

*An Australian Story*  
*The Troubling Experience of Economic Reform*

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Members, Senators, Ladies and Gentlemen, thank you for your interest in these reflections on the results of the Middle Australia Project that I have directed at the University of New South Wales for the past seven years. I should acknowledge at the outset the generous support of the Australian Research Council that has made this work possible. The central aim of the project has been to understand how we *experience* the economy and more specifically here, to learn something about middle Australia's experience of economic reform.

Anyone who turned forty with the new millennium will have spent all their adulthood living through what we so blithely call 'economic reform'. Everyone knows what it is. Deregulation, privatisation, labour market reform, micro economic reform, user pays, tax reform, cutting government spending, more competition, privatisation, tax reform (the GST), welfare reform, and – the latest instalment – the creeping privatising of Medicare and of the universities.

Economic reform began in earnest in the early 1980s with the Campbell Report recommendations for financial deregulation and then with the floating of the exchange rate in December of the following year. It became a mantra some four years later in May of 1986 with then Federal Treasurer, Paul Keating's warning that, without it, we would become a 'banana republic'.

Some things are agreed on all sides. One of them is that economic reform came as a take-no-prisoners top down re-engineering of a whole nation society.

We were told that we had to shake off our history of 'protection' and 'institutional inertia' and make ourselves ready for competition in the new ruthless global economy. Do it, or wither as a coconut monarchy!

No one was left in any doubt about the mighty challenge facing us. But almost no one remembers that the economic reform bundle (or if you prefer 'structural adjustment', 'laissez faire', 'freeing up the markets', or 'economic rationalism' – all these terms mean the same thing) came to us out of the cold war as a 'one best way' of fighting our way out of a long post-war boom that had given more peace and plenty to ordinary people than it should have done.

In the early 1970s international business organizations were forming to bring the drifting free world capitalist nations to their senses. Something had to be done first about the so-called 'British disease', about creeping stagflation, and about the long term fall in the profit share of large corporations. In 1974 the Brookings Institution declared that the after tax profit rate for United States corporations had fallen since 1948 from just under eight percent to just under five percent. The long post war boom was not working so well for big corporations.

The 1975 Report to the Trilateral Commission<sup>1</sup>, one of the new global peak business associations, turned free market economic theory into a political program that would shift the burden of coordination from 'overloaded' governments paralysed with too many 'irresponsible demands', to the markets. Thatcher and Reagan would crash through and make it happen. The markets would reduce expectations and administer the needed disciplines to the people, the unions, the professions, the media and the 'value intellectuals'. This would 'give capital a chance', beat the socks off the old Soviet empire, get rid of big government, and pull the European social democracies into line.

Malcolm Fraser prepared the way with the Campbell Report (that would later recommend financial deregulation) and with some restructuring of the federal bureaucracy – and the young dry economists were brought up into

position. The hard men of Labor were waiting to show they could deliver better economic management and better outcomes for business than the old guard in the Liberal Party. In 1982 they won government and got their chance. From there on the people would have nowhere to go with the two main parties competing with each other to deliver always *more* economic reform.

### *After twenty years of reform?*

The results have been dramatic. As the advocates for reform will hasten to say we now have a strong economy, one that survived the Asian meltdown of 1997 unscathed. Employment is high, interests rates are low. And now it's powering on and indeed leading the developed world, with GDP increasing at somewhere near 3.5% per annum. All that is true.

But if GDP is up how come Australia is down? The economy has indeed been 'restructured'. As with every other nation our national accounts keep tabs on who gets what by dividing national income into three slices: the government share; the wage and salary share; and 'gross operating surplus' or, in other words, profit share. And sure enough economic reform has kept its promise. Over the twenty years from 1980 to the turn of the millennium the total wages share has fallen from 60% to 54% as the profit share has risen from 17% to just on 24%. The government share has stayed at about the same low level<sup>2</sup> — it may come as a surprise to learn that by comparison with other OECD countries we have for a long time had low levels of government spending, and a *small* public sector. It never was 'bloated' as Peter Reith and John Howard used to tell us so insistently throughout the late 1980s. And, yes, as GDP has soared we find that the real unit cost of labour has fallen for twenty years and more. Indeed Professor Bob Gregory's figures tell us that in 1996 young men of between 25 and 34 years of age were already bringing home, in real terms, \$75 *less* per week than their fathers were twenty years earlier in 1976 (moreover they can now expect to get pushed out of a deregulated labour market at age 55). The good

news is that they are going to live twenty years longer than their grandparents; the bad news is that their retirement incomes are in a black hole (in part because they depend on the whims and ethics of the big end of town).

Look a little deeper and we see that economic reform has delivered a redistribution of income, resources and capability from the bush to the city, from the public sector to the private sector, from families to the market economy; from consumers to producers – the GST takes 10% off the input costs of corporations and charges it to you the consumer; from the bottom 70% of wage and salary earners to the top 10%; and, the big one, from wage and salary earners to corporations. Corporations are the only big winners from economic reform as they were always meant to be.

### *Our experience of reform?*

The Middle Australia Project, is a questionnaire, interview and focus group study of 400 randomly selected Australians in five capital cities ('middle' means chosen from census collectors districts with average household incomes above the 20<sup>th</sup> percentile and below the 90<sup>th</sup>). Indexed to year 2000 prices this represents an average household income cut off of just over \$57,500 for the top of the sample and just under \$36,500 at the floor.

The central question ... How do we *experience* the economy? And more particularly how has middle Australia (defined in this way as just about everyone who is neither rich nor poor) experienced economic reform? 'Experience' here is crucial precisely because conventional studies conducted by political pollsters and market research organizations do not generally take it seriously. They prefer to examine not experience but attitudes that are nearly always measured from the top down and in terms of some external interest position. For example political pollsters want to assess support for a leader or for some bundle of policies on health, or defence or whatever. Similarly, the market researchers are looking for a way to sell us some kind of product.

No one doubts the technical sophistication of this work. Yet one problem remains. The explanations generally treat the thoughts, feelings, intuitions, and convictions of ordinary people as behavioural and attitudinal responses to external signals and structural conditions. The external structure is given primacy and the experience is read too narrowly merely as a derivation or, worse, as an adaptive response. Needless to say this is big brother stuff. It's also bad social science. The psychology is wrong because it bleaches out social meaning. And it's bad sociology because cultures — especially moral cultures — are discounted and treated as nothing more than inchoate ideas and private sentiments to be read off from existing structural conditions. With this crude functionalism we miss the all-important background assumptions that ordinary people use to orient their lives and so we fail to take account of cultural inheritance, of memory, of orientations to action and risk, of coping strategies and of underlying commitments to others.

In examining the experience of economic reform we want to redress that imbalance and thus understand how the experience of reform has been interpreted and evaluated from within the lived experience of middle Australia. Let's look first, under four points, at some of the more directly accessible aspects of the experience.

1. They know who the winners and losers are. And they seem to have a fairly clear idea of what has happened to their incomes over long periods of time. Economic reform assumes that people will not notice what is happening to their incomes providing that you move resources away from them in small bites spread broadly across large groups over a long period of time. Providing that the floor rises huge relative losses can still be experienced as small gains. But that is not the way it is experienced. The theory must be wrong. About 90% of them know that 'people on high incomes', 'rich people with lots of assets', 'big

business', are the runaway winners from reform. Nothing surprising about that. What is more heartening is that they have not been snowed by the ideology. Huge majorities of them know that 'people on low incomes', 'small business', and 'ordinary people generally' are more likely to be losers rather than winners from economic reform. And they know that 'people in the middle' have missed out. One more thing. Neo-liberal economic theory would have us believe that the market is the best way of rewarding people for effort. It follows that changes in the distribution of income reflect effort, worth, and due reward for the real contributions of the respective stakeholders to the larger economy. Strange then that in the last three years of the longest boom in living memory (one in which ordinary people get nothing, or as little as possible) a majority of middle Australians are saying that the distribution is not *fair*.

2. They worry about jobs, jobs, jobs. And they believe that the incomes and job prospects of Australians are *falling*. In the last three years of the millennium as the economy settled into boom conditions we find that the number of middle Australians who say that wage and salary earners are the *losers* from economic reform climbs some 13 percentage points to 70%. And again, rather unsurprisingly, about 80% of them say they are more insecure now than before reform began some 20 years ago. The dominant mood is one of anger and it is most keenly felt by those who have fared worst, yet, significantly, it is still the majority view. Again the economic theory is wrong. It assumes that work is a 'disutility' or in other words a negative thing that we are induced to do with carrots and sticks (sticks are to be preferred because they cost less than carrots). We are angry because labour market reform is an assault on the dignity of work. People experience their own work as something more than a tradeable commodity. For them it's largely about identity, meaning, personal independence and making a contribution – and hence something that satisfies inner social needs. Intrinsic motivations matter as much or more than extrinsic

rewards. The market recognises only the latter and so pays in the wrong currency.

3. It's hurting families. Over half of middle Australia believes that families are changing 'a lot'. And three quarters of those giving that answer say that for them it is the negative rather than the positive aspects of those changes 'that stand out most' – for reasons that are now excellently spelled out in Barbara Pocock's book *Work'Life Collision*<sup>3</sup> (Federation Press). In the wake of twenty years of economic reform they find themselves running out of coping strategies. Sending two people out into the labour market instead of one, getting more education, delaying fertility, moving in search of a better job, and then, when all of that runs out of steam, going into too much debt. It's here as the family faces the dull compulsion of the market without the capacity to smooth their incomes over time that middle Australia most clearly experiences the truth about economic reform – namely that it reduces quality of life. If GDP is up and the economy is steaming ahead how come that for the first time in remembered history parents see their own adult children facing a future in which they have to settle for *less* – a world in which they are less likely to own their own home and one in which education and quality health care may cost them more than they can afford. At another level our respondents are saying that there is something fundamentally wrong with a theory that says that the goodness of a human family should be judged on its capacity to put the market before its own social needs.

4. Between two thirds and three quarters of middle Australia thinks that 'big business has too much power', that it is exploiting the people, and that corporations should be regulated more firmly. Middle Australians are not closet 'socialists'. Indeed they carry within them their own very successful history of market democracy. They like business to flourish and make good profits. Yet in the situation in which economic reform has put them they *are* 'revolutionaries'. They want government to make business work for the people rather than the

other way about. Most people have waited in bank queues and on the end of telephone lines for long enough to understand what economic reform means. They know that 'increasing shareholder value' means downsizing, trashing jobs, unpaid overtime and poor service. They know that 'streamlining government' means slashing the public sector, cutting the entitlements of citizenship, and forced reliance on the market for privately funded health, education, and retirement. The Middle Australia survey suggests that the ideology of economic 'reform' may even have had a perverse effect. Indications are that a substantial slice of middle Australia has taken the promises of reform at face value and so expected economic restructuring to make things better for them. Now that they see what reform has taken from them they blame government and, perhaps, expect it to do more, rather than less, to put things right. They have certainly not, as the reformers so hoped, given up on government and thrown in their lot with the market. Huge majorities of them think that government can do 'quite a bit' rather than 'very little' to fix a whole range of things including, reducing unemployment, improving health and social services, reducing poverty, cutting crime, creating more jobs, supporting families, reducing the gap between rich and poor, making businesses pay fair wages, and supporting communities.

These are some of the more uncontroversial findings from the Middle Australia Project. Let me now propose to you a few of the inferences that I have drawn from the findings and presented in the book (*The Experience of Middle Australia. The Dark Side of Economic Reform*, Cambridge, 2003).

### ***Inferences ...***

1 *Economic reform is experienced as a disturbance to the moral fabric of society.* Our middle Australia focus groups participants constantly speak of too much greed, too much dog eat dog, lost respect, too much aggression, of unreal expectations, and about the burden of having to treat strangers as competitors. In these and other related concerns about doing the right thing by others –

workmates, children, partners and friends – our respondents constantly make worried and uncertain appeals to notions of duty, responsibility, rights, entitlements, and obligations to others. Their anger and resentment are a window into what they experience as the troubled ‘ethical value that we place on our own desires and on our relationship with others’<sup>4</sup> We find economic reform implicated and often directly accused of setting off what middle Australia experiences as a heaving and splitting in the moral under structure of our (plural) value system. I read this as a revolt against the economic rationalist cum neo-classical economic push to force what our respondents call the ‘Almighty dollar’ ever more deeply into the fine grain of daily life as a solvent of knowledge, a denominator of value, and an automated code for all significant life choices. They accept that everyday consumption is about trading off one possibility against another according to your means: but not that the competing motivations of care for family members, for justice, for social recognition, for health, and for security should all be set at neutral par for the market to treat as exchangeable wants and preferences.

*2. For middle Australia economic reform is a betrayal of nation-building economic development. We are a secular, pragmatic, and often anti-intellectual people who for the most part eschew heady metaphysical notions of national identity. Instead we have preferred to define our collective aspirations for our future in a rather more down to earth way as economic development from which all would share. From the time of early exploration and settlement to the Ord River (a failure) and the Snowy Mountains schemes we had great faith that development would make things good or better. Two generations ago economic development meant industrialisation then for a while, as we began to lose our nerve in the Fraser years, we thought it might still mean the exportation of minerals and natural resources on a heroic scale. Then from about the time of Keating’s 1986 ‘banana republic’ warning we hoped that economic restructuring, ‘J’ curves,*

belt-tightening, and economic efficiency – in short economic rationalism and wholesale top-down economic reform – might still serve to point the way forward. Yet the promise of economic reform was always different. It was more something that you *had* to do in order not to go backwards, and certainly not an *idée force* that we could easily construe and share as real national building progress. Economic reform, especially now in its new packaging as globalisation, is going sour because it is more likely to be construed as a loss to national solidarity and even as a betrayal of the older unifying history making promise of national economic development.

*3. Middle Australia feels powerless and worries about organised power.*

Australians know that politics involves the aggregation of interests. They know too that it is often a rough and uncertain business with results that are generally less than ideal. The trust in representative government makes all this bearable. It allows us to believe that we the people are the macro subject of political choice and our elected representatives the objects, recipients, and executors of those choices. Trust makes politics legitimate. Yet in the wake of twenty years of economic reform, and in the last three years of one of the strongest economic booms in memory, we find a hardening majority of three quarters of our middle Australia respondents saying that governments of any party cannot be trusted ‘to put the needs of the nation above their own party interests’. These responses may be construed as middle Australia’s growing awareness of a shift from one model of politics to another. In their ‘hearts and minds’ the people believe, or want to believe, in our historically inherited bottom up notion of representative government. In their anxiety we read a threatening awareness that Canberra has succumbed to an alien – and largely American – minimalist, top down, notion of elite democracy which says that, if you can induce the people to vote for you, you then have the right to do anything you want to them. The numbers leave us in no doubt that trust in governments is falling and, further, that this is

associated with the belief that big business has too much power and ought to be more firmly regulated.

4. *Middle Australia is inclined to believe that economic reform reduces quality of life.* In the midst of one of the longest economic booms in living memory half of our middle Australians thought that quality of life was *falling*. Despite saturating propaganda from the marketeers and the advertising industry they also seem to know what the best international evidence has been saying about happiness and quality of life. Personal fulfilment and happiness is always a struggle and in the end a personal accomplishment. Neither government nor business can give it to us ready made. But they can certainly make it easier or harder to achieve. The evidence tells us that happiness depends first of all on psychological traits and personality characteristics that have little to do with social and economic structures. But after that, family, friends, relationships and intimacy always come top of the list – in every developed country. Good health is very important together with purposeful tension-free leisure, personal autonomy and interesting work. The variable that always comes right down near the bottom, never accounting for much more than 10% of the variance, is material well-being measured as wealth and dollar income. Middle Australia understands that economic engineering turns the hierarchy upside down, puts dollars at the top and makes that the common denominator of value for all the things that matter more. If the economy is up how come Australia is down? The libertarian and utilitarian economic assumptions that more money means more choice, increased utility, improved amenity and therefore improved quality of life no longer accords with lived experience.

### *Eating yourself ...*

For twenty years we have allowed ourselves, our society, to be re-defined from the top down, as a stubbornly resisting sludge through which we must

somehow drive the economy. In this warped view of the world society reappears only as a generic externality of the economy, as a frustration to the market that must somehow be overcome, as an idiot host, or just simply as a dump for the unpriced human and social costs of operating corporations – overwork, unemployment and underemployment, degradation of the public domain, scrambled time-horizons, unsettled expectations, personal aggression, disrespect, stress related illness, depression, and the list goes on – with all of this ‘collateral damage’ amply confirmed by international comparative studies. So we should not be too surprised to find that middle Australia has been unnerved by economic reform.

People know, as Michael Leunig once said, that we are ‘joined together by more than the weather’. Their conversations with each other are saturated with moral anxiety about a lost sense of responsibility and about duties, obligations, entitlements and rights. They have a pretty good understanding that ‘putting the economy first’ means throwing real standards into the furnace as fuel for an economy on steroids. A generation ago economic development still used to mean nation building. Now it means eating yourself, your culture and your social ties to intimates and strangers alike. Australians have always had a healthy regard for self-reliance but that does not mean that they are willing to redefine themselves as reducible input costs of production or as strategic actors who face each other only as competitors for scarce resources – so that the big end of town can have from them always *more!*

Economic rationalism is a doctrine which says that ‘economies markets and money offer the only reliable means of setting values on anything’ and which sets out to destroy our public and social institutions to make it so. If you were to tell our middle Australians that economic reform has ushered them into a bright new world of ‘choice and opportunity’ they would laugh you out the door. They would do the same if you told them that economic reform was something that they had chosen. Most of them recognise that they were thrown into the Anglo-

American libertarian economic path to please the big end of town. With Malcolm Fraser they now fear an all too foreseeable situation in which 'all the good assets in Australia are owned by ten foreign corporations'<sup>5</sup>.

For middle Australia economic reform is going sour. It is as if we already knew what the evidence has been telling us for quite a while. Societies that seek to make the economy serve the people do better, even on conventional economic indicators, than those that try to make the people serve the economy.

Against all the evidence the neo-liberal 'hydraulic model'<sup>6</sup> would have us believe that we need weak governments to have strong markets. Middle Australia knows that this is wrong. A well ordered society needs strong markets *and* strong active governments *and* strong families all working together to put the people first.

One day soon wisdom, judgement, and generosity may again prevail over ideology and lead good government in this place with what the best among the old Romans used to call *amor mundi*. – care for the world and friendliness towards strangers. .... Thank you.

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A fuller working through of the evidence from the Middle Australia Project and the arguments presented in this address can be found in, *The Experience of Middle Australia. The Dark Side of Economic Reform*, Cambridge, 2003.

<sup>1</sup> Michel Crozier, Samuel P. Huntington, Joli Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, Task Force Report No 8, New York University Press, 1975

<sup>2</sup> My economist colleagues tell me that, for technical reasons, this is not a good measure of real the government share. Yet there is no dispute about the relatively small size of our public sector. Other measures show that Commonwealth government revenues as a percentage of GDP to have risen slightly from 23.3 in 1980 to 26.2 in Y2000 (see Treasury Budget 2001-02, Appendix D, 'Historical and Net Debt Data, AGPS)

<sup>3</sup> Barbara Pocock, *Work / Life Collision*, The Federation Press, 2003

<sup>4</sup> Richard Sennett, *The Corrosion of Character*, Norton 1998, p.10

<sup>5</sup> Former Prime Minister, Malcolm Fraser, speaking on ABC Classic FM, Margaret Throsby's Guest, August 29, 2000

<sup>6</sup> I borrow this inspired phrase from Professor John Braithwaite. See J. Braithwaite 'Institutionalising Trust: Enculturating Distrust', in V Braithwaite and M Levi (eds), *Trust and Governance*, Russell Sage, New York, 1998.