Closing the gap? The role of wage, welfare and industry policy in promoting social inclusion

The perception of a social policy crisis created by *WorkChoices* is fundamentally mistaken and based on a narrow reading of the 'Australian way' of doing social policy

by Paul Smyth

Introduction

Soon after Federation, a distinctive system of 'social protection by other means' (SPM) emerged in Australia, and has become widely invoked in the comparative literature as the 'wage earners' welfare state'. Its foundation lay in the system of judicial minimum wage determination which persisted – if in diminishing forms – from 1907 to 2005. Now seen as a watershed in Australian social policy, 2005 was the year that the Howard Government passed industrial relations reforms known as the *WorkChoices* legislation. These reforms were widely thought to reflect a view that wage minima should be determined more by what the market can afford than by welfare criteria. For some, this was seen as social policy vandalism, opening the way to a US-style flood of working poor. Others saw it as an inevitable consequence of globalisation; and proposed that Australia, along with other SPM countries, must reckon with creating new European-style welfare state systems of 'flexicurity' – which can combine a deregulated market economy with a welfare state-regulated form of social compensation.

I propose that this perception of a social policy crisis created by *WorkChoices* is fundamentally mistaken and based on a narrow reading of the 'Australian way' of doing social policy. A revisioned history will point the way to a quite different and readily attainable social policy framework which can indeed 'close the gap' and promote a socially inclusive Australia.

Three features of the new industrial relations agenda

The last decade witnessed the emergence of a policy and legal vacuum in relation to the respective roles of wage and welfare policies in Australia. Older pro-regulatory stances in labour law were displaced, creating a challenge to forge new pro-regulatory assumptions which are post-protectionist.

There are three features of the new industrial relations agenda which are of particular relevance to this endeavour.

Firstly, labour law has seen a switch of emphasis from what is termed 'protectionism' to efficiency. The former is said to have expressed twentieth century welfare goals concerned with securing worker rights in an employee-employer relationship conceived as fundamentally unequal. Internationally, this goal of worker protection has been overtaken in the last decade and a half by deregulatory approaches emphasising economic efficiency and competitiveness. The main division of opinion is now between those who see competitiveness best achieved through simple deregulation of the labour market and those who see that the achievement of competitiveness actually requires extensive government intervention.

The second feature of the new labour law has been the widening of interest in its regulatory field from the 'workplace' to the broader 'world of work'. This emphasis links issues of efficiency at work to the requirement for workers to have appropriate education, training, housing and work-life balance.

The third aspect of the new labour law relates to the sites of regulation. The curtailed powers of the Australian Industrial Relations Commission will not mean the end of regulation but rather its dispersal among other regulators, creating new difficulties for any coordinated approach to wage and welfare policies.

These three themes – protectionism replaced by competition, the linking of the market to its social foundations, and the challenge of coordinated governance – comprise what I would see as leading edges of contemporary Australian social policy development.

From the ‘Australian settlement’ to the ‘Australian way’

It is vital that our analysis be informed by an accurate sense of history. ‘Path dependency’ remains a critical factor in the ongoing evolution of national social policy. The ‘initial steps’ in the Australian social policy path are still widely and falsely understood in terms of an Australian settlement characterised by protectionism. Here, wage protection is seen as an element of a policy package also comprised of tariff protection and the immigration barrier of the White Australia policy. A more accurate interpretation is in terms of an ‘Australian way’, in which protectionism was not a distinctive feature at all but rather a bias towards regulating in a way which would promote employment and growth while seeking egalitarian outcomes.

The distinctive feature of the Australian way was ‘social investment’. Australia initially chose tariffs over free trade, but the point is that this was not distinctive. North Americans, continental Europeans and all the self-governing members of the Empire rejected the British push for free trade in this period. Following more the ideas of Friedrich List than Adam Smith, these countries adopted tariff protection as a way of building up their own industrial base. Australia chose to use its land-based wealth to steer its economic development towards the new industrial sector and so develop a more diverse, higher-wage economy which would also be attractive to immigrants and build a larger population base.

Most distinctive was the level of government spending. Along with the US and New Zealand, Australia has led the world in spending on education since the 1870s – with the outstanding social policy achievement of free public primary education and the beginning of state secondary and technical education. Importantly, this ‘social investment state’ was as much the product of the business sector as it was of the labour movement. An industry policy which took the high-wage manufacturing path would require a better educated workforce while offering the prize of higher wages. Good social policy would also be good for business.

The idea of a ‘living wage’, as set out in the Harvester Judgement, combined with an industry policy to set Australia on a high wage path to development – thus creating the national sense of a ‘fair go’. Adequately rewarded workers would become self-trusting individuals free from dependence on charity or the state.

In practice, the living wage had less impact on wage setting than many suppose. It was not until the 1920s that it could be said that federal and state tribunals were applying living wage principles consistently. The lack of standard working arrangements further attenuated its influence. Moreover, the basic wage did not keep pace with prices and living standards; and, following the Great Depression, wage setting came to be driven more by the capacity of industry to pay than by calculations of family needs. Nevertheless the practice of indexing the basic wage did set a floor under the labour market with a real effect on the wages of the weak.

At the same time, tariff policy stimulated the emerging manufacturing sector in a way that enabled Australia to expand its small population base. The employment growth with higher wages allowed for the maintenance of a larger population than could have been expected otherwise.

The vision informing the Australian way was thus about investing in people so that they could master risk. Making work pay through wage regulation was intended to place trust in individuals and families, that they could manage their own affairs rather than have them supervised by charities or the state.

Overlaying the social investment state

Three significant transformations to this Australian way are necessary to note if we are to fully appreciate the challenges involved in the relayering of the social investment approach to today. These transformations include: the 'economic state', the 'welfare state', and the Accord.

The 'economic state' refers to social policy in the Keynesian period (1940s to 1970s). The central emphasis of policy was stabilising investment to ensure full employment. Reliance on agriculture and minerals increased, with tariffs becoming a way of avoiding rather than mastering risk. It was a time of lost opportunities, as Australia's average per capita income slipped from fifth highest among the developed countries in 1950 to tenth in 1973. The 'welfare state' emerged in the 1960s and 70s reflecting an awareness that full employment with decent wages was not sufficient to ensure an adequate social infrastructure. Social investment in education, health and social services expanded in a much more planned fashion – although Australia lagged behind international trends.

The relationship between wage and welfare policy was fundamentally changed in this period. Wage rises meant that the old 'living wage' functioned less and less as a floor against poverty for the ordinary worker. Basic wage awards operated alongside awards for skill, which became increasingly significant in workers' pay. Automatic quarterly cost of living adjustments were discontinued in 1956. Wage setting became less related to measures of adequacy for the needs of families and was driven more by industry capacity to pay. Eventually, in 1966, the basic wage was replaced by the 'total wage' and a new 'minimum wage' was created; however, few depended on the new minimum and arbitration tribunals refused to link it to any understanding of needs.

A second postwar development was the entry of larger numbers of women into the paid workforce, creating pressure to formally remove the now anomalous 'family wage' component from wage determinations. This occurred in 1974, when the abolition of the family component was finally declared. In its decision, the Commission pointed to the diversity of family composition and declared itself lacking in the necessary information to discriminate between the needs of families. Importantly, the Commission declared that it was an industrial arbitration tribunal, not a social welfare agency.

A third layering came with the first integrated approach to wage, tax and welfare polices under the Accords; whereby governments and the ACTU agreed to trade-offs between 'social wage' increases – including items like compulsory superannuation and public health insurance – and take-home pay. This shifted the institutional focus of social welfare provision away from the arbitration tribunal towards social policy institutions proper.

However, this development was overtaken by the growing free market and neoliberal orientation of economic policy. The welfare state froze into what seemed like a state of permanent austerity; while in 1993, enterprise bargaining was introduced, with award wage setting focused on a residual safety net of awards rather than award coverage for all.

Reframing the Australian way today

As the twenty-first century has progressed, a new economic and social policy agenda has emerged around the twin goals of investing in human capital and promoting social inclusion. In economic policy, we observe a shift from cost cutting and fiscal stabilisation to a concern about the limits to growth created through poor human capital development and social cohesion problems.

The trend is reflected in two areas: the policy objective expressed in terms of the three Ps – population, participation and productivity; and the Council of Australian Governments' national reform agenda embracing the development of Australia's human capital. The new agenda reaffirms an open market-oriented framework but assumes that social investment in participation and productivity has emerged as a critical driver of future prosperity.

To improve human capital, we must address its social dimension. Ways to tackle this social dimension have been shaping up in a second, separately developing, policy agenda associated with the goal of promoting social inclusion. Deriving in part from the New Labour in the UK, this involves:

- A shift from monetary-based poverty lines to multidimensional analyses;
- A focus on the particular social/economic dynamics affecting different spaces and population groups;
- Reintroduction of social cohesion as policy objective with emphases on trust, social capital, community/neighbourhood strengthening;
- Encouragement of 'active society' rather than passive welfare; and
- A more people-centred, personalised welfare governance.

The convergence of these trends offers an opportunity for a reintegration of economic and social policy which has eluded us for more than three decades. A new calculus of the human capital is now emerging, as are well-being prerequisites for each citizen to participate successfully through each of the key transitions of the life cycle.

From *WorkChoices* to the Australian way

WorkChoices reflected the high tide of deregulatory policy. Today, how might we govern the transition to the human capital and social inclusion model? A vital lesson from our past is that Australia has evolved a hybrid of the welfare *society* and the welfare *state* models.

Our preference has been for building up the public infrastructure to allow individuals to exercise real freedom, but not constraining everyone within a universal welfare state. In this context, the minimum wage ought to remain a key source of welfare.

However, our new model will demand a very different welfare safety net – not just modest income support but a clearly articulated set of entitlements that each citizen will need for full economic and social participation. Quantitative and qualitative indicators should be established which are benchmarked against the best in the world; and periodic monitoring, evaluation and review should occur. Australia's newly created Social Inclusion Board could provide the kind of agency needed to exercise the concerted social policy management which will be needed. However, such work cannot usefully be undertaken in isolation from Fair Work Australia, the new national agency responsible for setting a safety net within the wage system. The time is surely ripe for us to reshape the principles of justice associated with the Harvester Judgement into a new wage and welfare settlement appropriate for the twenty-first century.

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