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Disabling the State: The Third Way is no way for Australia

Catherine McDonald and William Mitchell

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Centre of Full Employment and Equity
The University of Newcastle, Callaghan NSW 2308, Australia

Home Page: <http://e1.newcastle.edu.au/coffee>

Email: coffee@newcastle.edu.au

Introduction

Australia's immediate past Labor Prime Minister, Paul Keating recently reflected on the years his party were in government (from 1983 to 1996). He said 'We didn't call what we were doing the Third Way. For Australia, we saw it as the only way' (Keating, 1999, quoted in Pierson and Castles, 2001). Since that time, third way ideas have been assiduously promoted in the Australian context by an increasingly prominent group consisting of current Labor politicians, and a range of social activists and public intellectuals drawn from what appear to be left-leaning think tanks. Their influence is evidenced by regular exposure in the quality electronic and print media, and by their appearance in public policy forums. As recently as May 2002, for example, the Australian Labor Party released a paper promoting its vision of stakeholder capitalism (ALP, 2002) as part of a process of re-vitalisation of its policy platform after a disastrous electoral defeat in 2001. The 'third way' rhetoric advanced in Australia by this group bears significant similarities, and indeed borrows heavily from the Blair model in the United Kingdom. The steady incorporation of third way ideas into informal policy debates and formal policy platforms has not only been promoted by the group nominated above, it has also been enthusiastically adopted and carried by parts of the non-profit and charitable sectors, and on occasion, employed strategically by the incumbent conservative Howard government.

Policy ideas and political projects regularly travel around the world with varying degrees of influence, particularly between the anglo-celtic English speaking nations (Stone, 2000; Dolowitz and Marsh, 1996). Nevertheless, as Kasza (2002) points out, the importation of foreign models in the development of welfare policy is one of the major means by which inconsistencies arise, undermining the rationalities that underpin the different welfare state projects. Here, we argue that despite a superficial ideological attractiveness and an apparent institutional 'fit', the current policy orientation represented in third way ideas in particular are inappropriate in the Australian context. Australia developed a unique welfare settlement dependant on full employment. The ascendancy and entrenchment of neo-liberal macro economic policy has ensured that the traditional Australian strategy has been undermined to the point whereby it is threatened with impotence in terms of its redistributive capacities. We argue that the type of alternative welfare regime implied by third way thinking will not be able to achieve the social policy outcomes it claims in the Australian context,

largely because it cannot deliver the employment outcomes it promotes. Full employability is not a substitute for full employment as the linchpin of social democracy. Criticism of the institutional arrangements of advanced regimes promoted by third way thinking fails to appreciate or respond to the real nature of welfare dependency, and its fundamental causal links to macroeconomic policy. Furthermore, the microeconomics and political reasoning underpinning the local third way program is doubtful, rendering the project itself institutionally unsustainable. Finally, the moral orientations of the package of ideas combined into any third way program positions citizens in undesirable ways. For these reasons, contemporary attempts to articulate third way thinking as the only possible alternative to the neo-liberal political program and the neo-classical economic program represents an illogical and possibly destructive development that has the capacity to undermine national wellbeing.

Safeguarding the citizens

It is well known that Australia (along with New Zealand) developed a peculiar variation on the liberal welfare regime (Esping-Anderson, 1990; Castles and Mitchell, 1992). All welfare states develop within the logic and rationality of their own historical experiences and choices, and Australia is no exception. Prior to federation and the establishment of the Australian nation, each of the colonies was engaging in their own version of what may be loosely described as nation building. When debates about how welfare should be delivered began to be conducted, they were shaped largely in reaction to the colonial elites' dislike of the poor law system in Britain, which was accused of encouraging pauperism and mendacious dependency (Beilharz, Considine and Watts, 1992; Garton, 1990; Kennedy, 1982). Consequently, the model of relief developed over the 19th Century relied predominantly on charitable organisations and was made operational by individual philanthropic subscribers dispensing material relief. In this way, a particular orientation to minimalist state involvement in the management of dependent populations was institutionalised. In the final decade of the 19th Century and the early part of the 20th Century, a more active approach to national social policy was developed, initiated for the most part by the newly formed Australian Labor Party (Markey, 1982).

On the face of it, it appears that Australia chose at that time and subsequently over the 20th century to enact a much weaker version of statism than, for example, Britain, in that it developed a highly targeted and selective income security system. Accordingly,

assistance was and is granted only to those who meet the strict eligibility criteria, all benefits are closely means tested, and the income security is funded from general revenue. Nevertheless, a more accurate reading acknowledges that Australia's extensive use of economic and industrial policy created what has since become known as the 'wage earners welfare state' (Castles, 1983). That is, tariff protection and centralised wage fixing in conjunction with legislated employer responsibilities for such contingencies as sickness created a unique regime of direct re-distribution from capital to labour mandated by the state. In doing so, Australia enacted a powerful regulatory role for the state that conscripted the private sector firmly into operationalising the welfare regime.

The system of financial redistribution has always been accompanied by an extremely complex and often very uneven mixed economy of welfare in most areas of social service delivery. In Australia, elements of universalism were established largely during what was considered to be the expansionary Whitlam era (1972-1976). Universal health insurance was launched, for example, financed federally by an hypothecated tax known as the Medicare levy. Its universalistic tendencies, however, were weakened by subsequent policy developments, and by the operations of a federated political structure. That is, hospital and other health services are provided by State government public health systems as opposed to the Commonwealth government, and by private medical practitioners and private hospitals, a situation that results in uneven health care service provision along a number of dimensions such as region and income. Similarly, while there are elements of universalism in education, it too largely functions under the auspices of the State governments and an extensive private system, embedding significant regional variations across Australia. Housing policy at both the Commonwealth and State levels in Australia has always favoured home ownership as the tenure of choice, resulting among other things in an extremely small and highly residual public housing sector. Community, or personal social services, while partially funded by the Commonwealth, are managed and primarily funded by the States, and implemented for the most part by the non-profit and for profit sectors, themselves heavily reliant on informal care by families and volunteers.

Nevertheless, in terms of re-distributive outcomes, the impact of Australia's regime of welfare was of significant if not equal importance to that of Britain. Through the use of tariffs and centralised wage fixing, Australia ensured a both a high degree of social

protection and significant redistribution from capital to labour. Within that, however, other types of social services such as health, housing and social welfare played a comparatively smaller role in promoting citizen wellbeing, particularly if compared to the post war British system (McDonald and Marston, 2002). As a consequence of the complexity and uneven nature of these arrangements, it was virtually impossible in Australia to make comprehensive or categorical statements about those parts of the social service system that stand outside of economic and industrial policy. First, Australia's long-standing reliance on a mixed economy of welfare with the significant role for the private, non-profit and informal sectors in health, housing and the personal social services render the role and nature of state engagement was very different from that in Britain. Second, it has always functioned within a federated political structure in which central government plays an important, but attenuated role. Within that, variations between the Australian States are significant and Australians experience welfare very differently depending on where they live.

As indicated, the defining feature of Australia's welfare state was its reliance on economic and industrial policy; and since World War Two, on a particular Keynesian orientation to macro economic policy and on sustained tariff protection and centralised wage fixing. Consequently, the well being of most Australians was contingent on (male) labour force participation and was reliant on a strategy of full employment. From 1945 until 1975, Australian governments actively used fiscal and monetary policy to maintain levels of overall spending sufficient to generate employment growth in line with labour force expansion. During this period the average unemployment rate was 2.5 per cent, and was predominantly frictional in nature. As a consequence the net strategy of redistribution was successful, albeit within a framework which made many, subsequently discredited, gendered assumptions about the redistribution of income within families (O'Connor, Orloff and Shaver, 1999). This situation was fundamentally de-stabilised by the redirection of economic policy following the OPEC oil shocks. Since that time, the 'fight inflation-first' economic policy orientation of Australian governments has supported the interests of a dominant business coalition to the detriment of the interests of labour (Bell, 1998), and has resulted in, among other things, a sustained inability to provide sufficient employment to match the available workforce. Full employability has replaced full employment as the major responsibility of the federal government.

Ensuring workers are ‘job ready’ has replaced the responsibility previously assumed by government to ensure there were enough jobs. As a result, there has been on average 11 unemployed persons per vacancy since June 1974, and an average unemployment rate of 7.65 percent between 1975 and 2001 (Mitchell, 2001). It is within this context that the ‘problem’ of welfare dependence has re-emerged as a key political theme, and the issue of ‘welfare reform’ occupies centre stage of the incumbent Howard Government policy agenda for its current term in office. If the last election (December, 2001) is anything to go by, the political viability of neo-liberalism has yet to be significantly de-stabilised in Australia, and any electoral backlash has been defused by a variety of cleverly deployed strategies. Alternatively, it is the Australian Labor Party who has suffered most acutely, and who recently began to indicate some sympathy to third way ideas. This, in conjunction with a ground swell of movement in part of Labor’s traditional constituencies (the welfare sector), indicates that third way-ism may become influential in Australia in the not so distant future.

Creating Dependence

Three groups of Australians are consistently more likely than any others to be dependent on cash benefits: the aged, people with disabilities and the unemployed. From 1980 to 1999, for example, the rate of the percentage of total public expenditure on cash benefits paid to each remained stable at approximately twenty two, seven and seven percent, respectively (OECD Social Expenditures Database). Here, we note that both neo-liberal and third way policy orientations position dependency, particularly public dependency, as problematic at both the individual and collective level. Accordingly, an array of what might be called dependency reduction policies and programs have been developed and implemented across the OECD. One of the most prominent of these has been active labour market programs which target unemployment as a key dependency status requiring remediation. Under the guise of welfare reform, the policies that fall out of this are, for the most part, supply-side micro-economic responses that pay little attention to the macro-economic roots of unemployment. They are intent on generating full employability not full employment.

Since the Great Depression, we have known that capitalist economies are prone to lengthy periods of unemployment without government intervention. From 1945 until 1975, governments successfully employed fiscal and monetary policy to maintain

levels of overall spending sufficient to generate employment growth in line with labour force growth. Before that, the Australian economy rarely achieved unemployment rates below five per cent. Since 1975, the paradigm shift in macroeconomics (Thurow, 1983) resulted in the abandonment of the Keynesian notion of full employment, and its replacement by a redefined notion of unemployment encapsulated by the NAIRU paradigm (Mitchell, 2001).¹ This approach redefines full employment as the level that will occur where inflation is stable rather than where there are enough jobs and hours of work to match the aspirations and preferences of the labour force. It also alleges that free markets will always guarantee this re-defined level of full employment, and Keynesian attempts to drive unemployment below the NAIRU level will not only be self-defeating, but will generate accelerating inflation. The broad thrust of macroeconomic policy is now to target low inflation with restrictive monetary policy (setting interest rates) reinforced by fiscal austerity (budget surpluses). The Keynesian notion that unemployment represents a macroeconomic failure that can be addressed by expansionary fiscal and/or monetary policy is rejected. Instead, unemployment reflects supply side failures such as poor incentive structures facing individuals, motivational problems, skill mismatches, excessive government regulations and so forth (OECD, 1994). Concomitantly, the role of government is confined to dismantling such supply-side impediments as minimum wages and income security payments, and to shifting its interventions to focus on the skills, attitudes and motivations of the unemployed.

The successful substitution of inflation for unemployment as a key economic problem is not without its critics (Mitchell and Carlson, 2001; Modigliani, 2000; Blinder, 1987). Their alternative approach re-centers unemployment and is based on the basic lessons of macroeconomics. This approach is critical of the stranglehold of the notion of fiscal constraint and reasserts the necessary role of government expenditure (budget deficits) in ensuring full employment is achieved. It is to this that we now turn, articulating a two-pronged argument. First, we demonstrate how a policy orientation which demands budget surpluses actually creates unemployment, and second, we demonstrate why the idea that governments are inevitably fiscally constrained is incorrect. Following this, we argue that the failure of third way alternatives to manage the 'problem' of dependency represented by long-term

unemployment, and their failure to engage with macroeconomics render these ideas indistinguishable from neo-liberal accounts of labour market dysfunction.

False attacks on macroeconomic activism²

The neo-liberal paradigm, and the attacks it has made on active macro policy, has consistently failed to address the basic issue: Why does mass unemployment of the type we have seen over the last 25 years occur? From introductory macroeconomics, we learn that if aggregate spending is not sufficient to purchase the total supply of goods and services, there will be an unplanned increase in inventories leading to a rise in unemployment and/or underemployment. To avoid this situation, net government spending (the budget deficit) must fill the spending gap. Thus, mass unemployment reflects a choice made by government to provide lower net government spending and accept higher unemployment.

When involuntary unemployment exists, nominal (or real) wage cuts cannot ‘clear’ the labour market unless they somehow eliminate the desire of the private sector to net save, and thereby increase spending. Nor can individual search endeavour eliminate the macroeconomic constraint imposed on the labour market. The unemployed cannot search for jobs that are not there. Extending the model to include the foreign sector makes no fundamental difference to the analysis. Private domestic and foreign sectors can be consolidated into the non-government sector without loss of analytical insight.

Only government deficit spending can accommodate any net desire to save by the non-government sector and eliminate unemployment. In contradiction to mainstream rhetoric, the systematic pursuit of government budget surpluses must be manifested as systematic declines in private sector savings.

Mass unemployment thus arises because the budget deficit is too small. The non-government sector depends on government to provide funds for both its desired net savings and payment of taxes. To acquire the currency it needs, the private sector offers real goods and services for sale. Unemployment therefore occurs when net government spending is too low to accommodate the need to pay taxes and the desire to net save. In general, given that the non-government sector desires to hold currency, deficit spending is necessary to ensure high levels of employment.

Contrary to the neo-liberal myth there are no financial constraints on federal government spending. The myth starts with a false analogy between household and government budgets. It misunderstands that a household, the user of currency, must finance its spending before the spending occurs, whereas the government, the issuer of the currency, spends first and never has to worry about financing. In pursuing the myth, orthodox economists use the Government Budget Constraint (GBC) framework to outline three sources of government “finance”: (1) taxation; (2) selling interest-bearing government bonds to the private sector; and (3) printing money. A budget deficit (government spending above tax revenue) must therefore be “financed” by a combination of (2) and (3). Various scenarios are constructed to show that deficits are either inflationary, if financed by printing money, or crowd-out private sector spending by pushing up interest rates, if financed by debt.

A summary of the critique offered by Mitchell and Mosler (2002) starts by noting that Federal government spending provides the private sector with the currency they need to discharge their tax liabilities and to net save. This spending precedes the tax payments and logically cannot be financed by the same. If the private sector desires to net save then total government spending must exceed taxation; there must be a budget deficit. Budget surpluses thus squeeze the desires of the private sector to hold financial assets, net save and pay taxes. Ultimately, they must lead to mass unemployment.

The GBC approach then argues that deficits have to be financed by debt, which place upward pressure on interest rates by increasing demand for private funds. Yet, this fundamentally misconstrues the way the banking system operates. The RBA conducts monetary policy by setting and maintaining a target short-term interest rate (the cash rate), which conditions the overall structure of interest rates. A budget deficit provides a net injection of cash into the system which creates a system-wide excess in the reserve accounts that commercial banks hold with the RBA (exchange settlement accounts). These accounts are central to the settlements system where the multitude of transactions between individuals and banks are resolved. Banks eschew excess reserves in these accounts because in Australia they earn 25 basis points below the cash rate. Thus, system-wide cash surpluses place downward pressure on the cash rate as banks try to lend out the excess reserves. The RBA must ‘drain’ these excess reserves from the system if it wants to meet its interest rate target. They do this by

issuing government debt. The private sector purchases the debt to earn a market yield on their excess reserve holdings. So, far from pushing interest rates up, debt issues maintain existing rates, which would otherwise fall. If no debt was issued, the RBA would lose control of monetary policy (cash rate) but this would not constrain government spending. The impact would be on asset returns available to the private sector. In circumstances where the private sector cannot find suitable interest-bearing assets to absorb their cash surplus, the sector can increase its consumption. This would mean that the private spending gap would decline and require lower net government spending to maintain full employment and avoid an overheated economy.

Other arguments have been raised in the last 20 years to repel Keynesian macroeconomic activism. The “twin deficits” argument alleged that a budget deficit translates dollar-for-dollar into the current account deficit, with inflation the consequence as rising international debt levels (to fund the current account) force exchange rate depreciation. The empirical and causal reality is different and this view is now discredited (see Mitchell, 2001). More recently, neo-liberals claim that national macroeconomic policy has lost its independence because of the damaging impacts of speculative financial flows which can shatter a non-compliant nation's exchange rate almost overnight. Further, the standards of living supported under full employment and augmented by the welfare state are no longer possible because of competition from emerging industrial nations. But the essential point is that the government, as the issuer of money, cannot be financially constrained and has an obligation to ensure that its net spending is sufficient to maintain full employment. The international investment community is ultimately interested in yields and a strong stable economy with full employment provides an attractive long-term source of profitability. Any “package” that justifies its position on the basis of perceived government financial constraints rests on false foundations. In that context, the emphasis on active labour market programs, which we now examine in detail, is difficult to justify.

In summary, the government, as the issuer of money, cannot be financially constrained. Furthermore, governments can, through deficit spending, influence dependency rates in a very powerful way. As well as providing a critique of the neo-classical policy agenda of governments such as Australia's, these insights form the foundational assumptions underpinning our subsequent analysis of the third way

package of ideas or proposals. This is particularly the case as Australia's third way proponents justify their position on the basis of perceived government financial constraint, justifications which we have argued are based on incorrect foundations.

The microeconomic limits of the Third Way solution

Third way ideas are, we argue, a loose array of proposals bundled together into a 'solution package' that purports to be able to steer a route through what is positioned as the extremes of Keynesianism (regulation) and neo-liberal (free market) economics. Australia's version of the third way, by ignoring the types of arguments and analyses presented in the previous section, adopts a characterisation of unemployment (dependency) that is hard to distinguish from the NAIRU hypothesis. Leading Australian proponents of the third way such as Botsman³ and Latham⁴ (2001) suggest that government fiscal and monetary policy is impotent, and that individuals have to be empowered with appropriate market-based incentives. Accordingly, the third way solution package locates the key to the 'problem' of dependency within the aspirations of individuals in local communities, largely detached from the state and certainly detached from the macroeconomy. In doing so, and by default, it proposes microeconomic market solutions to what are essentially macroeconomic problems. In this way, its economic assumptions are indistinguishable from the neoclassical approach. It is a fallacy of composition to think that what works in a microeconomic context will deliver similar results if applied to the entire economy. That was the lesson of the Great Depression. Furthermore, we contend that its microeconomic assumptions are problematic.

While the third way package evades precise definition, it appears to embrace both corporate and not-for-profit commercial behaviour in its proposals to achieve social objectives and/or seek cost-cutting efficiencies or revenue diversification (see Fowler, 2000; Johnson, 2001; Cook, Dodds and Mitchell, 2001). The commercial pursuits by non-profit organisations, for example, are seen as a means to cross subsidise social goals. Commercial venturing by non-profit organisations has long been considered problematic, particularly in its propensity to promote goal deflection, precipitate ethical compromise and lead to exposure to unanticipated risk (Bennet and DiLorenzo, 1989; Adams and Perlmutter, 1991; Smith and Lipsky, 1993; Young, 1994). Within some third way literature focused on non-profit organisations, for

example, the entrepreneurial activities and abilities of individuals appear to take primacy over the social dimensions (Dees, 1998; Henton, Melville and Walesh 1997).

Third way exponents appear to have accepted the neo-liberal notion (based on the erroneous budget austerity view) that welfare services need to be delivered more *efficiently*, and from this premise advance another, that entrepreneurially generated profits via full-blown business activities are required to cross-subsidise welfare provision in an era where budget allocations are highly constrained. The concepts used in the third way literature borrow heavily from neoclassical microeconomics. Efficiency, for example, as it appears in standard microeconomic textbooks refers to the highest output at the lowest cost. According to this model, while unfettered private markets, allocate resources to the most efficient uses, the presence of any social (external) costs arising from private market transactions that are not valued in the market, will render private entrepreneurship inefficient.⁵ Other qualitatively different aims that a non-profit organisation might wish to promote (such as social justice) cannot be valued in the market and so private entrepreneurial models of welfare provision are unlikely to achieve efficiency. How, for example, would a social entrepreneur allocate resources between profit-making and welfare-providing activities? Despite the propensity for third way supporters to employ textbook terminology, presumably to claim legitimacy for their agenda, no such authority exists. No neoclassical underpinning exists to suggest that third way solutions delivers welfare more efficiently than, for example, the welfare state model it seeks to replace. Dees (1998: 2) admits that “Markets do not work as well for social entrepreneurs ... markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay.”

Furthermore, the third way package proposes community pooling arrangements to underpin community entrepreneurship. These are also unsuitable vehicles for welfare provision. In this instance, the proposals seek to pool government allocations for health, education, housing, training and employment and social security payments, currently paid to individuals “to invest in community cooperatives that allocate a living wage for community employment” (Botsman, 2001: 71). Accordingly, the government would become a venture capital provider and underwrite small-scale capitalist production, which is known to have high rates of business failure (ABS, Cat. No.1321.0). While it might be argued that it is ethically undesirable to make the

fortunes of the disadvantaged dependent on entrepreneurial vagaries, an equally significant point refers to the financial risks alluded to above. In this instance, significant community entrepreneurship would, in all likelihood, fail due to *moral hazard* (where the government takes on a moral obligation to prevent an entrepreneur from failing). The entrepreneur would face distorted risk and return choices because they can effectively ignore downside risks of any investment. Endemic market failure would result in a proliferation of wasteful investments. We conclude that the microeconomic assumptions of the third way solution packages have significant limitations, which are sufficient to render the package unsuitable for the task of reducing dependency. In the next section, we shift the focus of our evaluation, and examine the political assumptions underpinning the Australian third way solution package.

Institutional Mismatch: The Third Way and the Australian Polity

In many ways the promotion of third way ideas in Australia appear to respond to developments in local structures and processes of governance. Like other western democracies, Australia is experiencing some destabilisation of the model of governance through the fragmentation of party politics, accompanied by an apparent erosion of confidence in representative democracy. As has occurred elsewhere, the two major political parties in Australia have ceased to be the main agents of citizen and interest representation, and Australian political institutions have been confronted with the rise of populist, essentially oppositional political movements. Marsh (2000a, 2000b, 2000c), for example, documents the breakdown of party politics in Australia. Like Britain and the United States, two main political parties systematically and institutionally dominated the Australian governance system, accommodating and articulating most but by no means all of the interests of the Australian population. As most of the electorate supported one or other of the major parties, the weaknesses of the model in terms of those groups and interests it failed to represent did not constitute an electoral problem. This broad support on most issues allowed the major parties to contain strategic policy development within their structures and facilitated a minimalist passive mode of citizen participation in governance.

Several factors have reduced the capacity for the major parties to capture and represent majority community opinions and interests, resulting in a destabilised polity. In responding to economic globalisation, the major parties have redefined their policy

stance, decreasing the distance and blurring the boundaries between them, and leaving segments of the electorate without a natural home. Electoral support for the major parties has significantly weakened, and the major parties have lost their primary role in agenda setting. As a consequence of all these factors, the capacity of the political system to represent citizen interests and mobilise electoral consent has steadily eroded, and the Australian 'public sphere' has fragmented. Into this political vacuum, Australia, like some European nations, has witnessed the rise of independents and minor parties, seen as protectors from the storm of economic globalisation, representing 'local' interests and 'local' people. As Gibson and Cameron (2000: 8) note, we cannot escape the fact that the re-emergence of 'community' discourse has coincided with right wing populist Hansonism⁶ and the dramatic portrayal of crises in rural and regional Australia. So, as the notion of community has re-entered policy debate via a new language of economic management, it has also assumed its inherently geographical association with local concerns. This fragmentation of class-based politics, the bifurcation between national and local interests creates a space or vacuum into which new modes of engagement arise. The third way package with its explicit appeal to localism represents one of the most persuasive responses, and it is hardly surprising that it has been adopted by the major political parties, albeit to different degrees and in different ways.

Furthermore, third way ideas represent an apparent and attractive solution to perceived problems of 'overloaded government' (Skelcher, 2000; Latham, 1998). Overloaded government refers to widely held perceptions that government was/is too big, weakened by the burgeoning requirements of policy incrementalism, and experiencing crises of legitimacy because of its apparent inability to effectively manage and fund these responsibilities. In this sense, third way ideas are seen by politicians such as Latham as a refined and contemporary approach to the task of re-designing government, largely by reducing its scope and invigorating the role of local communities (Scanlon, 2001). Even though the third way package appears to provide a pragmatic political solution to problems of interest fragmentation and here we argue that for at least two reasons, the package is not easily able to be adapted to Australian conditions.

The first problem emerges out of the federated nature of the Australian polity. Here, we are able to illustrate the types of limitations that will confront the policy

developments proposed by the third way agenda through historical reference. These issues were played out dramatically during the Whitlam Labor Government's term of office in the 1970s, in relation to an ambitious program known as the Australian Assistance Plan (AAP). The AAP was an attempt to 'introduce co-operative participatory social planning on a regional basis' (Graycar and Davis, 1978). In effect, the AAP represented Australia's version of the Model Cities Program of the United States. Although it was conceived and developed within a social democratic policy framework wedded to social justice, its problem definition and overall intent bears some similarities with aspects of the third way agenda, particularly its commitment to localism and to community empowerment. It involved a nation wide attempt by the Commonwealth Government to empower citizens in local regions to identify local and regional needs, and develop local and regional responses. It involved setting up administrative units that were smaller than the States, but larger than local authorities, and establishing coordinating bodies, that were representative of the variety of interests in those regions. Through these administrative units, Commonwealth financial resources supporting local initiatives were dispensed.

The AAP was an ambitious experiment that failed. The second evaluation report nominated a number of operational arenas that contained the seeds of destruction (Graycar and Davis, 1979); the legislative arena, Australia's federated political system, and the community arena. Within each, the assumptions of the 'naïve' politics of the AAP (Graycar and Davis, 1978: 84) lead to its eventual demise, mirroring the rise and fall of the Model Cities Program (Marris and Rein, 1974). In the legislative arena, for example, the AAP's designers wrongly assumed a high level of knowledge and information sharing among members of Parliament, and between the executive and legislative branches of government. Initially, the lack of conceptual specificity and the diffuse nature of the proposals allowed it to meet the ideological perspective of all political parties (a factor the AAP also has in common with the third way package). In the longer run, however, politicians' lack of knowledge about the philosophy of the AAP and the implementation process, coupled with the combative nature of parliament, lead to the program taking on an explicit political dimension which the government did not (or could not) contain.

Australia's federated political system also dramatically undermined the capacity of the AAP to achieve its objectives. Operationally, the AAP established a governance

structure outside of the framework of the federation in the form of regional bodies to oversee local needs assessment, planning and development. This new structure was 'not in the some hierarchy, not really responsible to anyone, without established precedents and procedures' and largely bypassed the States (Graycar and Davis, 1977: 89). Eventually, the ire of the States rose and the AAP experienced considerable institutional opposition. Finally, in the community arena, the naïve politics of the AAP's founders was also played out, largely centring on attempts to build legitimacy through fostering citizen participation. Not unsurprisingly, the politics of local communities that foster participation by some and silence and marginalise others were acted out in the regional structures developed. In each of these arenas, these processes (and others) de-stabilised the AAP until it eventually collapsed. While there are significant differences between the AAP and the third way proposals, there are enough structural similarities between them to limit confidence in the capacity of any third way package, introduced at the Commonwealth level and working to local communities and regions, will succeed where the AAP did not.

Second, there is a specific and as yet unresolved issue that arises out of the proposed role for non-profit organisations in the third way package. This concerns the problem of public accountability that is attendant upon using the non-profit sector to pursue public policy agendas. Despite claims made about the use of the contract mechanism to control agent behaviour (a mechanism that undoubtedly has had a significant impact on promoting more transparent financial accountability), there are still significant problems relating to public accountability more generally (Mulgan, 2002; Smith and Lipsky, 1993; Leat, 1990). McDonald (1999; 1997), for example, has demonstrated empirically that there are significant imperfections in Australian accountability regimes between public sector funding bodies and funded non-profit organisations. In the former, she demonstrates that funded organisations experience problems being accountable to their various constituencies including funding bodies, and in the latter, how funding bodies themselves fail to hold funded organisations accountable.

To date, we have argued that the solutions proposed by the third way package are unable to solve the 'problem' of dependency as that is experienced in Australia, for economic reasons and for quite pragmatic institutional reasons. In the final section of this paper, we conclude our evaluation of the utility of third way ideas in terms of its

moral imagination and its potential impact on the quality of citizenship of Australians, particularly dependent Australians.

Remaking Australians

We have argued that, on the surface, the third way package appears to present an attractive solution to the problems on an overloaded state, or to what one author has referred to as ‘institutional sclerosis’ (Pakulski, 1997). It also appears to present acceptable, even desirable alternatives to the supposed debilitating effects of the bureaucratic-professional welfare state. It proposes to do this through a variety of means, but most specifically by re-locating the responses to social ills such as dependency out of the state and into the social space called ‘community’. We, along with others commenting both locally and elsewhere (for example Frankel, 2001; Scanlon, 2000; Hamilton, 2001; Lund, 1999), consider that such proposals carry significant dangers, particularly for the nature and quality of Australian citizenship.

As noted earlier Australia’s welfare expansion was dominated by the construction of the (male) wage earners’ welfare state (Castles, 1983), representing a particular and quite specific version of the Keynesian welfare state. Wearing (1994) has described the Australian style as one of industrial citizenship, in which associated benefits of social citizenship were institutionally distributed via labour market participation. There is no doubt that the model was an inadequate vehicle for the promotion of the citizenship rights of those groups of Australians (indigenous peoples, young adults, people with disabilities) whose interaction with the labour market has always been systematically distorted. Nevertheless, the deregulation of the labour market and reduction of tariff protection coupled with a neo-liberal dominance of economic policy has meant that Australia has created an even more distorted labour market, unable to provide sufficient employment for all who would prefer to work (Mitchell and Carslon, 2001). As a consequence, the major institutional means by which Australian citizenship rights are articulated is destabilised and it has become a fragmented, weakly articulated identity differentially taken up by those who are able to engage with a highly segmented labour market. As we have argued, third way solutions offer no solution at all to this fundamental problem.

Rather, it offers a chimera. While essentially a blueprint for the re-organisation of the delivery of social welfare, it promotes an appealing message that participation in

community will substitute as a means for articulating a ‘new’ form of citizenship. The third way package sends an explicit message that everyone, including the passively dependent, will both participate in and constitute an homogeneous and indeed mythical community. For the reasons articulated in the previous section, the package possesses an unspecified and institutionally detached form of political legitimacy, and promotes an almost free floating form of citizenship disarticulated from traditional formal arrangements. Furthermore, these ‘communities’ are conceptualised in such a manner as to ignore, or at least fail to account for and come to terms with the inevitable politics and conflicts operating in all social spheres.

The role of community as an idea serves as a key hinge promoting a new politics of welfare, hidden behind what are essentially anti-democratic politics embedded and promoted by community-based interventions (Rose, 1999, 2000). The third way community operates as a form of government through space, providing a comparatively transparent example of how the proposed operations of this new natural, extra-political zone of human relations challenges and reformulates the type of social citizenship embedded in Australia’s version of the Keynesian welfare regime. The language of community is used to identify a new territory between the state, the market and the individual, in which an unproblematic and mono-modal form of civic morality is substituted for state engagement in the lives of citizens. In the process, concern about material problems of inequality, poverty, political and social exclusion are displaced, substituted by the requirement to govern communities, particularly communities of stigmatised and often dependent people. In such visions, conventional poverty programs are replaced by community-focused approaches, emphasising ‘support networks, self-help and the cultivation of social capital as a means to generate economic renewal in low-income neighbourhoods’ (Giddens, 1998: 10). While Giddens is clearly referring to developments in Britain, the same processes are evident in Australia and have until very recently not only been uncontested but actually celebrated, particularly by the large charities and, perversely, by the Howard conservative government (Horin, 2001; Simons, 2001).

In addition, third way inspired accounts for reforming welfare and managing social dependencies explicitly elaborate an axial role for community based, non-profit or third sector organisations delivering a range of social services. There are at least two related problems with this. First, these accounts naively or mischievously assume the

ongoing existence, viability and sustainability of non-profit organisations embedded within enriched communities. That is, by disentangling these organisations from the plethora of complex and intersecting social, economic and political processes that shape the overall conditions of organisational existence, they fail to reflect environmental contingencies confronting them that, in many instances, threaten their very survival. Second, these accounts devolve the enactment of citizenship into the (private) organisational spaces of the provider organisations. That organisational space, be it charitable or activist, sectarian or secular, large or small, will inevitably shape the meaning and quality of 'citizenship' experienced by service users. The net result of this will be not one form of citizenship, but multiple forms constructed by specific organisational contingencies. Despite the optimism of some commentators and theorists about the potential capacities of the non-profit sector to enable civil society, and by association, new forms of citizenship (for example, Turner, 2001: 201), there is good reason to be concerned about what we do not know. Here, we explicitly nominate a significant but largely unacknowledged lack of knowledge about the internal functioning of the many 'black boxes' that make up the non-profit sector (Considine, 2001; Billis, 1991).

Furthermore, the third way package implicates the non-profit sector and the services it delivers in new, often disciplinary modes of government and new modes of surveillance and enforcement. The Australian version of work for the dole, for example, a programme of enforced voluntarism by unemployed people has been enthusiastically taken up by sections of the Australian non-profit community services sector. In addition, the Australian non-profit sector operates over half of the Job Network employment services, and have recently been criticised for their active participation in breaching processes (by which unemployed persons lose their benefits for non-compliant behaviour irrespective of the cause) (ACOSS, 2001). It is arguable whether these new modes of behaviour by the sector have any emancipatory potential, and equally arguable about whether they provide a sound platform for the articulation of the interests of those peoples hitherto excluded from the older forms of citizenship articulated by the old regime of welfare.

Conclusion

While third way inspired visions of the role of the non-profit sector and of community services make highly seductive claims about their potential to promote alternative

forms of citizenship, the reality may well be otherwise. A more appropriate alternative would involve expansionary monetary and fiscal policy to stimulate the labour market, and in doing so, significantly reduce dependency. Acknowledging the shortcomings of the 'old' version of industrial citizenship, a new version can instead be constituted via a range of progressive social policies designed to maximise the labour market participation as well as social participation of those groups of Australians traditionally under-represented in the labour market and excluded from social life. Such an agenda, while clearly at odds with the third way package, is not fantasy, especially if we reject the fiction of fiscal constraint and re-embrace the notion of an active and engaged government.

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¹ NAIRU refers to the Non Accelerating Inflation Rate of Unemployment.

² This section draws on Mitchell and Mosler (2002).

³ Peter Botsman, an academic, is the founding Director of the Whitlam Institute located at the University of Western Sydney (http://www.whitlam.org/people/botsman_peter.html).

⁴ Mark Latham MP, is the Labor Member for Werriwa, Assistant Shadow Treasurer and Shadow Minister for Economic Ownership, Housing and Urban Development (<http://www.thirdway-aust.com/mark.html>)

⁵ There are several [highly unrealistic assumptions employed to ensure the private market in the absence of externalities delivers efficiency. None are likely to hold in practice.](#)

⁶ A term used to denote the rise of a right wing populist political movement, known as ‘Pauline Hanson’s One Nation Party’.