

Saving Capitalism?
**Class Conflict, Social Democracy, and Regulation in Australia
Since 1890 and in a Global Capitalist Context**

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Strands of the Analysis of Social Democratic Welfare Capitalism

Just as Marx argued in the 1850s that the anatomy of civil society had to be sought not in understanding the state or ideology (*a la* Hegel) but in political economy, so today we need to update that and say that the anatomy of Social Democratic Welfare Capitalism should not be sought in welfare states or welfare ideologies but in regulatory regimes of political economy. More particularly, it is argued here that the connections between social democracy, capitalism, welfare states, and welfare societies is a matter of the complex history of *systemic regulation of capitalism* both in its North Atlantic heartland and globally.

This paper tries to sketch an approach to this broad issue by tying together and analyzing three related problems.¹ First, there is the problem of the origins, history, and possible futures of Social Democratic Welfare Capitalism (SDWC) as a specific, evolving form of capitalism with its own mode of regulation. Second there is the problem of how SDWC connects to and perhaps shows the probable trajectory for other varieties of capitalism in various parts of the world. And third, there is the problem of how to understand and locate the significance of the first case of SDWC in the world – the Australian case² – and which is not only the world's first example of this form but one which could be thought to have evolved significantly away from this form, unlike some later and more developed examples, thus possibly showing the future for other examples. Nevertheless, it is clear that Australia today still exhibits both significant features of Social Democracy and a degree of macroeconomic dynamism and success possibly unmatched in the Western world in recent years including during the current recession.³

In analysing the emergence, history, and structural consequences of social democracy and the associated welfare systems that were developed within the advanced capitalist regions in the 20th Century, we need to tie together the theoretical and historical themes of class conflict, liberalism, socialism, regulation, and systemic evolution to try to explain this broad historical process. A comparative analysis of varieties or types or models of capitalism is also essential in order to understand the broad development of capitalism and its long-run tendencies. Furthermore, the evolving interconnections of liberalism, socialism, social democracy, and capitalist socio-economic structure are still a practical question for policy in the advanced capitalist countries today and even more important for

¹ This the first draft of a larger paper which is in turn part of a larger project that tries to systematically examine these issues at book length. References are not well developed. There are many lacunae and much thin ice has been skated over. Critical comments are very welcome.

² The Australian case seems to be little understood and researched in the comparative social democracy/welfare state field, especially in the Nordic region. While Australia (along with New Zealand) is usually included in research on welfare states it is sometimes wrongly included in a misconstrued 'Anglo-Saxon' category that somewhat bizarrely includes Australia with UK and USA when their economic, political, and social histories are quite different. And 'Anglo-Saxon' is an outdated term, relevant only to describing early medieval England. The term 'Advanced Anglo' has some relevance for categorising the English-speaking OECD countries but which are indeed a varied lot when you consider the group includes New Zealand and the Irish Republic as well as USA. Comparisons of Australia with New Zealand, Canada, Argentina, Uruguay, and Chile, make more sense in some important respects as all are post-settler, immigrant, societies which developed various degrees of social democratic movements in the early 20th Century but which also had divergent histories in very important respects later.

³ The Australian economy in 2008-2009 has not yet experienced a recession and if it does it will be the shallowest in the OECD area. Of course the Australian economy has special features not shared by most other OECD countries (cf Lloyd 2008a) but perhaps this is not sufficient to explain its relative success. Another interesting feature today is that Australia has one of the most avowedly social democratic Prime Ministers in the Western world, who argues vigorously, unlike few social democratic leaders elsewhere in 2009, for a re-invigoration of social democracy, which is proving very popular with the Australian electorate. Cf Rudd 2009. Of course we must always distinguish between rhetorical and ideological form and actual substance but so far the Rudd Government has delivered on its campaign promises to reform in a social democratic direction important aspects of the industrial relations, education, health, welfare, immigration, indigenous, and infrastructural spheres.

former communist countries, Latin American countries, Asian capitalist countries, and for emerging capitalist systems in Africa. A historical perspective on this set of issues is essential for an understanding of the present and for future strategies.

A central theme concerns the long-run stability of capitalist systems in general and of particular types, which is essentially about their formal and substantive regulatory structure. Stability has always been a problem for capitalism, beset as it is with cycles and periodic depressions, and the analysis of the organisation of capitalism by various regimes of regulation has been an essential task for understanding this instability. Regulation is a part of social systemics and of the ways in which social systems maintain their integrity and continuity against their own tendencies to dissipation and chaos. We can analyse the history of capitalism, then, as a dynamic complex structure of regimes of regulation of integrated systems and sub-systems that all derive their fundamental dynamic from the imperatives of capitalist accumulation and maintenance of systemic stability, neither of which are straightforwardly linear nor predictable. The history of capitalism and its variations reveals a non-teleological process that is full of contingency at many moments.

Has Social Democracy Saved Capitalism? A First Discussion

The particular question of the function of social democratic ideology and governance in 'saving' capitalism from destructive internal and external forces has been central in the discussion of the consequences of SD and the evolution of capitalism from the late 19th Century and continually ever since. The chief criticism of SD from both left and right has been that it's a failed agenda in its own terms either because it has compromised too easily with capitalism and so has not even seriously attempted to transform it in a socialist direction or it has produced an inefficient and bureaucratic state with quasi-authoritarian tendencies that has undermined the accumulation strategy and therefore the dynamism of capitalism, in contrast with the laissez-faire, liberal-democratic (or neo-liberal) strategy.

The question of the connections between Socialism, Democracy, and Capitalism arose from the mid-19th Century when these very concepts of 'Capitalism', 'Social Democracy', and 'Democratic Socialism' were developed, largely by Marx and Engels in Germany and to a lesser extent by Louis Blanc in France. In their early writings Marx and Engels theorised and argued that socialism could not be achieved except by the revolutionary overthrow of capitalism and this was going to happen because of the developmental logic of industrialisation that would convert most of the people of the world into disenfranchised proletarians. Socialism was seen as the antithesis of capitalism. Democracy in this connection meant the democratic will of the majority as achieved through the uprising of the working class against their oppressors. Only later, towards the end of the 19th Century, with the emerging success of liberalisation and enfranchisement, due in large part to agitation by subordinate classes within Western Capitalist countries, did the issue of peaceful electoral politics enter centrally into the debate over the tactics to be pursued by the socialist workers movements. It was then seen by many, including Marx towards the end of his life and particularly by Engels, Bernstein, and Kautsky in the 1880s and 90s, as a strong possibility that socialism of some kind could be achieved through electoral seizure of power where the suffrage permitted working class parties to rise to dominance in the advanced capitalist countries of western Europe, North America, and Australasia.

It is easy to speculate that this socialist electoral dominance and at least a partial transformation of capitalism may well have happened in parts of northern Europe, given the rising trajectory of electoral success from about 1907, by the second decade of the Century. Of course the strength of Bourgeois reaction might have precipitated a violent confrontation at that point. But the First World War changed everything in all the advanced capitalist regions, including greatly widening the split in the workers movement globally between revolutionary and electoral strategies. Social democratic parties in the main western combatant countries more or less officially supported their national governments and the Second International dissolved along nationalist lines. It was not until the 1930s in a few places and mainly after the Second World War that social democratic governments became a central, even dominant, part of the political economy of Western Capitalism, in a context that included the division of the world into Communist and Capitalist blocs. Then, having achieved power, their socialist agendas were

considerably less radical than they had been before WWI. The Bolshevik Revolution and failed communist revolutions elsewhere in 1918-22 and the rise of Fascism pushed the Social Democrats everywhere into a conservative, stabilisation direction. The achieving of government and even hegemony in some places transformed Social Democrats into managers of capitalism.

Thus before considering all varieties of capitalism, we must first ask did Social Democracy save *Western Capitalism* from economic collapse and revolutionary overthrow? Yes, it can be argued; it has turned out that *Western Capitalism's* best friend is Social Democracy! Without its friend to save it *Western Capitalism* might have been destroyed by its own weaknesses and contradictions and internal enemies, especially the revolutionary working class, and externally by militaristic Fascism. This is just as the opponents, especially anarchists and communists, of electoral and class compromise argued in the 19th Century and later. The 'historic mission' of Social Democracy (SD), it seems, has been to defend and reform *Western Capitalism* as a system of political economy and in turn become part of the essential structure of capitalism itself. Taking this a step further, it can be argued that SD has in fact become the constructive developmental tendency of *Western Capitalism* itself such that destructive contradictions were neutred and perhaps largely removed. Is this developmental tendency inherent within all capitalism and will it manifest itself throughout the world eventually?

This argument can be taken too far, however, for we do not yet know whether in fact SD has removed or merely hidden or papered over the corrosive and even destructive contradictions of *Western capitalism* and we will never know this with any certainty unless there is a serious revolutionary moment again, more serious of course than 1968-69. But we do know that all socio-economic systems are inherently unstable to a greater or lesser degree – they contain a dialectic of their self-transformative nature (to use a Hegelian/Marxian mode of thought) or they are autopoietic but chaotic and so have a capacity to transform more or less rapidly into a quite different state (to use systemic-evolutionary concepts) – and so it should never be assumed that, *a la* Hegel, the process of history has ground to a halt. But whatever happens next in *Western Capitalism*, or anywhere else for that matter, it has to happen from the *presently-existing* context of SDWC, not from some earlier 'starting point' of the relationship between SD and capitalism. SD is a real force in the world as a whole still and is an essential part of all debates about the contradictory nature and future of all capitalism, wherever they occur.

In the end, then, we cannot give anything approaching a definitive answer to the question of whether SD 'saved' *Western Capitalism* but we can explore the issue historically conceptually, and theoretically to try to understand the evolving connections between capitalism, socialism, and liberal democracy.

Economic, Social, and Political Conditions in the Emergence of Social Democracy

In the 19th Century, in its homeland of Germany, social democratic ideology and its political expression were conceived as a revolutionary workers project of transforming capitalism into socialism. Marx and Engels set out their understanding of the necessity of revolution in *The Communist Manifesto* of 1848. While they were personally and intellectually influential in the whole history of the development of socialist organisations, theory, and ideology in the period from then onwards until the 1890s, they were far from influential in the program that was produced by the unity conference of German workers organisations, held at Gotha in 1875, that founded the German Social-Democratic Party. Marx wrote a powerful and destructive critique of the Gotha Program, especially for its failings in understanding the nature of capitalism and the necessity for a revolutionary transformation, especially in the autocratic circumstances that confronted the workers movement everywhere at that time. In 1891, however, the program was replaced by the Erfurt Program, a quite different document produced under quite different political and economic circumstances. The anti-socialist law of the Reich had gone as had Bismarck. The 1891 Program has to be read as falling within the reformist, democratic tradition that we subsequently associate with social democracy rather than revolutionary socialism. One of the authors was Eduard Bernstein, a chief architect of the 'evolutionary' or gradual and democratic route to socialism. That is, we can argue that liberalisation was significantly

altering the context in which socialists were developing their ideological and political strategy to ‘accommodate’ (if that is the correct term) to the reality of capitalism as a maturing economic system in the late 19th Century. Of course we know that the ‘maturity’ of capitalism varied a good deal and was rather incomplete in Germany with its large landlord, peasant, and small business (or petit-bourgeois) classes. In the depths of the Great Depression the cross-class alliance that had developed during the Weimar Republic between Social Democrats and certain liberal capitalist interests was completely eclipsed by both leftist and rightist revolutionary, anti-democratic, movements. In the United States, on the other hand, a cross-class alliance, in effect, secured the New Deal, one of the world’s most advanced social democratic welfare regimes up to that that time.

The troubled history of social democracy and social welfare systems in capitalist industrial countries during the period up the Second World War was largely a consequence of the balance of class power, the strength of anti-socialist forces, and the trajectory of capital accumulation and economic development by that time. Industrialisation was still spreading and the agrarian context of economic development was till a significant component in national economies and societies. Class ideologies and politics were still those of semi-industrialised contexts in many places, especially central and southern Europe. The Great Depression was a transformative event in most places – leading to a rise all at once of socialist or social democratic strength, communist strength, and fascist strength, to varying degrees. Popular movements were roused and political conflict grew. Social democrats were the beneficiaries of this political awakening to some extent, notably in Scandinavia and the United States. In some places, especially central Europe, they were crushed by Fascistic, anti-democratic, reaction.

The development and maintenance of Liberal constitutions and electoral politics has always been an essential foundation for the emergence, survival, and success of social democracy / democratic socialism and indeed such constitutions have often called forth a SD response under certain conditions. This seems like a truism but it’s worth emphasising that when we consider the long-run history of SD politics and SDWC, entrenched democracy not only permits but seems to lead to the emergence of *social* democracy because of the electoral strength of those classes in certain economic circumstances. That is, working class strength and progressive ideology can only be electorally significant when the balance of social classes make such outcomes from elections possible. Marx was very clear about this when he criticized the 1875 draft Gotha Program for failing to understand that universal suffrage at that time would not have resulted in a social democratic government for the balance of class forces was very undeveloped compared with what it later became. By the 1890s, the German social democrats could glimpse a future when the working class electorate would indeed be a majority and the steady rise of voting strength that they and other parties experienced up to 1914 bore this out. Economic development was thus the other key to the rise of SD success because of the social structural foundation that it produced. We see the significance of these two foundations in the world today as SD spreads to other places or is prevented from spreading.

Towards Corporatist Class Compromise

Let us be in no doubt as to the significance of class conflict in the 19th and early 20th Century industrialising world. The working class that had been born out of capitalist industrialization everywhere was organising and conflicting with organised capital and authoritarian states. The fundamental demands of the earliest working class organisations – labour unions of various sorts – was for improved wages and working conditions (especially safety) and employment rights, especially the right to organize. This right was non-existent more or less everywhere and was only achieved gradually in some places as the 19th Century neared its end. That is, unions of workers were the foundation of the workers movement and the principle of solidarity was foundational of unions. The achievement of this basic right and organizational structure was co-developed with the aim of collective bargaining. Only by collective bargaining could workers begin to change the very unequal power balance within workplaces. Thus collective bargaining on an increasingly larger scale was always the central aim of union leaders. Social democratic political parties, which were closely associated with unions, fought to achieve political power in order to achieve labour rights, among other aims. Class compromises of workers

with certain capitalist interests predated SD governments and were consolidated when SD governments came to power. These corporatist cross-class outcomes were the result largely of class conflicts within workplaces and in the wider society.

The development of workers movements was most advanced where capitalism was most developed in the second half of the 19th Century. Capitalist development, especially industrial development, gave birth to the industrial working class as a new social and political force in human history. But industrial capitalism was not really necessary to engender *working classes* with class conscious solidarity in a wider political sense. One of the most advanced in the sense of capitalist development and working class organization was Australia but its special form of capitalism – Anglo settler capitalism – in the 19th Century did not develop in the same way as European capitalists economies – as a manufacturing-led development. Industrialisation was later than in Europe and United States; rather it was through a capital-intensive, large-scale, resource-extractive development that was based on agriculture and mining in a labour-shortage economy with high wages, that Australia became an advanced, rich, urban society with a large working class. (see next section) It was there and in New Zealand that formally instituted quasi-corporatist class compromises were brought into being in the 1890s. In both cases the chief initial instigators were social liberals who were concerned about the social destructiveness of class conflict. The industrial working class was very little developed in New Zealand but it was militant in a few places. The role of small farmers and urban liberals was crucial in the establishment of early forms of corporatist collective bargaining, especially via state-established conciliation, arbitration, and wage setting institutions in the 1890s and collective marketing schemes for agricultural produce in the 1920s. In Australia the working class was more highly developed and conscious by the 1880s and many powerful unions had formed. Liberals were also prominent in the colonial parliaments.

It used to be said in the early 20th century, and more recently with a reminiscent tone, that Australia and New Zealand were social laboratories, experimenting with new forms of social organization and institutions that were designed somehow to resolve the fundamental problems of class-divided, unequal, capitalist societies. This antipodean new world, free from the constraints and legacies of old world social structures and ideologies, was supposedly able to more freely experiment with ways of organizing and regulating the socio-politico-economy.⁴ But, as elsewhere in the capitalist world, class conflict lay at the heart of Australia's 'experiments'.

The 1890s Australian class conflict and the emergence of the first social democracy

After the gold rushes of the 1850s and reinforced by successive natural resource export developments Australia was the richest society per capita in the world. The highly prosperous settler economy had emerged as a peculiar mixture of *laissez faire* and "colonial socialism" with its development of a rudimentary "provider state" model out of the foundation as a penal service economy for the British Empire. The integrated public/private economic and state structure continued as a path dependent institutional arrangement well into the 20th Century and its echoes can be discerned still in culture, ideology, and institutions.

The resource-extraction and commercial economy of the 19th Century needed and generated a large urbanised service sector of finance, land transport, shipping, education, construction, and associated urban services. The largest industrial sites that developed in the late 19th Century were mines, railway workshops, ship building, public building construction, farm and mining equipment manufacturing, and textiles. These sectors, as well as rural workers, were becoming significantly unionised by the 1870s and 80s, in a context of union legalisation from the 1830s and universal male franchise from 1854.

⁴ One of the classic discussions of this process was by William Pember Reeves in *State Experiments in Australia and New Zealand* (1902). Reeves was a member of New Zealand's parliament and a government minister before moving to London and later became a friend and associate of prominent Fabians such as the Webbs, Shaw, and later H G Wells. He was Director of the London School of Economics from 1908 to 1919.

By the 1870s a chief policy preoccupation was of how to generate employment for the highly urbanised population and immigrant inflow that was dependent upon the very productive, efficient, but labour-shedding resource export sector, which was itself highly dependent on world market prices. Like all resource-dependent (or resource-cursed) rich economies at that time (or since), the problem was of how to transfer the export wealth into a diversified and developed urban economy and society. Thus government policy centred on protection of manufacturing in most colonies (except NSW, whose politics was dominated by free trading pastoral and mining interests) and the nascent labour movement concentrated on trade or craft unionism as the means to redistribute the benefits of national wealth into high material living standards, especially for skilled workers. Labourism⁵ was a successful strategy in its own narrow terms while ever the economy delivered full employment, expansion, and surplus wealth for redistribution.

Thus Australia, as with all advanced western capitalist countries, developed a strong workers movement in the second half of the 19th Century. This organized movement took the form almost exclusively of labour unions based on crafts and trades. This model of organisation grew out of the British legal and socio-economic background of liberalisation and craft guilds. Before the direct formation of a political party by workers, consciously working class voters tended to support social liberals.

However, the severe economic and social crisis of the early 1890s depression, in which occurred a series of bitter and protracted strikes, verging on organised armed conflict in places, and a collapse of almost the entire banking system, shook this 'paradise' to its foundations and became an epochal moment in Australian political economy and society. From this period of severe class conflict sprang the Australian Labor Party, centralised industrial relations regulation, women's suffrage, Federation of the Australian states, nationalistic culture, and, by the early 20th Century, a coherent new general regime of political economy that aimed to 'civilise capitalism' away from the causes of the financial, industrial, and social turmoil and degradation of the 1890s.

The defeat of the strikers and of their power to enforce closed shops and collective bargaining by a combination of employer associations and state power, in a climate of severe unemployment in 1890-94, motivated unionists and some liberals to believe that the capitalist economy could not be ameliorated by union power alone in the interests of working class prosperity whilever the state was controlled by nakedly capitalist interests. Unlike some other parts of the industrialising world at that time, the only strategy they developed was one of organised political mobilisation for governmental capture via *electoral strength* in the expectation of then using state power for labourist outcomes. This was a resolutely reformist rather than revolutionary strategy, led by and controlled by unions who were focused on bargaining over wages and conditions within a liberal democratic society. Labour unions were hegemonic in organising the working class. No significant space for extra-union political organisations opened in Australia during the long boom of 1860-1890 nor during the bitterness of the class conflict of the 1890s and no form of unionisation other than craft and trade unions were able to gain a significant foothold in the labour landscape. The colonial Labor Parties that were formed in the early 1890s were always the creation of the unions. Union leaders were on the whole imbued with a post-Chartist and labourist ideology of economic justice and egalitarianism via workplace struggles.

When it became clear that the greatly altered labour market conditions in the depression of the early 1890s would prevent the militant closed shop strategy from succeeding, the unions saw an advantage in an electoral strategy to try to legislate for national and industry collective bargaining via state institutions that would have the power to enforce agreements

⁵ Labourism refers to the strategy of organised labour concentrating mainly or wholly on wages and conditions of work rather than wider political and social issues. In a context of universal malehood suffrage from the 1850s, secret ballots (the 'Australian Ballot') and legal unions, the constitutional battle had been won to the satisfaction of most workers and liberals. The issue was then how to share the spoils and to deliver a kind of 'working man's paradise'.

and protect workers from predatory capitalists. The almost immediate influence of Labor Parties at the colonial (state) level initially and later at the Federal level after 1901 meant that centralised industrial relations in the form of state institutions for conciliation and compulsory arbitration were legislated in coalition with so-called 'Harmony Liberals'. The Liberal ideology centred on the role of the state in providing welfare and justice in the interests of social stability at the same time as protecting the economy and society from harmful external forces of economic, social, ethnic, cultural and geopolitical power. This kind of 'liberal interest' dominated most Australian states and the early Federal Parliament and was able to form a more or less united Lib-Lab front with Labor against large landed, mining, and foreign industrial interests until 1908. The free trade, *laissez faire*, interest was not able to command significant support until the 1970s and always remained subservient to liberalism within the united anti-Labor coalition until the 1980s.

With the formation of Labor Parties in the pre-federation independent colonies from 1891, then, there was an immediate sea change in the electoral landscape. The Labor Party and independent labor candidates together polled 21% of the vote in the New South Wales election of 1891 and 22% in 1893.⁶ The Labor Party was formed by the trade unions who wished to capture political power in order to advance the causes of workers rights, egalitarian redistribution (especially via wage maintenance), collective bargaining, and employment security by capturing state power via the electoral process. This social democratic agenda placed the Australian Labor Party (ALP) squarely within the world-wide social democratic movement of the late 19th Century.

This early and continuing success of the social democratic workers movement was the world's most advanced in the electoral sense. The world's first social democratic Governments were elected in Australia before the First World War.⁷ In the 1910 election the ALP scored 50% of the vote. The Fisher Labor governments of 1908-1909 and especially the majority government of 1910-13 were able to legislate more of the Party's social democratic program including formation of the Commonwealth Bank (a government-owned 'peoples' bank'), maternity allowances, workers accident compensation, and improvements to invalid and aged pensions. The First World War, however, had a major deleterious effect on the Party, causing a split in 1916 on the issue of conscription for the war. The 'right wing' minority faction of the Party, in favour of conscription, split to form a government with the conservatives, forcing Labor out of office. But the two conscription referenda were lost and Australia remained the only major participant in the war to have an all-volunteer army, which numbered over 400,000 soldiers by 1918. Social and industrial conflict was also greatly engendered by the war involvement and in 1917 a virtual general strike occurred.

⁷ It is usually reckoned that the first elected working class government in the world was in Queensland in 1899. After Federation the first national (but minority) Labor Party government was in office for four months in 1904. In 1908 the unofficial Lib-Lab coalition of Alfred Deakin dissolved and Labor took office, prompting the centre-right groupings of Protectionists and Free Traders to coalesce under a Liberal Party banner.

Australian Labourist-Protectionism and the Centralised IR System

The Court of Conciliation and Arbitration enacted by the Federal Parliament in 1904 was a key component of the Lib-Lab strategy, along with industrial protection, White Australia immigration policy, and social welfare provisions, many tied to employment, to regulate capitalism in the interests of Labourism and social harmonisation. Elsewhere, this has been described as the ‘Labourist-Protectionist’ regulatory regime of political economy.⁸ At the time Liberals and Labourists believed they were creating a working-man’s paradise.⁹ The role of the state as economic and social mediator and protector was, then, a key dynamic in Australian public policy since the beginning of the Federation in 1901 and the centralised industrial relations system has more or less survived until the present although in greatly altered form.¹⁰

The so-called “Australian Settlement”¹¹ that had emerged in the first decade of the 20th Century, especially during the time of the Fisher Labor Governments of 1908-09 and 1910-1913, had certain features of later social democratic regimes in other places so the question arises of the status of Australia as an early (perhaps the first) form of Social Democratic Welfare Capitalism. This issue is germane to understanding the present and future prospects of social democracy in an Australia that has supposedly become a model of regulatory capitalism of a post-social democratic and post-neo-liberal kind. (more on this below)

Was Labourist-Protectionism a form of Social Democratic Welfare Capitalism?

As Frank Castles has argued at length, a “wage-earners welfare state” emerged in Australia in the first decade of the 20th Century.¹² This was based on the centralised industrial relations system, which was underpinned by a culture of fairness, egalitarianism, harmony, and redistribution via the wage bargain and its associated welfare implications. Full employment and very high male labour force participation were essential to maintaining the best outcomes from the system, which was supplemented by an increasing range of state-provided welfare measures. Was this form of welfarism a special kind of social democratic welfare capitalism?

Social democratic welfare capitalism can be conceptualised as an idealised abstraction from a combination of empirical description and generalisation from actual cases of capitalism that is defined essentially by the following features.

- The government/state/market relationship is one in which the establishment of equality, justice, efficiency, and investment is a public/private co-operative developmental project requiring a degree of national planning, or at least agreement about key goals, and Keynesian-type fiscal policy to ensure full employment. Corporatist consensus and co-operation (but not authoritarianism in any strong sense) by capitalist, labour, and civil society interests are significant underpinnings that are mediated via pluralistic parliamentary democracy.
- Regulation of industrial relations via state-established or state-supervised collective bargaining at industry and/or national level which aims to civilise or institutionalise

⁸ Lloyd 2002, 2003

⁹ See the ironic discussion of this in Fitzpatrick 1941, p 265.

¹⁰ By the early 1920s a powerful consensus had emerged around labourism, the centralised IR system, protectionism, and organised rather than free markets. The attempt by the conservative Bruce Government in 1929 to undermine or destroy the centralised system resulted in his disastrous electoral failure. The full expression of protectionism was later called “protection all-round” in the 1950s and 60s.

¹¹ The idea that a “settlement” or historic compromise around protectionism, collective bargaining, and arbitration occurred in Australia in the early 20th Century has been much debated but there is no space to examine that debate here.

¹² A good summary of Castles’ argument is in Castles 2002.

conflict, maintain and raise standards of living and work for workers and families, equalise standards throughout the society, and reduce societal inequality.

- Extensive social welfare provisions that rely upon a provider/investor/redistributive state.
- High and progressive taxation at sufficient levels to maintain a capacious state for provision of welfare and investment and maintenance of public infrastructure.
- Provision of welfare, services, and investment activities from a social/market mixture that aims at allocative efficiency within an egalitarian and inclusive framework.

Like all models of capitalism, there are both conceptual difficulties with this list and, moreover, insofar as there are real world instantiations of the model, contradictory tendencies within SDWC political economies and societies. Nevertheless, the model is capitalist rather than socialist in any strong sense that verges towards communism, in the sense that private property is still dominant, private investment and consumption decisions are paramount, the capital/wage labour relationship is the dominant form of economic exchange, which remains fundamentally unequal; and capital accumulation from private profit still drives the behaviour of the owners of capital. But the public, non-profit sector can be as large as the private sector and the level of taxation and the size of the public (non-profit) sector can be at least half or more of all economic activity. This rough equality of socialised and privatised sectors is a hallmark of social democratic welfare capitalism in its most developed form. And, furthermore, it is important to emphasise the role of liberal democratic processes in organising the society although some liberals have always criticised the relative lack of individualism, personal freedom, and public criticism of the fundamental institutional structure of consensus and co-operation.

Compared with other models of capitalism historically and contemporaneously, SDWC places definite limits on the power of capital but in some places where it has been developed it's clear that capitalists have not only been happy to co-operate with social democratic states and labour interests but have been very comfortable with a lack of market freedom. Protectionism, tolerance of cartels and monopolies, and market distortions of various sorts have obviously not undermined the rate of return on capital and that rate has been important to the public/private investment climate.¹³

Australia in the early 20th Century had some of these features in a rudimentary form and the rhetoric of the time by Liberal and Labor thinkers was that a consensual society was being built, partly as a deliberate response to the conflicts of the 1890s. The class-divided society could be ameliorated and a new kind of society built by institutions created precisely for that purpose, most notably:

- centralised collective bargaining and enforcement through the Court of Arbitration and its radical Harvester Principle of 1907, which directly linked industrial protection, employment, and high wages in a redistributive welfarist strategy;
- the Commonwealth Bank as a 'people's bank' that ensured and mobilised savings for national investment via government bonds and acted as an implicit regulator of the private banks;
- welfare provisions such as the baby bonus, old age pensions, and compulsory accident insurance.

The idea of the state as provider, redistributor, and regulator was firmly entrenched in Australia and the vigorously democratic politics was largely a contestation over controlling the state in order to refine its interventionist capacity. Thus Australia exhibited some basic features before the First World War and more so in the 1920s of what developed into a more all-encompassing structure in northern Europe in the post-war decades. But the settler capitalist foundation, the continuing dependence on resource exports for wealth creation, and the Anglo-Liberal ideological and cultural tradition blunted the social democratic agenda compared with Europe in later decades. A good case has also been made by Castles and others (Castles and Uhr 2002) that social democratic agendas are difficult to advance in federal polities where there are many regional interests and a state-rights ideology that resists federal power. The Australian Senate, like the United States Senate, is a very powerful chamber and so is able to give effect to state and local interests.

¹³ cf Swenson 2002

Labor Party government programs in Australia have often been stymied by hostile Senate majorities, the present Rudd Labor Government being no exception.¹⁴

Furthermore, the negative side to this Australian model, much debated in the 1920s and perhaps shared by other SDWC states to varying degrees, was about the growing inefficiency and non-viability of the protectionist framework, by then encompassing all sectors of economy and society. The comparative lack of interest by most governments in promoting efficiency via competition in any market came to a head in 1928-29 with the defeated attempt to undermine the centralised IR system. The depression of the 1930s temporarily derailed the wage-earners welfare system but the full-employment war economy of 1939-45 and the ideological framework of Labor after the Depression and war experience, of national planning and nationalisation of key economic sectors, including banking, promotion of full employment, and improved social welfare system, looked set to move the SDWC model to a new level in the post-war era. The failure to move to this new level of a more mature form of SDWC can be attributed in part to the federal constitutional structure of Australia, which has limited the capacity of national governments to carry through extensive social democratic reforms because of both the limited jurisdiction and incapacity of federal governments to persuade all sectional interests to co-operate. The hostility of the High Court in 1947 to Labor's nationalisation of banks was a good example. Furthermore, a majoritarian, two-party system and Senate obstructionism has always meant the centre-left struggles to gain office and use it effectively for major reforms that threaten capitalist interests. The loss of office of the Labor Party in 1949 and its continuing inability to overcome a gerrymandered electoral system and a Cold War ideological battle until 1972 meant that 23 years of conservative rule placed any further significant development of the welfare state into abeyance. But the conservative coalition governments did maintain the status quo of Labourist-Protectionism more or less intact (thus conforming their commitment to the status quo or path dependency of the labourist-protectionist regime) so that by the time Labor came back in 1972 there was a foundation to build on and a strong program of reform in their platform. The Whitlam government (1972-75) moved in many ways to bolster SDWC both economically and culturally, including national medical insurance and public physical infrastructure, despite frustration by a hostile Senate. But the program was just beginning when the global recession of 1974 removed the social democratic ground from under the government's feet and a hostile Senate forced the government to an election that it lost in the recession climate.

Towards a Critical History of Social Democratic Welfare Capitalism

So, as the case of Australia in the 1880s and 1890s illustrates, in the late 19th Century there began to emerge in a few industrializing capitalist countries new forms of state-provided or state-organized social welfare provisions that went considerably beyond older forms of charitable church and state relief systems. Why these bourgeois governments felt the necessity to introduce these measures in that context and at around the same time as liberal democracy was spreading to new sites from the few places in which it had been achieved in the mid-to-late 19th Century, is a crucial question for understanding the origins and historical evolution of Social Democracy and the special form of capitalism that it was partly responsible for structuring as the 20th Century went on. Of equal importance is the development of new organisations of the working classes which, through their conflicts with the bourgeois classes and their state instruments and allies, developed a socialist consciousness of some more or less well developed and coherent form. Socialist thought and ideology, an older tradition but without a firm social base, became embedded in these organisations and took an increasingly democratic form as the 20th Century went on in all economically advanced countries. That is, working class socialism, where it was not dominated by violent revolutionary hostility to capitalist (usually autocratic) states, which it wasn't in the advanced West, became integrated with democratic impulses and egalitarian justice after the 1890s. From then new forms of regulation of capital via not

¹⁴ It was said of the Scullin Labor Government of the early 1930s, which was attempting to implement a progressive and even radical (for the time) Keynesian-type or New Deal-type of depression policy that, lacking a Senate majority, it was "in office but not in power".

just welfare systems but corporatist industrial relations and progressive taxation, began to develop.

Social Democratic Welfare Capitalism (SDWC) is a product, then, of the history of developed western liberal states under the strong influence of working class and sympathetic liberal organizational pressure and implementation in the 20th Century. This development, as the decades went on, came about and was supported irrespective of whether it was constructed by self-designated 'social democratic' governments or governments of other colours, such as Christian Democratic, Liberal, Agrarian, and even Conservative. That is, building and supporting SDWC, or, to put it better, regulating capitalism to produce a SDWC structure, became the hegemonic, convergent project of all advanced Western states in the post-WWII decades, on which more and more countries and political parties converged. To be sure, the actual structure and regulatory form and content of the Social Democratic Welfare regimes differed a good deal and by degree of comprehensiveness of state involvement in economic activity and market regulation and by other culturally-embedded processes of reform and regulation. But these country-specific regimes have had a history, collectively, of convergences and divergences and again convergences around certain fundamental features that together distinguish this form of capitalism from quite different structures in other times and other parts of the world contemporaneously. And SDWC has not been transformed out of existence during the Neo-Liberal era since the 1980s.

To construct a critical history of SDWC it has to be analysed, as indicated at the beginning of this paper, from several perspectives, including, firstly, how it compares with other varieties of capitalism on a global scale. Much of the literature and debate on varieties of capitalism has not succeeded in fully analysing the wide range of forms that capitalism has taken and exhibits today. The genus 'capitalism' has many species and sub-species and its history since the 15th Century, or earlier, can be theorized and analysed as a complex evolutionary pattern. There is much contention about these issues in the varieties of capitalism literature. Within the political economy of the advanced western nations today SDWC is but one of several concepts of capitalism that are employed, other main ones including being Liberal Democratic (or Neo-Liberal) Capitalism and Regulatory Capitalism. These are concepts that apply largely to but not exclusively to Western Capitalism. Thus the second major perspective of an analysis of SDWC has to do with how the other global forms of capitalism might evolve and whether SD is a central or even possibly inevitable developmental tendency within them as well. Cutting across these two perspectives is a set of conceptual/analytical issues about how capitalism of all kinds should be theorised and analysed.

Towards a Theory of Types of Capitalism and Their History: A Possible Regulatory-Regimes and Historical-Evolutionary Framework

Systems theory and evolutionary theory should be essential elements of a historical theory and account of the complexity of capitalism, past, present, and future. Theories of social systems provide models of structure, modes of integration, modes of equilibration and regulation, and modes of dynamism. Capitalism as a social system has been much examined via this kind of perspective¹⁵ but much work needs to be done. These kinds of approaches are quite different from rational choice/public choice approaches to political economy for they concentrate on studying not the choices made by policy makers nor even mainly the *formal institutionalisation* of choices but on the *substantive structure* of socio-politico-economic systems, *al la* Polanyi's approach, from which he drew inspiration from Marx.

¹⁵ Talcott Parsons was one of the first and again influential exponents of a political economy-systems approach. In recent times well developed systems approaches have been made by the French Regulation School and by Bowles and Gintis and colleagues at the Santa Fe School. Chief intellectual influences on these recent approaches have been Marx, Weber, Polanyi, and recently neo-Darwinism.

Substantive political economy, then, concentrates on the structural/regulatory composition of forms of capitalism – the interconnections between the social structure of society and material production, the managerial organization of the economy and society, the governance system, the culture, and the political-ideological system and processes. Together these dimensions can be understood as being ‘held together’ as it were, by a regulatory regime. The evolution of these regimes can be studied with a neo-Darwinian theory that examines the processes of innovation, selection, and diffusion of structural changes. Neo-Darwinian theory directs attention to the micro/macro distinction between generative structure and phenotypical archetypes, the population of organisms of the same species, and to the variation of ‘species’ within a genus. SDWC can be understood as a ‘species’ of capitalism which has a population (the various countries of the advanced western world that share versions of SDWC), within the genus of capitalism that has produced a bushy pattern of variation since the 14th and 15th centuries. Of course social evolution is quite different from natural evolution in one fundamental sense – the power of social learning, especially with regard to innovations. Nevertheless, the significance of agency at a micro level is crucial. Social agents include individuals, small groups, and social classes composed of individuals and groups that act in conscious organised concert. They are the source of generative innovations.

Evolutionary theory and historical enquiry must be employed together to study the real processes of contingent evolution of social systems. The long-run history of social systems exhibits a punctuated equilibrium pattern, as with systems of many kinds, and the ‘genus’ capitalism that has exhibited a dense bushiness of species divergence over the past 500 years or more shows a pattern of convergences and unifications, unlike processes of natural speciation.

In the history of capitalist regulatory evolution, then, there has been a great deal of historical complexity of the patterns. The process of globalisation of capitalism has been both a long-run tendency of divergence and more recently a tendency of convergence through social learning, among other forces at work. Consequently, much attention has to be paid to the ways in which Western Capitalism, especially, has converged on a common regulatory system during the past century with the corresponding similarities of structure and cycles. The convergent era of political economy in much of the developed western world since the late 1970s/early 80s has been characterised as ‘regulatory capitalism’ by Levy-Faur, Braithwaite, and others and contrasted with the postwar era that preceded it. According to this reading, in the period from the 1970s crisis of the social market economy and provider state, until the early-1990s, states unwound their ownership of key assets and their market controls in favour of ‘neo-liberal’, ‘de-regulation’ solutions to stagflation problems in order to promote efficient markets and rational (i.e. marketised and individualised) allocation of social as well as private goods and services. But after the global recession and collapse of communism of the late 80s/early 90s, states began to facilitate a *formal* institutionalisation of the self-regulating system of free market regulation. This brought into being not so much a regulatory state system as simply ‘regulatory capitalism’ as a formally self-regulating system of markets and behaviour. The state’s agencies also became formally regulated, at least in part, by this private/public mixed regulatory system. Thus the distinction between state, capital, and market dissolved somewhat. We can call this whole process “the rise of the regulator”. Jordan and Levy-Faur have compiled some significant data to show this rise ¹⁶, which helps give the lie to the claim that the period since the mid-1990s has been a neo-liberal one in the sense of unregulated market freedom. The global currency market and the New York financial bubble have been exceptions rather than typical of market regulations and the Plaza and Louvre Accords of the 1980s seem to be from a different era of attempted currency reform. But the financial crisis of 2008-09 has occurred in spite of seemingly strong regulatory systems in many countries. This is a clear indication of forces at work in markets other than formal regulation.

Thus, from the different point of view advocated here, whatever conceptualisation we make of the post-1970s era in *formal* political economy, we should approach the history in

¹⁶ See the Preface to Braithwaite, 2008, where this data is summarised

terms of the evolution of the complex interconnections between formal and *substantive regulatory systems* of political economy¹⁷ or, to put it in more detail, of the complex relations between public policy and rule-making, privatised self-regulation, private investment decisions, and the longer-term and deeper path dependencies of cultural, economic, social, and institutional history.¹⁸

Conclusion: Has SD Saved Capitalism? Towards a More Thorough Answer

So, to answer this question more thoroughly and convincingly we need the sort of framework this paper is advocating. To put it another way, to examine why capitalism as a socio-economic system has survived in the 20th Century and indeed has spread to the whole world, vanquishing all other socio-economic systems such that there is now a global capitalist system without even any other socio-economy systems subordinated within it, in spite of the powerful enemies it engendered from the late 19th Century onwards and the existence of a communist bloc for many decades, requires a combination of systemic analysis and historical enquiry. Most importantly, the socialist workers movement not only failed in its original aim of transforming capitalism in its most developed heartlands but became an essential component of capitalism. This was because, essentially and notwithstanding the correctness in 1848 of the analysis of capitalism in *The Communist Manifesto*, capitalism and social democracy adapted to each other from the early 20th Century in such a way that they became symbiotic. In those peripheral and undemocratic regions of the early 20th Century world economy where revolutionary socialist workers movements did actually succeed in conquering the state, the communist socio-economic systems they instituted proved incapable of producing long-run socio-economic development, welfare regimes, and democracies that were legitimated by the population. Welfare regimes and democracy (however imperfect) were essential, then, to the maintenance of the power of the SD/Capitalist alliance within Western Capitalism that transformed that variety into Social Democratic Welfare Capitalism.

The question now is whether SDWC can spread to the rest of the world. There is some reason to think so although the other varieties of capitalism that exist in the 21st century in Central and Eastern Europe, Latin America, South Asia, East and SE Asia, Africa, and the Middle East, do not reveal strong tendencies in this direction. In a few places in Latin America, South Asia, and East Asia, social democratic movements are strong and democratic welfare states are being developed. (Sandbrook 2007) In other places in Asia and Eastern Europe, most notably China and Russia, social democracy is really non-existent. *Without liberal democracy there cannot be social democracy*. On the other hand, SD is not necessary for the development of welfare regimes, as Singapore and Hong Kong seem to demonstrate. Indeed, welfare regimes do not have to be mainly instituted by the state but can take the form of welfare *societies*, resting upon dense networks of family and social capital. (cf Walker and Wong 2005) Whether such welfare societies (and Western welfare states for that matter) can persist in a modernising or ultramodernising world with the powerful tendencies towards individuation and the rise of non-state and non-societal groups and networks, remains to be seen. In Japan, the leading case of Asian SDWC with its very different state/society/capital nexus from the Western form (Estevez-Abe 2008) shows clearly the dissipating force of ultramodernity in certain important respects. Of course the future is unpredictable and we must avoid arguing that SD is the telos of capitalism. The complex punctuated equilibrium path that the history of all socio-economic systems exhibit engenders caution.

¹⁷ The formal/substantive distinction is owed primarily to Polanyi (1944) and his argument about the embeddedness of economy in society and is similar to the government/governance distinction. However, the latter does not fully capture the important distinction between formal, publicly-stated, rules as enshrined in state and legal systems, and informal systemic social relations, including networks and power structures, that also regulate/control political economies and societies.

¹⁸ The critical realist perspective has much to offer when developing theories of these real, deeper connections. See Lloyd 1993. Another way to put this is that we should take a social science history approach, which is articulated and examined in Lloyd 2008b.

Throughout the history of Australian SDWC, no less than anywhere else, we can discern the shifting dynamics between institutional path dependencies (especially the centrality of state intervention), cultural continuities and commitments to egalitarianism and co-operation, public ideologies (not always coherent), formal reform, and the path of economic development, including, crucially, economic shocks of both supply and demand types. On the later topic, it's clear that ad hoc reactions to shocks or the inability to respond adequately have played a significant role in this history of SDWC as have more careful responses and other longer-term forces. The long-term effects of reactions to shocks have depended on both their degree of intellectual framing and far-sightedness. Reactions to the great shock of 1890-94 played out over the following two decades in a profound way because of the ideological, cultural, and politico-constitutional context. Conservative and even *laissez faire* reactions to the 1930s depression would doubtless have had very long-lasting effects if World War Two had not intervened and established an economic and social climate for more social democratic policies with Keynesian ideological confirmation, which, nevertheless, could not be well established because of the politico-constitutional, economic, and geo-political context of the immediate post-war years. The long boom of the post-war decades was dependent on the supply-side shock of the Korean War and its successive waves of resource wealth up to the 70s. The 1970s stagflation shock had very long-term effects because it contributed to the de-legitimation of Keynesian interventionism and its social democratic framework. The 1991-2 recession simply cemented the shift to more privatisation and competitive markets. Finally, in the 2008-09 crisis, we are seeing a widespread disenchantment with the lack of an organisational and socialised foundation for economic behaviour. That is, an epochal shift, comparable with the 1970s and early 80s, may be happening in which all markets, including labour markets, will be seen as requiring greater central regulation that bring them closer into line with social needs. Another way to express this is in terms of the Polanyian understanding of economies as embedded within societies and that the past decade or two could be seen as a period in which economic behaviour and its market contexts were de-linked to a significant degree from their close connections with social organisation and politics.

A fundamental concern for advocates of SDWC is how the interrelationship between individual, society and economy are best administered within a democratic political framework. Polanyi provides invaluable insights to this very dilemma. A notion essential to Polanyi is not that a democratic political economy should be without markets, but rather it should be one in which society and politics are not subordinated to the market mechanism. As Polanyi argued, the economy should serve the people and their natural environment, not the other way around. Polanyi deplored not so much the *market mechanism* as *market domination*, which not only reduced people to objects of exchange, à la Marx, but disintegrated the cultural and social environment that helped sustain civil human relations. This pessimistic view of capitalist relations had a positive juxtaposition inasmuch as 'human society would have been annihilated but for the protective countermoves [the state and organised labour] which blunted the action of this self-destructive mechanism' (Polanyi, 1944: 38).

A second implication of Polanyi's work is that economies cannot be independently self-regulating entities, *a la* Regulatory Capitalism. He argued that all economic forms, including *laissez-faire* capitalism, are intricate economic systems constructed and sustained by *state regulation*:

free markets could never have come into being merely by allowing things to take their course... *laissez-faire* itself was enforced by the state. The [1830s and 1840s] saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism...*laissez-faire* was not a method to achieve a thing, it was the thing to be achieved. (Polanyi, 1944: 139)

Polanyi highlights the paradoxical need for a strong state under *laissez-faire* capitalism when he argues that 'while *laissez-faire* economy was the product of deliberate state action,

subsequent restrictions on *laissez-faire* started in a spontaneous way. *Laissez-faire* was planned; planning was not' (1944: 141).

Accordingly, the innate regulatory nature of capitalism ensures that there are winners and losers between individuals and classes, and, as such, economic distribution and exchange are always contested and open to change. Locating politics and employing it to the macro-economy, therefore, is of fundamental importance to SDWC. The re-activation of politics and democratic government would seem to be essential steps for not just for the “civilising of capitalism” but for the overcoming of economic crises and the longer term steps towards a national and global commonwealth built out of the social movements of democratic populations exercising their potential for collective, organised agential power through governments that control the bureaucratic, regulatory, financial and economic powers that are necessary to establish full employment, welfare, and the just society. The capitalist-market economic system is not, somehow, an end in itself but has to be understood as the material component or sub-system of a just society. If that society is not or cannot be built because of some fundamental disjuncture in the form of an irreconcilable conflict between economy and society then we would descend into a Neo-Hobbesian nightmare out of which various horrors might emerge. The recent decline in the agency of the western social pillars of the past century – the workers movement, the bureaucratic welfare state, the organisations of voluntaristic civil society and social capital – has indeed brought the terrors of a non-state multitudinous world to life again.¹⁹ But the multitude cannot build a new society, only the organised democratic people can do that so a way has to be found to harness that agency.

¹⁹ Hardt and Negri 2004. See Bull's several critical essays.

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