

**THE 1890–1910 CRISIS OF AUSTRALIAN
CAPITALISM AND THE SOCIAL
DEMOCRATIC RESPONSE**

*Was the Australian model a pioneering regime of
Social Democratic Welfare Capitalist regulation?*

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**State experiments in Australia:
the historic compromise of the early 20th century**

In 1890–94 Australia was convulsed by a crisis of historic proportions that marked a watershed in the development of the economy, society, culture, and polity. The preceding 40 years had been ones of great prosperity, wealth advancement, and democratization, sparked in 1851 by the great and long-lasting gold rush. By the late 1880s Australia was believed by boosters to be a 'working man's paradise' and a triumphant vindication of the egalitarian and democratic rejection of British social class and privilege. This successful settler capitalist country had ridden the great Victorian commodities boom and succeeded in overcoming the legacy of its prison foundation and the 'tyranny of distance' to become the richest society in the world. The capitalist model that had developed, however, was far from the *laissez faire* of British theory and policy, combining instead industrial protection in most parts of the country with a significant degree of state ownership of economic enterprises. What was later called 'colonial socialism'¹ was the more or less unquestioned model of a rudimentary developmental state that rested on the great wealth flowing from raw material exports and the distribution of rents for working-class urban expansion. Indeed, economic development and employment generation had been the chief preoccupation of colonial governments since the 1830s.

In this context, the bursting of the long boom in 1890 and collapse into the first (and very severe) depression in half a century was a transformative event. The consequences of the crisis years, lasting for most of a decade, were

¹ Butlin, N. G. (1959) 'Colonial Socialism in Australia: 1860–1900'. In Aitken, H. G. J. (ed.) *The State and Economic Growth*. New York: Social Science Research Council.

profound. The main response by the political process, however, was not on the whole to question the centrality of the state in Australian capitalism but to reinforce it in new, ideologically-based as well as class-based, ways. Social democratic developments emerged that had long-lasting consequences, detectable even unto the 21st century. A 'historic compromise' of labourist-protectionism² and other social measures was constructed and reinforced over the following decades that remained central to Australia's political economy until the 1980s.

Looking back from 1902 at the 1890s crisis era, William Pember Reeves, a New Zealand socialistically-minded liberal journalist, lawyer, and government minister, (and later a leading Fabian in Britain and Director of the London School of Economics) wrote in his magnum opus on *State Experiments in Australia and New Zealand* (1902) that the radical movements in Australasia were 'deeply tinged with socialism'. This was not borrowed from German or French socialist thinking, he said, but was cautious and tentative, drawn from English thinking. [p 68]

But though there is no Social Democratic party, there is a good deal of democratic socialism. It is none the less real because it is 'a sort of socialism, finds expression in acts, and eschews short cuts to a 'new earth which will make the old heaven unnecessary'. ... if it be State socialism, it is democratic and not bureaucratic. [pp 68–69]

*Governmental as he is, the Labour politician is at heart more of a trade unionist than a conscious socialist, and the middle-class Progressive is still half a Liberal. Ask either of them whether he aims at socialising land and capital, and the odds are that he will reply that he does not trouble his head about such a goal. He certainly does not dream of achieving it by revolution in his own time. He accepts the wages system, rent and interest, private ownership, private enterprise. His business is to obtain tolerable conditions for the masses, and to stand by the small man wherever the small man is not a petty, cutting employer. ... M Métin has cleverly summed up the colonial Progressive movement as *Le Socialisme sans Doctrines*. ... When democrats in the colonies repudiate the title of*

2 Lloyd, C. (2002) 'Regime Change in Australian Capitalism: Towards a Historical Political Economy of Regulation', *Australian Economic History Review*, 42, 3, 238–266

*socialists, it may mean merely that they do not know what experimental socialism is; but it may also mean that they are not Revolutionary Socialists, and truly they are not. [pp 70–71]*³

Reeves was in a very good position to know and write about democratic state socialism in Australasia at the end of the 19th century for he had been a radical minister in New Zealand governments and was responsible for, among other measures, legislating in 1893 for state-established and regulated centralized industrial dispute settlement. This was a system that was demanded by radical liberals and working class politicians throughout Australia and New Zealand from the early 1890s as a response to the severe economic and social crisis. The preceding booming economic conditions had enabled considerable working class militancy to flourish. Legal formation of trade unions and membership recruitment in strategic industries – especially mining, pastoralism, land and sea transport – had been very successful and unions had been emboldened in their labourist ideology in the era of high employment and economic development. In addition, industrial protectionism, especially in Victoria, the most industrialized part of the country, encouraged the growth of trade unionism. The onset of the 1890s depression, however, radically altered the labour market and the balance of ideological and political forces. The alliance of state and capital, combined with the desperation of many working people for employment, defeated the unionist demands for maintenance of closed shops, high wages, and reduced working hours. The main lesson drawn by the unionists was electoralism. Universal malehood suffrage had existed throughout Australia since the 1860s and secret ballots since the late 1850s but no working class political movement existed to harness this electoral possibility. Class formation lagged behind the *de jure* liberalization, which had come about through liberal reformers acting in the spirit of Chartism, influenced by nativist egalitarian culture and the lack of aristocratic privilege, and in response to events such as the Eureka rebellion of 1854.⁴

3 Reeves, William Pember (1902) *State Experiments in Australia and New Zealand*, 2 Vols, London: Grant Richards.

4 Constitutionally and formally, Australasia consisted of a set of British 'colonies' [New South Wales, Victoria, Tasmania, South Australia, Western Australia, New Zealand]. But *de facto* they were independent countries because the various British Acts granting full self-government from 1850 removed all British prerogatives and granted full constitutional autonomy except in the area of foreign policy. These 'colonies' then moved towards unification from the late 1880s and achieved a federation, which New Zealand declined to join, on 1 January 1901. The Australian Constitution Act of the British Parliament in 1900 in effect granted full *de jure* independence.

Working class consciousness and organization developed rapidly in the 1890s and by the 1910s the Australian Labor Party (ALP) had affected an historic alliance of workers, liberals, manufacturers, and farmers that had legislated an accommodation between society and market, mediated by a non-doctrinaire politics of a democratic, socialist, protectionist, and welfarist, nature. Australia thus seems to have produced an early version of what became in the post-1945 decades in northern Europe a more mature and comprehensive state-centred regime of capitalist stabilization, regulation, and development. Can this Australian model be understood as a pioneering version of Social Democratic Welfare Capitalism? ⁵

The chief (but not only) instigator of this model, the ALP, was not, as Reeves pointed out, an avowedly socialist party although it contained many avowed socialists, as well as labourists, nationalists, farmers, catholics, unprincipled careerists, and even capitalists. As V Gordon Childe pointed out in 1923⁶, this was a rich mixture, and one, moreover, that successfully appealed to a majority of the electorate.⁷ Early ALP governments strove with varying degrees of principled conviction to redistribute the wealth of the developing capitalist

5 The term 'Social Democratic Welfare Capitalism' (SDWC) was coined by various thinkers in the past decade or two, see Lloyd, C. (2011) 'The History and Future of Social Democratic Welfare Capitalism: From Modernization to the Spectres of Ultramodernity'. In Kettunen, P. & Petersen, K. (eds) *Beyond Welfare State Models: Transnational Historical Perspectives on Social Policy*, Cheltenham: Edward Elgar, 199–217. Karl Polanyi used similar terminology in *The Great Transformation* (1944), Boston: Beacon Press, and more recently also Hicks, Alexander (1999) *Social Democracy and Welfare Capitalism*, Ithaca: Cornell University Press. Wolfgang Streeck has referred to 'Democratic Capitalism' in his powerful sociological analysis of the evolving interconnection of society and economy: Streeck, W. (2011) 'The Crises of Democratic Capitalism', *New Left Review*, 71, Sept-Oct, 5–29, Streeck, W. (2012) 'How to Study Capitalism', *European Journal of Sociology*, 53, 1, 1–28. One advantage of the term SDWC is that it avoids confusion with an American concept of democratic capitalism that usually refers to a liberal/market form of capitalist ideology in which markets are free of state interference but subject to democratic influence via citizen pressure.

6 Childe, V. Gordon (1923) *How Labour Governs: A Study of Workers' Representation in Australia*, Melbourne: Melbourne University Press. Childe (born 1892) was a radical anti-war activist during the Great War, from within the Labor Party, and highly critical of the ALP's lack of socialist thinking and its compromises with capital. His book is an insightful and sober analysis of the Party and still very relevant. Being denied academic and political employment he left Australia and Australian socialist activism in 1922 for an academic career in Britain (having previously studied at Oxford) and became by the 1930s the world's most influential archaeologist, located for most of his career in the University of Edinburgh.

7 The Westminster-style, two-party system, which results from single-member constituencies and was reinforced by the Australian preferential voting system, requires political parties to have majoritarian electoral appeal. In such electoral systems, coalitions are formed before the election and not after it. The ALP implicitly recognised this from an early stage and the corresponding basic tension between party discipline over program, ideology, and parliamentary voting and the need to appeal to many interests, so well understood by Childe in his insightful 1923 book, was overcome by having a quasi-official place for factions. But this did not prevent three major splits over doctrine and policy in 1916, 1932, and 1955.

economy essentially by trying to guarantee full employment with high wages combined with progressive income taxation from 1915, some welfare measures, and market interventions. But the profitability and management of capital were never threatened and many erstwhile Labor politicians found lucrative capitalist employment and/or became themselves significant capitalists.⁸ Indeed, certain branches of capital, especially manufacturing and arable agriculture, were actively supported by Labor governments.

There is a problem, then, of how to characterize and locate within a wider world of social democracy the significance of this early Australian model. Details of the Australian case seem to be little understood and researched in the comparative social democracy/welfare state field. While Australia (along with New Zealand) is included in research on welfare states it is sometimes 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. The *Varieties of Capitalism* literature (vide Hall and Soskice⁹) has labelled Australia as a Liberal Market Economy and lumped it in with other Anglos such as USA and Canada. This is a very contestable categorization that takes little account of the history and details

8 In recent times former Labor Prime Ministers Hawke and Keating have developed substantial business interests, as have many former Labor state premiers. One of the most interesting examples is that of 'Red Ted' Theodore (b 1884), who in some ways represents an archetypal Labor politician of his era. Son of very poor immigrants (Romanian and Irish), lacking formal education beyond the age of 12, he became a Queensland miner and then militant union organiser and rose to become a Labor member of the Queensland state parliament in 1909, deputy state premier in 1915, and premier in 1919 at age 34. His premiership was marked by substantial increases in government investment in and ownership of productive sectors ('colonial socialism' extended), and extension of labourist-protectionism at the state level. At the same time he vehemently opposed socialists and communists in the Party and tried to have them banned. In 1927 he moved to federal parliament and became a prominent member of the Labor opposition and then deputy Prime Minister and Treasurer after the election of October 1929, a fateful moment to enter government. He was already privately wealthy through investments and close connections with certain businessmen and had a substantial home in an expensive suburb on the shores of Sydney Harbour. As Treasurer he was far-seeing and tried to implement a quasi-Keynesian reflation that was blocked in the Senate and he was forced out for a period over a financial scandal. The consensus is that he was an outstanding financial thinker but a bitter electoral defeat in 1932 (engineered by an opposing Labor Party faction) saw him abandon politics altogether despite the likelihood that he would have become Labor leader and possibly Prime Minister had he returned. His subsequent career embraced gold mining investments, a publishing company, and wartime service as a senior bureaucrat. When he died in 1950 he left a substantial estate of more than half a million pounds. Cain, N. (1990) 'Theodore, Edward Granville (1884–1950)', *Australian Dictionary of Biography, Vol 12*, Melbourne: Melbourne University Press.

9 Hall, Peter & Soskice, David (2001) (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford and New York: Oxford University Press.

of Australia's model, especially with regard to labour market regulation.¹⁰ 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 considered that the group includes New Zealand and the Irish Republic as well as USA. Comparisons of Australia with New Zealand, Canada, Argentina, Uruguay, Chile, and South Africa, make more sense in 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.¹¹

Australia was not only one of the world's first examples of a concerted attempt to regulate the structure of capitalism through strong state intervention in labour, capital, and commodity markets, but one which has later evolved further away from this general form than 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 economic and social dynamism and success possibly unmatched in the Western world in recent years including during the current Western recession, which Australia has not experienced.

The chapter will seek to provide a critical analysis of the origins, characteristics, and significance of the 'Australian model' in the late 19th and early 20th Centuries. First we have to examine the background that provided the structural context.

Economic and political history of Australia before the 1890s

After the gold rushes of the 1850s and reinforced by successive natural resource export streams this 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. Colonial governments were invariably focused

10 For a critique see Lloyd, C. & Ramsay, T. (2013) 'From Social Democratic Welfare Capitalism to Regulatory Capitalism? Institutional Transformations of Australia's Labour Regulation Since 1983 in the Light of Theories of Historical Political Economy' [under journal review]

11 cf Lloyd, C. (2013) 'Institutional Patterns of the Settler Societies: Hybrid, Parallel, and Convergent', in Lloyd, C., Metzger, J., and Sutch, R. (eds) *Settler Economies in World History*, Leiden: Brill.

on how to develop the economy through encouraging immigration and staple extraction and providing urban services.¹²

Indeed, the efficient resource-extraction and commercial export economy of the 19th Century needed and generated a large urbanised service sector of finance, land transport, shipping, education, construction, and associated urban services. Australia was not just the richest but the most urbanised country by the late 19th Century. The largest industrial sites that developed in the late 19th Century were mines, government railway workshops, ship building, government construction, and textiles. These sectors, as well as pastoralism, were becoming significantly unionised by the 1870s and 80s, in a context of de facto union legalisation from the 1840s and universal male franchise from the early 1860s.

By the 1860s the initial gold output began to decline (although reviving in the 1890s) and a chief policy preoccupation was of how to generate sufficient employment for the highly urbanised population and immigrant inflow that was dependent upon upstream and downstream economic linkages to the very productive, efficient, but technologically-innovative and labour-shedding, resource export sector (chiefly gold and wool and later silver, base metals, and refrigerated meat from the late 1880s), which was itself highly dependent on world market prices. Like all resource-dependent (blessed or cursed) rich economies at that time (or since), the problem was of how to transfer the commodity rents and profits into a diversified and developed urban economy and society without incurring what would today be called a resource curse effect of excessive rent monopolization, inequality, and government corruption. Thus government policy centred on economic diversification through protection of import-substituting 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. This labourist¹³ strategy was

12 Lloyd, C. (2003) 'Economic Policy and Australian State Building: From Labourist-Protectionism to Globalisation'. Teichova, A. & Matis, H. (eds) *Nation, State and the Economy in History*, Cambridge: Cambridge University Press.

13 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 Australia the constitutional and civil liberties battles had been won to the satisfaction of most workers and liberals. The main issue for Australian organised labour was the right to bargain collectively and to then raise wages, reduce hours, and secure employment. Social welfare and security became intricately linked with employment.

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a successful in its own narrow terms whenever the economy delivered full employment, expansion, and surplus wealth for redistribution.¹⁴

Thus Australia, as with all advanced western capitalist countries, developed a growing workers movement in the second half of the 19th Century. This organized movement took the form 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. No self-styled socialist or social democratic party existed before 1890 although there were socialists and even some Marxists.

The crisis of the 1890s and institutional innovation

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. The defeat of the strikers and of their power to enforce closed shops and collective bargaining, by a combined force of employer associations and state coercive 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 whenever the state was controlled by nakedly capitalist interests. But 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. The Labor Party wished to capture parliamentary power in order to advance the causes of workers rights, collective bargaining, employment security, and state welfare measures. This program placed the ALP squarely within the international social democratic / evolutionary socialist movement of the late 19th Century in the sense of its agenda of amelioration of capitalist excesses rather than destruction of capitalism in either the short or long term.

¹⁴ Of course protectionism and labourism are themselves forms of rent-seeking. This issue, which became a topic of heated debate in the late 1920s by Brigden, Hancock, and Shann, *inter alia*, (see reference list) was really about the different long-term social and economic consequences of various forms of rent-seeking. As argued below, not all forms of rent-seeking are necessarily socially deleterious.

That is, this was a resolutely reformist rather than revolutionary strategy, with a very limited horizon, led by and controlled by unions who were focused on bargaining over wages and conditions within a liberal democratic society. The prior constitutional liberalization, beginning in 1850, lack of a privilege-defending aristocracy, full malehood suffrage, secret voting, and payment of members of parliament, all contributed to working class militancy being focused by and large on labourist demands and electoralism. 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 (although the voices of radical and even revolutionary socialists were heard) and no form of unionisation other than craft and trade unions were able to gain a significant foothold in the labour landscape, although significant activities in the early 20th Century by One Big Unionists and the International Workers of the World were influential for a brief period before being bureaucratically and politically defeated by labourist trade unionists. The colonial Labor Parties that were formed in the early 1890s were always the creatures of unions and remain so until this day.

With the formation of Labor Parties in the 1890s there was, then, an immediate sea change in the electoral landscape. In the New South Wales election of 1891 the Labor Party and independent labor candidates together polled 21% of the vote and 22% in 1893. Similar outcomes occurred in the other colonies soon after. Their almost immediate parliamentary influence meant that centralised industrial relations in the form of state institutions for wage setting and/or conciliation and arbitration were legislated in coalition with so-called 'Harmony Liberals'. This 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-protectionist interest', had dominated most Australian states (except NSW) and in the early Federal Parliament 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 majority support, even until the 1980s, always remaining subservient to liberalism and old conservatism within the united anti-Labor coalitions from 1908 until the 1980s, when Neo-Liberalism swept out the old protectionist ideology and policies from both Labor and Liberal (Conservative) Parties.

This early and continuing success of the workers movement was one of the world's most advanced in the electoral sense. The world's first working class governments (minority and then majority) were elected in Australia before the First World War.¹⁵ In the 1910 Federal 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, land reform, 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.

Thus from the 1890s period of severe class conflict sprang the ALP, centralised industrial relations regulation, women's suffrage (beginning in 1892 in New Zealand and 1893 in South Australia), Federation of the Australian states, radical-nationalistic culture, and, by the early 20th Century, a new regime of political economy that its designers hoped would 'civilise capitalism' away from the causes of the financial, industrial, and social turmoil and degradation of the 1890s.¹⁶

Labourist/Protectionism as 'the Australian settlement'

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

15 It is usually reckoned that the first elected working class government in the world was in Queensland in 1899. After Federation the first national 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 alone, prompting the centre-right groupings of Protectionists and Free Traders to coalesce under an anti-Labor, Liberal Party banner.

16 Nairn, B. (1989) *Civilising Capitalism: The Beginnings of the Australian Labor Party*, 2nd edition, Melbourne: Melbourne University Press. But see the ironic and insightful discussion of the limitations of this program in Fitzpatrick, B. (1941) *The British Empire in Australia 1834–1939*, Melbourne: Melbourne University Press, (2nd ed 1949), 265–268.

protection, White Australia immigration policy, and social welfare provisions, many tied to employment, to regulate capitalism in the interests of labourism and social harmonisation. In enacting this 'Labourist-Protectionist' regulatory regime of political economy, liberals and labourists believed they were building a working-man's paradise¹⁷ The role of the state as economic and social mediator and protector was, then, a key dynamic in Australian public policy. In the early federal parliaments there was a clear majority in favour of this program and the consensus continued through most of the 1920s, supported by then by the new Country Party (representing farmers and rural districts who had previously mainly supported Labor) despite the Labor Party being out of office after the split over military conscription in 1916.

Thus the so-called cross-class 'Australian Settlement'¹⁸ that had emerged in the first decade or so of the 20th Century, especially during the time of the Deakin Liberal Government of 1905–08 and Fisher Labor Governments of 1908–09 and 1910–1913, and reinforced in the early 1920s by organized agricultural marketing, was a consensus around labourism, the centralised IR system, manufacturing protection, and organised rather than free markets.¹⁹ But the consensus was far from complete and uncontentious, as revealed by vociferous debates and splits on both sides of politics as the century went on. The Labor Party was internally divided between radical socialists and nationalists, on one hand, and labourists on the other. Nevertheless, the breaking of the consensus and subsequent attempt by the conservative Bruce Government in 1929 to undermine or destroy the arbitration system resulted in his disastrous electoral failure.²⁰ The 1930s Depression undermined the regime and it might have collapsed but it was restored by the social solidarity and full employment engendered by the anti-fascist war experience and the centrally planned wartime economy, especially with the return of Labor to office in 1941–49. Then in the early post-war years the Chifley Labor government attempted to extend the welfare system and the social democratic strategy in a manner

17 Lloyd 2002, Lloyd 2003.

18 The idea that there was a cross-class 'settlement' or egalitarian historic compromise around protectionism, collective bargaining, and arbitration in the early 20th Century, which lasted in effect until the 1980s, has been much debated but there is no space to examine that debate here. See Kelly P. (1992) *The End of Certainty: The Story of the 1990s*. Sydney: Allen and Unwin, and Stokes, G. (2004) 'The Australian Settlement and Australian Political Thought', *Australian Journal of Political Science*, 39: 1, 5–22.

19 The full expression of protectionism was later called 'protection all-round' in the 1950s and 60s and most strongly defended by the Country Party.

20 An echo of this occurred in 2007 when the conservative Prime Minister Howard lost an election and his own seat over the issue of de-regulation of the labour market.

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similar to Britain's postwar Attlee Government, including a Keynesian full employment strategy, a more comprehensive welfare transfer system, public health improvements, tertiary education expansion, and nationalization of the private banks. But the constitutional division of jurisdiction and High Court narrowness prevented implementation of much of this Labor social democratic program (including a national health scheme *a la* the United Kingdom) before losing office in the 1949 election. Subsequently, despite winning more than 50% of the votes in 1954, the ALP remained out of office until 1972 because of gerrymandered electorates and a split in 1955 over communism and the Cold War. This long conservative era (1949–72) saw the welfare system stagnate but centralized industrial relations and protectionism were not unwound by the Liberal-Country Party coalition governments due to a complete dependence by many sectors on protection-all-round. And Keynesian-full employment bolstered the regime in the post-war decades. The institutional path dependency remained very powerful, as in many parts of the advanced Western world. The Labourist-Protectionist regime continued despite a growing chorus of neo-classical economic voices against it by the 1960s and it finally began to be dismantled in the 1970s.²¹

Was the Labourist-Protectionism / historic compromise a form of Social Democratic Welfare Capitalism?

There are several ways to conceptualise and assess the significance of the Australian labourist-protectionist model. First, there is an economic/public choice approach, which builds on and theorises arguments made in the late 1920s early-1930s in Australia²², arguing that Labourist-Protectionism was the path dependent and deleterious consequence of the centrality of the state in Australia's developmental history from the foundation in 1788. It's true that being strongly influenced by the tyranny of distance as well as being a state foundation in a very difficult context, economic activity was necessarily subordinated to state criminological and geopolitical needs from the beginning. By the late 1820s, however, when significant free immigration and a rampant private economy of pastoralism and land squatting got under way, wool producing rent-seekers became powerful and almost beyond the control of

21 Battin, T. (1997) *Abandoning Keynes: Australia's Capital Mistake*, Basingstoke: Macmillan.

22 Hancock, H. K. (1930) *Australia*, London: Ernest Benn [new edition: Brisbane: Jacaranda Press, 1961]; Shann, E. (1930) *An Economic History of Australia*, Melbourne: Georgian House.

the state.²³ But, unlike Argentina, state power was reasserted, partly through the Wakefieldian and other philosophic radical influences at the Colonial Office in London, and the 'frontier interest' did not capture the state.

The gold rush era from 1851 then transformed the private economy and opened new possibilities for market development. But the failure of private railway investment and the increased flow of revenue to the colonial governments opened greater possibilities for public provision of infrastructure, particularly railways, in a context of private sector inadequacy and failure. Government developmentalism was always the central theme of policy. Internal tyranny of distance was also a significant factor. This set a pattern for a wide range of public provision of services and infrastructure (schools, hospitals, railways, roads, ports, telegraphs, food shops, post offices, and so on) that then linked directly to electoral politics of vote-seeking in local constituencies from the 1860s. In effect, this so-called 'colonial socialism' became a mechanism for transferring the wealth from booming staple exports, via the final demand linkage, to the highly urbanised population. The particular kind of democratic political process made this a structural trajectory beyond the power of the free-trade, market-liberal, opponents to overturn. The Labourist-Protectionist regime then continued from the mid-1890s in a more developed form what already existed from the 1860s, in order to create a kind of 'paradise' of working and lower middle class prosperity and security as a rejection of the capitalist failings evidenced in the 1890s depression.

The anti-state critics²⁴ failed, and still do, to understand the differences between beneficial and deleterious rent-seeking and how rent-seeking relates to the culture of fairness and equality. Taking a very long-term perspective on Australian socio-economic history it is possible to see that the economically-diversified and egalitarian-urban society that developed in the 19th Century, made possible by the wealth of staple exports, industrial protection, and high wages, represents a socially desired and beneficial form of rent-seeking by urbanized and increasingly unionized working classes, who 'chose' this redistributive outcome via the electoral process.

The powerful path-dependent culture of egalitarianism had grown out of the early struggles over acceptance of the validity of a form of convict, post-convict, and emancipist society (strongly influenced by Irish radicalism and Catholic socialism) that rejected notions of inherited class and imperial

23 McMichael, P. (1984) *Settlers and the Agrarian Question: Capitalism in Colonial Australia*, Cambridge: Cambridge University Press.

24 For example: Butlin, N. G., Barnard, A. & Pincus, J. J. (1982) *Government and Capitalism in Australia: Public and Private Choice in Twentieth Century Australia*. London: George Allen and Unwin.

inequality and authority. Related to this was an ideology that the role of the state was indeed to ensure that equality prevailed. Unlike the United States, subsidiarity was never a strong theme. The advent of the Federation, however, placed the principle of equality under strain for some peripheral regions began to feel neglected and unable to pursue their self-interest through independent policies and so Western Australia tried to secede in 1932. This problem was solved by implementation of national egalitarianism through the non-partisan Commonwealth Grants Commission (1933), which saved the federation through redistribution of public finance (derived from progressive taxation revenue) to achieve horizontal fiscal equalization across the nation.²⁵

The Australian model contrasts with a deleterious form of rent-seeking that was occurring in Argentina at the same time where a small oligarchic landed elite enriched itself through the monopolization of land, staple industries, and state patronage and produced weaker linkages into the wider society. The lack of *de facto* democracy made this possible and reinforced the non-democratic and unequal nature of the society, thus also preventing further liberalisation. Argentina suffered resource-curse while Australia was undergoing a resource blessing.

Furthermore, rent-seeking (or seeking for economic advantage beyond the normal rate of return) is a universal phenomenon (part of a wider set of phenomena of social inequality) at all levels of societalisation from small groups and institutions upwards. The problem is not to eliminate it (for that is impossible) but control and direct it into beneficial outcomes. It can be argued that this was the consequence of labourist-protectionism. Of course there were some costs of inefficiency but as the Brigidon Report (1929) found, there is a social and economic case for protection, subsequently labeled 'The Australian Case'. This was a view eventually conceded by some prominent neo-classical economists 50 years later,²⁶ and further reinforced by Krugman's new strategic trade theory in the 1990s and Stiglitz's and Krugman's defence of Keynesian intervention in the global crisis. Of course the critics of free trade imperialism in India, for example, from the mid 19th century (including Marx) and up to the present, have always understood the negative consequences of free trade, especially in contexts of unequal exchange. That is, so-called free

25 This Australian episode has interesting parallels with the travails of the European Union in the 2000s, where moves towards federation have lacked fiscal equalisation measures to compensate for the deleterious effects of the single currency on the less developed regions and the unequal development between regions.

26 Manger, G. J. (1981) 'The Australian Case for Protection Reconsidered', *Australian Economic Papers*, Vol 20, No 37, 193-204; Samuelson, P. A. (1981) 'Summing Up the Australian Case for Protection', *Quarterly Journal of Economics*, 96: 1, 147-160.

trade, or efficient market freedom more generally, does not necessarily always produce desirable social outcomes.

Taking this argument further, then, a quite different way of understanding labourist-protectionism is as a rather radical attempt at first (not very successful to be sure and with large gaps) to embed capitalism within democratic society and assert democratic control of markets in a dominant way via state-established institutions, including the Court of Arbitration (1904), the Harvester principle of wage justice based on needs (1907), the Commonwealth Bank (1911), the Tariff Board (1921), and organized agricultural marketing (1920s). This kind of argument about democratic embedding, obviously not articulated as such by Australian leaders or policy makers, but developed explicitly in similar ways by Polanyi and Streeck²⁷, provides a way of reinterpreting attitudes towards the state as the instrument of popular democratic desire to control capital and prevent a repeat of the disastrous crisis of the 1890s, a crisis in which the standard of living of many ordinary people was first eroded by unemployment and/or wage cuts and then through their savings being destroyed by badly managed and rapaciously greedy, speculative, and corrupt banks that collapsed in 1893. Trade unionists, labor politicians, small farmers, and harmony liberals were united in a desire to make the state the instrument of, in effect, a social democratic program of intervention in markets for desirable social outcomes.

It should be said, therefore, that Labourist-Protectionism was in fact a program to regulate capitalism as a whole system of political economy, in a context of lack of theorization (*'socialisme sans doctrines'*) and indeed of an explicit rejection of grand theory as being somehow 'unAustralian'. This was later misinterpreted as anti-intellectual but was really just practical and gradualist, as Reeves perceptively understood in his insightful 1902 summation. This 'bottom up' and piecemeal approach to social reform and political economy was nonetheless wide-ranging and coherent. As Frank Castles has argued at length, a 'wage-earners welfare state' emerged in Australia more or less by design in the first decades of the 20th Century.²⁸ This was based on the increasingly powerful 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

27 Polanyi (1944) and Streeck (2011, 2012)

28 Castles, F. G. (2002) 'Australia's Institutions and Australia's Welfare'. In Brennan, G. & Castles, F. G. (eds) *Australia Reshaped: 200 Years of Institutional Transformation*. Cambridge: Cambridge University Press.

by an increasing range of state-provided welfare measures. Of course the limitations were very significant, especially regarding the place of women and indigenous people in the regime, limitations that were not overcome in the post-1949 period, as happened to a much greater extent in northern Europe, largely because of electoral failure of the Labor Party (see below).

Was this form of welfarism and economic regulation 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 conflict, maintain employment and raise standards of living and working conditions 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.²⁹ 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.

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 and promote certain sectional interests. 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

29 cf. Swenson, P. A. (2002) *Capitalists Against Markets*. Oxford: Oxford University Press.

Castles and others³⁰ that social democratic agendas are difficult to advance in federal polities where there are many regional interests and a states-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. Labor Party government programs in Australia have often been stymied by hostile Senate majorities, the present Rudd / Gillard Labor Government being no exception.³¹

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 lack of capacity of governments to promote efficiency via competition in any market came to a head in 1928–29 with the defeated attempt to undermine the centralised industrial relations system. The depression of the 1930s temporarily derailed the wage-earners welfare system. The full-employment war economy of 1939–45, however, and the ideological framework of Labor, after the Depression and war experience, of national planning and nationalisation of key economic sectors, including banking, the promotion of full employment, and an improved social welfare system, looked set to move the welfare state 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 not to an ideological shift but 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. 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 unfettered capitalist interests. Once Labor got back to office in 1972 the Whitlam government did try to catch up with the social democratic agenda, including national health insurance, but again the Senate was the problem.

30 Castles, F. G. and Uhr, J. (2005) 'Australia: Federal Constraints and Institutional Innovations'. In H. Obinger, S. Leibfried, and F. G. Castles (eds) *Federalism and the Welfare State*, Cambridge: Cambridge University Press.

31 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, was 'in office but not in power'.

Path dependencies and contingencies: shocks on the rocky road of the Australian model – towards oblivion?

It used to be said in the early 20th century (such as by Reeves, 1902), and more recently with a reminiscing 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. But, as elsewhere in the capitalist world, class conflict lay at the heart of Australia's 'experiments' and the social democratic political movement was itself divided among various factions, seemingly inevitable within liberal, democratic polities. Many forces of structural continuities and contingencies operated.

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 the World War Two shock 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 in Australia, again 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 initial demand shock of the Korean War and its successive waves of resource exports to NE Asia up to the 1970s. The 1970s stagflation shock had very long-term effects because it contributed to the de-legitimation of Keynesian interventionism and therefore of the social democratic program of

the Whitlam Labor government of 1972–75.³² The 1991–2 recession, on the other hand, simply cemented the beginnings of the shift to more privatisation and marketisation of the 1980s.

The rightist, labourist, faction within the ALP, having become dominant by the early 1980s, moved decisively to Neo-Liberalism. The wages and incomes Accord of the early Hawke/Keating ALP government (1983–96), tried to combine a corporatized labour market and limited improvements to social welfare with marketisation in other areas. The contradiction was abandoned in favour of Neo-Liberalism all-round in the crisis of the early 90s. The degree of convergence between the dominant faction of Labor and the conservatives on the fundamentals of policy was remarkable.³³

Finally, in the 2008–13 crisis, we are seeing in many countries a widespread disenchantment with the lack of an organisational and socialised foundation for economic behaviour. That is, perhaps the beginning of an epochal shift, comparable in significance with the Neo-Liberalism of the 1970s and early 80s, may be happening in which all markets, including labour markets, will again be seen as requiring greater central regulation that brings them closer into line with social needs. Another way to express this is in terms of the Polanyian understanding of economies being 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 ‘dis-embedded’ to a significant degree from their close connections with social organisation and politics. The issue would then become one, as Wolfgang Streeck has argued, of how to re-assert democracy into the economy. Rudd’s Labor Government (2007–2010) made some moves in this direction but not very far.

In conclusion, this story of Australia’s labourist/social democratic/SDWC history reveals several important points for understanding both the Australian and the more general history of Western capitalism. First, the ALP became the sole ‘carrier’ of the social democratic impulse from 1908, aided a little by the inheritors of colonial socialism among certain sectors of the economy, and so the history of social democratic reform became dependent on the fortunes of the ALP alone. Secondly, however, the electoral system limited those fortunes very considerably, in contrast with northern European social democrats within their proportional representation systems who were able to forge and dominate centre-left coalitions in favour of further developing social welfarism in the

32 Battin (1997).

33 Ecclestone, R. and Marsh, I. (2011) ‘The Henry Tax Review, Cartel Parties and the Reform Capacity of the Australian State’, *Australian Journal of Political Science*, 46: 3, 437–451.

post-war decades. In Australia the electoral spectrum remained shifted to the centre-right whereas in northern Europe it was shifted to the centre-left in most places, at least in terms of consensus on fundamentals of SDWC, with significant consequences for the development of SDWC in both regions.

Thirdly, in hindsight, the frustration of and then electoral defeat of Labor in 1949 was pivotal. The Whitlam 'experiment' was never given space to breathe. Once the ALP became electorally dominant again in 1983 it had moved towards the centre-right and became imbued with neo-liberalism to a greater extent than social democrats in northern Europe. The crisis of the early 90s reinforced that trend. Once back in office again in 2007 the global crisis of 2008 onwards again undermined the attempt to move leftwards, a frustration again flowing in part from the Senate. Adding to the problem has been the enormous power being asserted by the 'new sqattocracy' in the shape of mining companies during the current resources boom.³⁴

Finally, it's doubtful in the 2010s if Australia still belongs to the SDWC club. The convergence on Neo-Liberalism, Prime Minister Gillard's internal coup against Rudd, the formation of a precarious minority government, subsequent weakness of the ALP in the face of internal factional conflict and external enemies (especially big capital), and its domination by neo-liberals and unprincipled careerists, has further undermined the ideological and programmatic strength of the ALP and pushed it to the right. The fiscal straight jacket of a low-taxing, populist rhetoric flowing remorsefully from the right, adhered to without a peep by Labor, undermines any capacity to strengthen the state again and thus improve welfare and public provision. The ALP has expressly abandoned the last vestiges of social democratic rhetoric as well as most activism. The contestation in politics has ceased to be about ideology but about efficient management and reductions of the role of the state. The self-imposed fiscal straightjacket of low taxes and balanced budgets pushes Australia towards, if not a failing state, at least an inadequate state.³⁵ The election of 2013 will be a decisive moment.

34 Lloyd, C. (2012) 'Resource Rents, Taxation, and Political Economy in Australia: States, Public Policy, and the New Squatters in Historical perspective', *Australian Policy Online*, 28 May 2012. <http://apo.org.au/research/resource-rents-taxation-and-political-economy-australia>.

35 The taxation to GDP ratio at about 28% is now near the bottom of the OECD table.

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