micro level here and the societal structure is the macro species counterpart. There are several key features of the theory.<sup>33</sup>

First, with regard to structure, distinctions are made between the micro institutional level of small-scale formal and informal organizations, markets, and practices (such as families, workplaces, firms, shops, hospitals, churches, clubs, and so on) with rules, roles, relations, and even languages that integrate and demarcate them, the intermediate levels system of political economy, and the macro levels of whole economic systems, social structures, and governance systems, and ultimately the world geopolitical and economic system.

Second, with regard to mechanisms of change, innovations arise in the only place where that can happen – the small-scale institutional organizations, interactions, and networks where people have their social interactions and live their daily work, cultural, and family lives. Human agency operates at this level. Individuals and small groups, within their organizational settings, innovate in numerous ways depending on the necessities, compulsions, and constraints that impinge upon them from their local situations and their wider contexts of politics, economics, societal structures, cultures, and natural environments. Innovations in ideas, rules, roles, and relations, are often called forth and/or demanded by governance structures but still the changes occur at the micro level. Innovations are selected in the sense of being intentionally or unintentionally adopted and spread in the wider institutional population and so through the macro structure that links and supervenes upon the population of institutions. The political and governance system (itself institutionalised) is vital for this process of stimulation, generation and then selection, propagation, and diffusion. If the innovations are significant enough they will result in macro change and so feedback upon the micro level too. There is a complex set of hierarchical and feedback relations here. The extent and effectiveness of innovations does depend crucially upon the governance regime.

Third, with regard to why the history is one of punctuated equilibrium, the answer lies in a process analogous to that of speciation. That is, the normal process of reproduction is one of replication and long-term stability of species. Speciation occurs relatively suddenly and then is followed by long periods of stability of morphology. Speciation occurs mainly by the branching of sub-populations following spatial separation from the main interbreeding population and then evolving separately. Thus speciation usually occurs through branching

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<sup>32</sup> This sketch of a theory draws on ideas and insights of Marx, Lamarck, Darwin, Weber, Runciman, Eldredge, and Gould.

<sup>33</sup> This evolutionary theory differs significantly, while sharing a similar motivation in its foundation, from that of Campbell and Lindberg, 'Evolution of Governance'. The most thorough and persuasive account of social selectionist theory is by Runciman, *Treatise, Vol II*.

and not through gradual change of a species by small degrees into a new one. Genetic drift within a species is always possible but is not usually the way that a new species arises. Environmental change can be crucial in separating sub-populations and sometimes for inducing rapid genetic change through selection. Environmental change is crucial because it operates upon the phenotype to enhance or diminish the survivability of certain innovatory organisms and alleles.

All social change, then, like all biological change, is the result of genesis, selection, and diffusion of innovations. Innovations can only actually generate and spread from the micro level but they are selected at the intermediate and macro level. The distinction between genotype and phenotype is important. It is because there is social hierarchy and differentiation at all levels that there is a process of selection that can ramify in its effects throughout an entire society. Innovations only become important when they are selected, adopted, and diffused, via the governance process. Most innovations are rejected at a very early stage because of their inappropriateness in promoting the significance and relative prosperity of certain sub-sections of the population of institutions. Social environmental change in the sense of changes at the global level originating in some part of the total system, influence other parts of the system. The governance structure (which is itself a set of institutions) operates mainly as an equilibrating mechanism and acts usually to diminish the effect of environmental change. Thus stability or stasis is normal. Major institutional change usually occurs only in response to major environmental disturbance of natural or social kinds. Innovations then are more likely to be selected, especially if the governance structure is weakened for some reason. All of this is summarized in Figure 2.

[insert Fig 2]

### **AUSTRALIA'S NEOLIBERAL TRANSFORMATION: CRISIS AND INNOVATION**

The neo-liberal transformation of the 1980s had its proximate origin in the crisis of labourist-protectionism that developed from the late 1960s. Protectionism all-round from the early 1920s had succeeded in stabilising the regime by incorporating all significant interests into the system. Crises (especially in 1926-33 and 1947-49) and attempts to innovate from left and right in ways that undermined the regime had been defeated. But the late 60s/early 70s witnessed the beginning of a significant weakening of the labourist compromise and of the nation-building role of the state. This crisis arose from a concatenation of several factors in the environment of Australia's political economy, internally and externally, ranging from world system changes, the profitability of key sectors, to social and cultural shifts. The multifaceted nature of the crisis meant that regime change became irresistible. The questions then were of the actual mechanisms of change, the timing, and the degree.

The environmental crisis had several facets. Firstly, the geopolitical and economic world structures underwent significant change in the late 60s/early 70s, largely consequent upon the weakening of American political, cultural, and economic power during the Vietnam War. The Federal Reserve loss of control of the world dollar supply sparked a world inflation surge and the floating of the American dollar in 1971 led to a partial abandonment of the IMF-regulated world exchange rate regime. Second, the underwriting role of primary exports shifted from a stable foundation to a supply-side shock in the late 60s and early 70s. Combined with the other rigidities in national policy the result was stagflation with the onset of the post-oil shock recession. Having become a major energy exporter by then (coal and uranium), Australia was in a more complex position within the world economy. The protectionist consensus began to crumble in the face of the minerals export boom and the first significant steps to reduce the levels were made by Whitlam in 1973. Third, the intellectual basis of protectionism had been eroding from the late 60s with the Vernon Report and the growing influence of American-style neo-classical monetarist economics and public choice theory and a corresponding rejection of Keynesian economics. Economic theory was being globalised. Fourth, the Vietnam involvement, anti-racist social movements, and feminism, galvanized opposition to the increasingly conservative government and a cultural awakening occurred, partly imported but also refracted through local concerns about civil liberties and war. Fifth, the White Australia policy was discredited at the governance level and a trickle of Asian migrants and, indeed, from every part of the world, began arriving, which soon turned into a flood, especially after the end of the Indochina wars. Sixth, the Aboriginal land rights issue came to the fore as the issue of the legal legitimacy of land domination by the settler state began to be raised by the surviving Aborigines and their white supporters.

Through all this the Whitlam and Fraser governments played ambiguous roles. There was certainly no sudden abandonment of the old regime in the 70s. Indeed, they can be seen, in spite of certain rhetoric and actions (such as the 1973 tariff cut, creation of the Industries Assistance Commission, the 1975 budget, and Fraser's weakening of the Foreign Investments Review Board), as pillars of regime stability. Whitlam presided over the culmination of a wage push inflation that had been gathering steam under the full employment, protected, and monopolistic economy from the late 60s. Fraser even raised the level of tariffs.

So from the late 60s through to the early 80s a set of cultural, economic, social, and geopolitical changes together constituted a significant shift in the local and global economic and cultural environments and the issue became one, in part, of how the regime would respond. Innovations in all of the cultural, economic, and social sub-structures were impacting on the governance regime of political economy. The final impetus was the early 80s economic cycle of boom and bust. Economic policy and regulation was blamed by certain economic and political elites (such as the Federal Treasury, the Reserve Bank, and the Business Council) for the failures. Those elites in turn had been strongly influenced by shifts in the ideological domain of economic and government theory.

The mechanisms of change, then, were innovations within certain key institutions in response to crisis. The nature of the institutions was crucial as was the process of selection. The adoption of the innovations depended not only on the persuasive power of the proposers but the access those innovators had to the rest of the necessary network of institutional leaders and their ideological legitimacy. That is, unless there was a sufficient

concordance between various components of the regime the innovations might well have met sufficient resistance to defeat them, at least for a time. Two essential changes had occurred previous to the Hawke/Keating reforms of 1983-86 to make it likely that the right sort of innovations would be selected. First, the social organization of the Australian economy had been shifting significantly for more than a decade in ways that were altering the foundations of the old capital-labour compromise. The end of the Fordist manufacturing system was in sight. The share of investment, production, and employment in the manufacturing sector had been declining. The core of the old settlement had been protection of manufacturing investment, protection of the incomes of unionised workers, decomposition of the work process and demarcation of craft unions accordingly. This system had reached a peak in the mid-60s. But the subsequent rise of the mineral exporting sector was, through a Dutch disease effect, undermining protectionism and reducing the economic and political strength of industry. Unions were strongly committed to maintaining the old regime.

Thus the crucial changes occurred within the leadership, rather than the membership, of the Labor Party. If the Party had maintained a strong adherence to labourist-protectionist principles the outcome might have been different. Resistance to change might have mounted, just as it did in 1928-29. But at this crucial moment of 1983 the leadership of the Party shifted from the Centre to the Right faction, which was committed to financial deregulation. These reforms were justified within party ideology by its culture of hostility to the banking cartel. Fraser had been unwilling to attack the cartel. Once some neoliberalism was admitted other reforms became easier and the Accord between the government and ACTU, which delivered social welfare improvements, further weakened the Fordist nature of unionism. Still, the reforms took a decade or more to carry through, including steps towards deregulating the labour market.

## CONCLUSION

By 2002, however, the neo-liberal revolution was not complete – some protectionism is still visible and the beginnings of a small-scale tolerance of monopolization and move back towards White Australia were visible. But the reform of markets in most spheres has a high level of political support. The system has changed extensively on the levels of the social system of production and the regime of regulation. The removal of most forms of protection for manufacturing and agriculture, extensive privatizations, implementation of a system for ensuring formal market competition in most sectors, and a degree of deregulation of the labour market, combined with a steep decline of unionization, have had a major consequence on the capital-labour relationship in the production process. Increased productivity, efficiency, and profitability have been achieved, at the cost of persistently higher unemployment and greater inequality of wealth and income and social power. The change to the formal governance regime has been very limited. The propensity of the government as such to intervene within and impose new (Keynesian-type) regulations upon the economic system has declined so that the state (through its main actors) has become both more autonomous and weaker in the sense of being further excluded from regulation and unwilling and unable to support any interest group. This is in keeping with neoliberal ideology, which now reigns supreme.

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**Figure 2**  
**SYSTEM OF SOCIAL CHANGE**

