Saving neoliberalism:

Rudd Labor's response to the 2008 global economic crisis

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CERTIFICATE OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of my thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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ABSTRACT

2008, the moment of neoliberalism's greatest challenge – the crisis that many have described as a "crisis *of* neoliberalism" – also provides the best vantage-point to understand its nature and resilience. In Australia Rudd Labor's response to the crisis appeared to break with neoliberalism. In the midst of the crisis Rudd personally authored a lengthy essay calling for a renewed social democracy. In the same month his government launched the major component of a $70 billion 'Keynesian' fiscal program. The $42 billion 'Nation-Building Jobs Plan' stimulus package included a wide range of measures such as the 'Building the Education Revolution' and the 'Homeowners Insulation Program'.

This thesis analyses the design and implementation of Labor's major stimulus measures. It begins by constructing a theoretical approach addressing the origins and development of neoliberalism and then analyses how Labor governments have addressed economic crises in the past, to shed light on the approach taken by the Rudd Government. In this context, the stimulus measures are used as something of a "stress-test" of the government agencies that administered them. Each stimulus program yields rich insights into the extent to which neoliberalised outsourcing practices have transformed the Australian state – from direct provision of public services to the funding of private contractors. The design of the stimulus measures is further interrogated to examine the assumptions of Rudd Labor, and the extent to which neoliberal practice was superseded. On the basis of this investigation the thesis concludes that, in contrast with Rudd's ideological interventions, Labor ministers accepted neoliberal policy paradigms unquestioningly, and in fact designed new ways of extending and entrenching market-friendly trends.

INTRODUCTION

The global economic crisis of 2008 was the most profound capitalist crisis since the Great Depression of the 1930s. The depth of the crisis – bringing the global economy to the brink of collapse – destabilised the central claims of neoliberal ideology, which had been hegemonic in the West since the mid-1970s. I will argue that this crisis did not mark the death of neoliberalism. Nevertheless the ideological rupture created by the economic events of 2008 has thrown new light onto the nature of neoliberalism. This thesis examines developments arising from this period of economic and ideological flux in Australia. Australia's Prime Minister Kevin Rudd was unique among global leaders in his response to this period of ideological and economic turmoil. Not only did Rudd deploy a substantial fiscal injection, he also intervened unapologetically into the ferment engulfing neoliberal ideology. In his essay, 'The Global Financial Crisis' (Rudd 2009a), published in *The Monthly* magazine in February 2009, Rudd argued that the crisis had been caused by neoliberalism. Many commentators and academics have discussed this ideological intervention, both at the time of its publication and subsequently. This thesis combines analysis of Rudd's polemic with the enormous economic intervention that he announced in the same month. I argue that Rudd's essay must be understood as an accompaniment to his fiscal intervention, and that we cannot fully grasp the meaning of Rudd's critique of neoliberalism without an assessment of the nature of, and rationale for, his stimulus spending.

In order to interpret Rudd's combined ideological and economic interventions this thesis rests on two main bodies of existing literature. Firstly I draw on Marxist scholarship concerning the nature of neoliberalism. Secondly I revisit literature grappling with the changing nature of the Australian Labor Party.

Neoliberalism

In order to evaluate Rudd's intervention around the theme of neoliberalism, we must first establish the nature of this prevalent, but highly contested concept. I rely on three particular areas within what is an immense and ever-expanding academic field exploring neoliberalism. Firstly I engage with debates within critical political economy over the nature of neoliberalism. I bring these debates into dialogue with a second, related but distinct literature within Marxist economics that discusses the changes to global capitalism resulting from the end of the post-war boom in the mid 1970s. Finally, in the later chapters of the thesis, I draw on work in Australian political economy and economics charting the neoliberalisation of the Australian state.

The crisis of 2008 created a global surge of discussion concerning the health and nature of neoliberalism, of which Rudd's essay is one prominent Australian example. Chapter One uses the crisis as an entry point through which to review the radical literature discussing the nature of neoliberalism. I argue that the crisis has illuminated some of the fallacies contained in many popular theories of neoliberalism which can be characterised as "ideas centred" or idealist. In order to propose an alternative, materialist, foundation for the concept of neoliberalism I draw on the work of a group of Marxist economists including Andrew Kliman, Richard Brenner and Chris Harman. These authors argue that changes in profit-rates at a global level since the end of the post-war boom are responsible for key developments in the nature of capitalism since. I argue that the account provided by these authors provides a solid and coherent picture which justifies the notion of a "neoliberal era of capitalism". Further, that the picture provided by these theorists provides a coherent framework through which we can identify and explain the recognisable features of neoliberalism at the level of the state and politics.

In Chapter One I propose that we can meaningfully use the term neoliberalism to describe developments at three levels of social life – that of the economy, that concerning government policies which alter the nature of the state, and those at the level of ideology and politics. This three-level model guides my usage of the term neoliberalism in its various frames throughout the thesis. As I argue in Chapter One, while much of the literature usefully describes developments resulting from neoliberalism at the level of the state, politics and ideology, there remains significant disagreement about *what drives* these changes. Many theorists of neoliberalism, by organising their accounts around developments at the level of neoliberal ideology and then seeking to explain developments at the level of the state and economy through this lens, fail to explain the underlying drivers of neoliberalism.

In Chapter Four I explore the literature charting the neoliberalisation of the Australian state. This body of work examines changes that have occurred in the second of my proposed levels – the transformation of government service provision (an aspect of the state) resulting from changes to government policy. In this chapter I draw on the work of Australian scholars who explore the impact of policies and practices of outsourcing government operations to the private sector. Chapter Four discusses the impact of policies such as National Competition Policy in a range of developments such as outsourcing, corporatisation, contracting-out and Public Private Partnerships. This literature informs my assessment of the nature and role of the Rudd government's stimulus programs.

Amounting to over $70 billion pumped into the Australian economy between October 2008 and October 2012, Rudd's stimulus spending created a range of specially designed government programs. However the record of the stimulus measures is significant far beyond the programs themselves. I argue that the stimulus measures provide a snapshot of the operations of all the government departments and agencies that delivered them, and indeed the state itself. Tim Roxburgh (2012) has described one program – the Building the Education Revolution – as a "natural stress-test" for all the government departments involved in its delivery. This analogy is apt for the whole stimulus episode. The stimulus measures reveal a wealth of information about the "business as usual" processes that characterise Australia's welfare state as a result of neoliberalism.

By "stressing" the state in order to rapidly deploy historic quantities of fiscal stimulus, the *Nation Building Jobs Plan* highlighted several qualitative developments in the way the Australian state functions. The stimulus package case studies in later chapters of the thesis therefore provide a novel vantage point from which to observe the operations of a wide spread of government processes. Extensive materials such as audit reports, senate inquiry hearings and even a coronial inquest, provide not only a vivid picture of the operations of each stimulus program, but equally provide a snap-shot of state portfolios from housing to social security to climate change. In this way the extraordinary experience of the crisis of 2008 and Rudd's response to it – the *Nation Building Jobs Plan* - shed new light onto the neoliberalisation of the Australian state.

Labor

By bringing Rudd's pronouncements on neoliberalism together with his stimulus spending this thesis provides new insights not only into Rudd as a politician, but also far more importantly, into the trajectory of the Australian Labor Party and its relationship to both social democracy and neoliberalism. Here the thesis draws on the existing literature charting the transformation of Labor's material goals and its political constitution as a result of neoliberalism.

In Chapter Two I enter what became known as the "betrayal debates", whereby Labor historians and political scientists debated how Labor's trajectory under the Hawke and Keating governments should be understood in relation to the Party's traditional social democracy. I explore three Labor governments' responses to the economic crises of their day. Response to crisis therefore becomes a conceptual thread drawing together the Labor governments of James Scullin and Gough Whitlam with that of Paul Keating. Labor's response to the crises of capitalism provides a new view from which to examine the continuities that allow us to speak meaningfully of a Labor tradition, as well as the break with these traditions that result from the impact of neoliberalism. From this discussion I establish a framework that historically and theoretically locates Rudd's response to the economic crisis 2008.

Conceptual framework

Marx's historical materialism informs the method of inquiry that I employ throughout the thesis. This signifies three interrelated methodological concerns: history, theory and materialism. These three approaches animate the consistent aim of the thesis — to discern how rhetoric diverges from reality. Historical materialism rejects the notion that we can adequately understand social phenomena by looking at the surface of things. As Callinicos explains (drawing on Marx's formulations in *Capital*):

> … how a society presents itself to those participating in it and how its inner structure actually functions do not correspond; hence the need for a *theory* of history, which is not content to register the surface appearances of social life but formulates explanatory concepts designed to uncover the underlying relationships which make that society what it is (Callinicos 1995, p. 99).

Rather, therefore, than taking at face value Rudd's identification as a social democrat and a critic of neoliberalism, this thesis attempts to discern the "underlying relationships" guiding his response to the crisis. In order to identify these relationships I rely on a method that brings theory to bear on history. This is combined with a concern to look below the surface of Rudd's response to the crisis and provide an account of the material processes at work.

Materialism

Materialism is central to the position the thesis takes on the nature of neoliberalism itself, which is explored in depth in the opening chapter. As mentioned above, Chapter One combines several aspects of Marxist scholarship to propose a novel "explanatory concept", or theory of neoliberalism. I suggest that the essence of neoliberalism is to be found in the historical and material changes that the global economy underwent at the end of the post-war boom in the 1970s.

Drawing on a range of Marxist economists I argue that low average profitability at a global level is the fundamental driver of a range of processes that can meaningfully be understood as neoliberal. It is this feature of the capitalist economy, I argue, that is responsible for economic turbulence, financialisation, and an increased drive to lift exploitation levels — in other words the key developments that have characterised the neoliberal economy. My account proposes that these are the material developments that have facilitated the range of political and ideological trends recognised as neoliberalism, as well as the changes to the nature of the welfare state that I will describe as "neoliberalisation".

The explanatory power I give to historical and material developments in the nature of capitalism is not limited to my account of neoliberalism itself. Throughout the thesis there is a concern to discern the economic (in a broad sense) underpinnings of phenomena and examine how these may differ from the surface appearance of things. Much space in the second half of the thesis is dedicated to identifying how each stimulus package operated in economic and class terms. The results of this inquiry consistently contrast with how these programs have been characterised by the Labor ministers responsible for them.

The same concern is evident in the methodology applied to analysing the changing nature of the Labor Party, both in Chapter Two and elsewhere. Again we find that the rhetoric that Labor politicians use to explain their policy is inadequate to understand the nature of the Labor Party in economic and class terms, and the way that the Party has changed over time.

History

Ben Fine and Alfredo Saad-Filho suggest that historical materialism "… is internally structured by the relationship between theory and history" (Fine & Saad-Filho 2010, p. 6). This brings us to the final element of the conceptual framework used in this thesis – a concern for history. As Fine says of Marx's method, "First, social phenomena and processes exist, and can be understood, only in their historical context" (Fine & Saad-Filho 2010, p. 4).

The historical context in which the stimulus programs were deployed is outlined in each of the case study chapters. A concern to bring theory and history into dialogue in order to understand the data at hand is a consistent method throughout the thesis, including in the account of neoliberalism proposed in the first chapter. Similarly, Chapter Two is precisely a historical and theoretical investigation of the changing nature of Labor's relationship to social democracy. This historical and theoretical contextualisation is essential for providing a critical analysis of Rudd's actions in the face of the crisis of 2008.

Method

The opening chapters of the thesis locate Rudd Labor theoretically and historically. The historical contextualisation in Chapter Two relies on a range of secondary accounts of Labor history, which are brought into dialogue with theoretical literature concerning the nature of Labor, neoliberalism and social democracy. Chapter Three applies the framework established in Chapters One and Two to Rudd's response to the crisis. It introduces the political debates surrounding Rudd's ideological and economic innovations, and provides a critical in-depth reading of Rudd's essay *The Global Financial Crisis* (Rudd 2009a). This chapter introduces the key debates generated by Rudd's fiscal turn by examining secondary sources such as media reports and commentary, as well as surveying the academic literature.

On the basis of the context provided in these opening chapters, the second half of the thesis consists of a series of case studies examining the major stimulus programs within Rudd Labor's *Nation Building Jobs Plan*. As a result of their design as stimulus measures these programs all share unusual traits. They dwarf business-as-usual government programs, and they are drastically accelerated, compressing decades of spending into months. This "turbo-charging" of government processes to create programs such as the Building the Education Revolution, the Social Housing Initiative and the Home Insulation Program ensured that Rudd's stimulus measures attracted considerably more public attention than normal government expenditure. As well as a steady flow of coverage and controversy in the media, they were subject to extensive parliamentary scrutiny and government review. Most of the programs were investigated and reviewed both at the federal parliamentary level, and either by state and territory governments themselves or by their parliaments. The result is a rich collection of data illustrating in detail the way in which the stimulus programs were deployed.

In my analysis of the key stimulus programs I draw heavily on primary sources including transcripts from parliamentary debates and question time responses; transcripts from hearings and reports from parliamentary inquiries; a coronial report; state, territory and federal government commissioned reports; progress reports from the Commonwealth Coordinator-General; audits; speeches made by Treasury officials and Labor ministers; submissions to inquiries, and publicly available policy documents.

I provide a critical policy analysis of this material to examine the nature of the stimulus programs. The case studies compare Rudd Labor's rhetorical claims about the programs with the reality of each program's design and impact. In particular I chart the extensive reliance on private sector contracting, outsourcing, and what I call "economic engineering". I interrogate the design of the major stimulus programs, and the package as a whole, in terms of whether it is concerned to rollback the marketisation of the state, or in fact takes that process further.

THESIS OUTLINE

Chapter One – The political economy of neoliberalism

Chapter One is devoted to establishing a materialist account of neoliberalism. The chapter opens with a refutation of what I characterise as the “idealist”, or “ideas-centred” account of neoliberalism, which often accepts the characterisation of neoliberalism a movement towards a “small state’. I argue that the primacy given to neoliberal ideology in this account provides a distorted account of the character of neoliberalism, yet dominates the critical literature. I use the account of neoliberalism that emerges from Rudd’s *Monthly* essay, ‘The Global Financial Crisis’ (Rudd 2009a), to exemplify the problems with the idealist account, arguing that the crisis of 2008 has exposed both how widespread such idealist understandings are, and how inadequate they are in explaining the ongoing dominance of neoliberalism after the crisis.

From here I move to propose a definition of neoliberalism that, as mentioned above, centres on the crisis of profitability that became manifest in the stagflation crisis of the 1970s. It is on this basis that I provide a materialist account of neoliberalism as working at three levels: first the neoliberal economy; second, neoliberalisation of the state and neoliberal government policies; and third, neoliberal ideology and politics.

Based on the account of the neoliberal economy as presented in Chapter One, I propose how I explain the transformation of the state, as well as the ideological nature of neoliberalism. I introduce my account of the neoliberalisation of the Australian welfare state, which forms the framework through which I evaluate Rudd’s stimulus spending in the later chapters of the thesis.

Chapter Two – Labor and the crises of capitalism

Having proposed an account of the nature and rise of neoliberalism, Chapter Two proceeds to discuss the nature of the Australian Labor Party. This chapter establishes several key themes that are essential for interpreting Rudd Labor's actions in the face of the crisis of 2008. Firstly the chapter explores the fundamental and historically consistent tensions within the Labor project itself. This is done in order to establish an account of the 'Labor tradition' – a sense of the contradictory nature of Labor's social democracy from its origins in the 1890s until the election of the Hawke government in 1983. This latter date is significant because I argue that the nature of Labor's social democracy, indeed the nature of the Party itself, however previously contradictory, changed fundamentally and permanently as a result of Labor's accommodation to neoliberalism. The pioneering role played by the Hawke and Keating governments in the neoliberalisation of the Australian state was at the heart of this transformation.

This chapter surveys the differing responses of Labor governments to the major global economic crises of their day as an entry-point both to establish the nature of the Labor tradition, and in order to illustrate the ways in which Labor diverged from this tradition in key ways after the election of Hawke. I argue that under the influence of neoliberalism the Labor governments from Hawke onwards manifest continuities with earlier Labor governments in times of crisis. At the same time I argue that Keating's treatment of the crises of the 1980s and 1990s also exposes the ways in which Labor's social democratic traditions have been hollowed out as a consequence of Labor's preparedness to govern a neoliberal state.

Chapter Three – Rudd's response to the crisis

Having established a materialist account of neoliberalism and of the impact it has had on Labor's social democracy, I then move in Chapter Three to apply both these propositions to explore the totality of Rudd Labor's response to the crisis of 2008. Key to an adequate and consistent understanding of Rudd's actions and arguments in this period is the need to discern the distinction between rhetoric and reality.

The chapter opens with an introduction to the election of “Kevin 07” and an account of Rudd’s historic popularity with the electorate in the two years after his election. The chapter then uses Rudd’s own pronouncements regarding the unfolding of what he called the “Global Financial Crisis” in late 2008 to revisit the sense of global panic that followed the collapse of Lehman Brothers. This context is necessary in order to adequately interpret Rudd’s twin responses to the crisis.

The second section of Chapter Three systematically analyses Rudd’s *Monthly* essay in the light of the account of Labor’s accommodation to neoliberalism proposed in Chapter Two. Next the chapter introduces Rudd’s stimulus spending by analysing what has become known globally as the “Keynesian moment”. This refers to the globally coordinated deployment of extraordinary levels of fiscal stimulus spending in the late months of 2008 and 2009. The global revival of fiscal activism provides essential context for the claims Rudd makes about Australia’s stimulus spending and its connection to a resurgent social democracy. Finally the chapter looks at the way that Rudd’s fiscal stimulus was interpreted in the public debate, and by the Treasury officials responsible for its design.

Chapter Four – Evaluating and interpreting Rudd’s economic stimulus plan

Chapter Four provides an overview of the contents of Rudd’s $70 billion in stimulus spending. This introduction provides more details about the methodology that I use in the subsequent stimulus program case studies. I explain the way each case study simultaneously explores the history of neoliberalisation and evaluates how Rudd’s stimulus measures affected the state. This chapter locates the themes that recur in the case studies – outsourcing, economic engineering, and pro-market ideology – within the levels of neoliberalism that I proposed in Chapter One. It also locates these developments within existing work studying the implications of the marketisation of the state.

Chapter Five – Cash Payments

Chapter Five examines the use of cash payments, a substantial part of Rudd's stimulus response. Cash payments dominated the Economic Security Strategy – the first of Rudd's stimulus packages, announced in October 2008. Cash payments also form a significant part of the February 2009 *Nation Building Jobs Plan*.

The chapter explores the parliamentary and public debate about the merits of the "cash splash". It goes on to examine the implications of the delivery of over $20 billion of stimulus through existing mechanisms such as the social security system (Centrelink) and the Australian Taxation Office. It also discusses the aims of the program in maintaining retail demand and contrasts this with the government's assertions that the payments were designed to protect the poorest from the impacts of the crisis.

Chapter Six – Building the Education Revolution

Chapter Six evaluates the $16.2 billion Building the Education Revolution (BER), colloquially known as the 'school halls' program. Arguably the largest single public works investment in Australia's history, the BER was plagued by claims of "rorting" and waste. Drawing heavily on the insights from the Building the Education Implementation Taskforce (BERIT) this chapter examines the connection between lack of 'value for money' in the BER and the extent to which each state and territory government outsourced the management of the program.

The Chapter concludes that the privatised delivery of the BER, and the connection made explicit by BERIT between outsourced delivery and the extent of previous neoliberalisation means the notion of public works itself needs to be re-evaluated.

Chapter Seven – The Homeowners Insulation Program

The $2.7 billion Homeowner Insulation Program (HIP) was the most controversial of Rudd's stimulus programs, with four young workers killed installing insulation for the scheme. The HIP was also responsible for over 120 house fires, and led to a rise in dangerous electrical faults. Such was the sense of scandal surrounding the program that the government was forced to terminate it prematurely a year into its existence.

Chapter Seven explores the terrain of the debate surrounding the HIP and compares this to the way the scheme was actually designed and delivered. The chapter illustrates the pro-market bias evident at every level of the HIP's design around a Medicare-administered rebate. In particular the design of the HIP was guided by a corporate risk-strategy that the federal Environment Department contracted law firm Minter Ellison to provide. I argue it was the firm's conception of risk, and the resulting design of the HIP around the existing insulation market, that led to the program's failure. Finally the chapter discusses the implications of such marketised delivery for the nature of energy efficiency related public works programs.

Chapter Eight – The Social Housing Initiative

Chapter Eight discusses the Social Housing Initiative (SHI) which provided 20,000 new units of social housing worth $5.6 billion. The chapter draws on the discussion of outsourced construction works in the BER to explore the way in which the SHI was delivered. It then looks at the history of public housing in Australia and charts its dramatic erosion during the period of neoliberalism. This erosion coincided with an increase in funds going to rental assistance for those on low incomes and relying on housing in the private rental market. I argue that this development exemplifies the trajectory in neoliberalism of a transition from direct government provision of services to the deployment of funds into the market.

Chapter Eight ends with a discussion of the role of the SHI in providing an historic boost to Non-government Community Housing Providers – with half of the stock built in the program transferred out of the government sector. This transfer resulted from the notion that Community Housing Providers would "leverage" this housing stock. In other words they would use it as an asset that would allow them to borrow significant funds in private financial markets – thereby expanding the social housing sector without recourse to government debt. I argue that the design of the SHI around this model creates a deceptive paradox for the nature of the SHI. What on the surface looks like a much needed boost to public housing after decades of erosion, was in fact a program designed as a down-payment on shifting responsibility for social housing away from the government.

Conclusions

In the conclusion I return to assess what impact the crisis, and government policy responses to it, have had on the nature and viability of neoliberalism itself. I draw on my findings in the stimulus program case studies to take stock of neoliberalism at the level of state processes and in the parliamentary political arena. I conclude that the embrace of fiscal activism occurred in complete isolation from a reappraisal of the neoliberalisation of the state, and indeed without implying a meaningful break with neoliberalism.

I draw on three examples from the debates surrounding key stimulus measures in order to illustrate the difficulties of *thinking outside neoliberalism* in the contemporary economic and political moment. I use these examples to reflect on the limitations of the tools that I have employed throughout the thesis in order to suggest, at least at an analytical level, a non-neoliberal response to the crisis.

CHAPTER 1

The political economy of neoliberalism

The concept at the heart of this thesis is that of neoliberalism. This chapter will therefore establish how I propose to use this most disputed, and yet most crucial term. I will argue that it is valid to use the term to describe social processes that operate at a number of levels. For the purposes of this thesis I have divided neoliberalism into three frames or levels of analysis: firstly the neoliberal economy – in reference to which I argue it is valid to speak of a 'neoliberal era of capitalism'; secondly the neoliberalisation of the state and neoliberal government policy; and finally neoliberal ideology and politics. I will argue that the term neoliberalism can be validly used to describe developments within all three levels.

However this chapter will argue that the term neoliberalism is commonly used, both in academia and in the general public, in ways that confuse rather than clarify the nature of the economic, ideological and political phenomena to which it refers. I will argue that the key misuses of the concept of neoliberalism flow from an inaccurate account of *how* the three frames described above relate to each other. My primary argument in this chapter is that the only way to correctly interpret the range of phenomenon that occur at the three levels is to recognise the primacy of the material level – that of the neoliberal economy – in informing the development of all the others.

Because the very meaning of neoliberalism is so contested, and often so confused, I will begin by "clear[ing] the decks" (Cahill 2011, p. 480) of two of the most common, and I will argue, the most misleading interpretations of neoliberalism. Both of these misinterpretations are exemplified by Kevin Rudd's essay, *The Global Financial Crisis* (Rudd 2009a). Thus, while Rudd's essay and his response to the crisis are discussed in detail in later chapters, this chapter will open by using Rudd's articulation of neoliberalism to examine, and to critique, the more widespread interpretations of the concept.

Having suggested the inadequacies of two of the most prominent interpretations of neoliberalism, I will then proceed to propose the way in which I think the concept, correctly understood, is indispensable for understanding our world. I will argue that an adequate understanding of neoliberalism must be grounded in the economic changes that occurred in the mid-1970s and were manifest in the "stagflation crisis". I will then explore debates within Marxist economics over the development of capitalism in the post-1975 period. Drawing on the conclusions of a section of these scholars, I propose an account of the period 1975-2008 as defined by the problems of profitability for capital, and explain how on this basis we can justify the concept of a "neoliberal era of capitalism".

On the basis of this understanding of the neoliberal economy, I go on to illustrate the way in which we can build a coherent account of the neoliberalisation of the state, governments' ideological and political responses to the neoliberal economy, as well how these manifest in government policy. This is the framework that I will apply to understanding Rudd Labor's response to the economic crisis of 2008 in later chapters.

1.1 The crisis *of* neoliberalism?

> The crisis [of 2008], it was argued, demonstrated fatal flaws in unregulated markets, while the "return of regulation" in the wake of the crisis signalled the consignment of neoliberalism to the dustbin of history (Cahill 2011, p. 480).

The 2008 global economic crisis, and the bailout and stimulus response by governments across the globe, created a "consensus" (Davidson 2010, p. 2) amongst leftist theorists and commentators that neoliberalism itself was on its last legs (Duménil & Lévy 2011a; Manne & McKnight 2010; Rudd 2009a). The crisis provided stark proof that the free market is not an efficient, all knowing, and self-correcting system for meeting humanity's needs – contrary to what we had been told by neoliberal ideologues for the previous thirty years. Instead the free market had brought the global economy to the precipice. Escape was only possible by way of historically unprecedented and massive intervention by states. For many commentators these facts in and of themselves created terminal problems for neoliberalism as a hegemonic ideology.

This interpretation of the Global Financial Crisis (GFC)[1] is a useful starting point for interrogating two of what I will argue are the most common, yet inadequate, ways of understanding neoliberalism. Firstly such conclusions reveal that neoliberalism has been understood at an ideological, rather than a material level. In what follows I will argue that neoliberalism is misinterpreted if it is defined as *driven* by ideas as opposed to material – economic and class developments. Therefore as important as the crisis has been in discrediting neoliberal ideology, it cannot itself kill off neoliberalism, as the basis of neoliberalism has never rested at the level of ideas, let alone on their ability to coherently explain the world.

Second, neoliberalism has been understood as antithetical to the state, and this is why the massive state interventions in the face of the crisis are taken as creating an existential crisis for neoliberalism. In fact, I will argue, neoliberalism has consistently featured "highly interventionist" (Davidson 2010, p. 3) and activist states attempting to engineer the direction of markets, and indeed of societies. In itself this exposes one of the ways that neoliberal ideology, in this case the ideology of the "small state", is wholly misleading and disorienting. Therefore, while there are novelties in the scale and nature of the state interventions in response to the crisis of 2008, the fact of state intervention itself does nothing to break with neoliberal norms.

It was at the moment of maximum economic and ideological turmoil created by the GFC in late 2008 and early 2009 that Australia's Labor Prime Minister Kevin

[1] As will become clear in what follows, I do not believe that the crisis that started in 2007/08 was primarily a "financial crisis", but rather a crisis of capitalism itself. However because I frequently refer to other episodes of economic crisis, I will use the term GFC as a useful shorthand to refer to the global economic crisis that began in 2007.

Rudd emerged as a uniquely self-reflexive global actor. That is, at the same time as he responded boldly to the economic reality of the crisis with fiscal stimulus policies, Rudd also explicitly intervened into the ideological crisis engulfing neoliberalism. In his essay *The Global Financial Crisis,* published in the progressive magazine *The Monthly* (which I will discuss in detail in Chapter Three) Rudd positions himself as simultaneously an actor in the crisis, and an analyst able to illuminate and theorise the world-historic significance of events.

Rudd's essay opens with a declaration that the global financial crisis is an event of "…truly seismic significance… that mark[s] a turning point between one epoch and the next, when one orthodoxy is overthrown and another takes its place" (Rudd 2009a, p. 20). The significance of such events are usually only apparent, Rudd claims, "… when observed from the commanding heights of history" (Rudd 2009a, p. 20), by which time it is "…too late to act to shape the course of such events…" (Rudd 2009a, p. 20). Not so for Rudd, however, who as we will see in following chapters, would consistently stress his preparedness to act in response to the crisis.

The rest of this thesis is concerned to analyse Rudd's response to the crisis. However here I will use Rudd's theoretical interpretation of the crisis (as the death knell of neoliberalism) to exemplify the two prominent theories of neoliberalism that I will critically analyse in what follows.

Firstly, for Rudd neoliberalism is synonymous with ideology:

> The current crisis is the culmination of a 30-year domination of economic policy by a free-market ideology that has been variously called neo-liberalism, economic liberalism, economic fundamentalism, Thatcherism or the Washington Consensus (Rudd 2009a, p. 22).

For Rudd, “neo-liberalism” describes free-market ideology’s capture of government policy. This is the hallmark of the idealist account.[2] Philip Mirowski provides perhaps the most developed articulation of this theory of neoliberalism. In *The Road from Mont Pèlerin: the making of the neoliberal thought collective* (Mirowski & Plehwe 2009), Mirowski proposes that neoliberalism is the process whereby a group of right-wing intellectuals[3] established a system of ideological propagation via networks of think tanks that allowed them to influence increasingly wide layers of academics and policy makers. In this account the process of neoliberalisation is driven by the spread of ideas. Once a critical mass of decision-makers fell under the influence of neoliberal ideas, the neoliberal transformation of society could begin.

Many other accounts of neoliberalism rely on the same model of social change as that elucidated by Mirowski (although few include such a prolific study of the work of the neoliberal ideologues and their movement). In fact it has almost become a commonplace of left-wing thought that neoliberalism describes the ideological capture of governments by neoliberal think tanks organised around the ideas of Milton Friedman or Friedrich Hayek. Cahill argues that this is the model underpinning the work of a range of prominent theorists of neoliberalism including Naomi Klein, Susan George, Pierre Bourdieu, Joseph Stiglitz, and even the Marxist David Harvey (Cahill 2013, p. 72).

One corollary of such accounts is that when in 2008 the neoliberal ideology became discredited in the eyes of millions by the reality of the GFC, then we should expect it to lose its power over policy makers and therefore cease to be hegemonic. This is what Rudd believed was occurring in 2009:

[2] In what follows I will use the term *idealist* in the sense that Marx applied it to the work of Hegel, to signify a theory of social change as driven by ideas. As Fine explains “the Hegelians believed that intellectual progress explains the advance of government, culture and the other forms of social life. Therefore, the study of consciousness is the key to the understanding of society…” (Fine & Saad-Filho 2010, pp. 1-2). As against this idealism, Marx developed a materialism that built on Feuerbach’s insight that, as Fine puts it “… far from human consciousness dominating life and existence, it was human needs that determined consciousness.” (Fine & Saad-Filho 2010, p. 2)

[3] Mirowski provides a detailed graphic illustration of the connection between roughly thirty intellectuals that make up what he describes as the neoliberal “thought collective”(Mirowski & Plehwe 2009, p. 20)

> Two unassailable truths have already been established: that financial markets are not always self-correcting or self-regulating, and that government (nationally and internationally) can never abdicate responsibility for maintaining economic stability. These two truths in themselves destroy neo-liberalism's claims to any continuing ideological legitimacy, because they remove the foundations on which the entire neo-liberal system is constructed (Rudd 2009a, p. 29).

It is on this basis that Rudd is confident to suggest that the crisis "…mark[s] a turning point between one epoch and the next, when one orthodoxy is overthrown and another takes its place" (Rudd 2009a, p. 20).

Damien Cahill has illustrated the limitations in the ideological, or "ideas-centred" (Cahill 2013) theories of neoliberalism. Cahill argues that we must make a clear analytical distinction between the claims of neoliberal ideology and "actually existing neoliberalism" (Cahill 2009a, 2009b, 2011). This is because while it is important to understand the nature and role of neoliberal ideas, they generally tell us very little about, or may in fact disguise the nature of, neoliberalism as it has operated as government policy or as an era of capitalist development. The content of neoliberal ideology, those well-worn mantras of small states, free markets and individual choices, bears no resemblance to the historical trends within "actually existing" neoliberalism. Yet for so many theorists whose starting point is the content of neoliberal ideology, there is a tendency to look for evidence that neoliberals actually strove to, and were successful in, moulding a "free market" society:

> …in describing neoliberalism as a system of "free market capitalism," [ideas centred accounts] tend to accept the normative vision of the state and economy, proffered by neoliberal polemicists such as Milton Friedman and Friedrich von Hayek, as the actual state of affairs that prevailed in most capitalist countries during the last two to three decades (Cahill 2011, p. 481).

An account of neoliberal hegemony as primarily an ideological phenomenon inevitably starts with the content of neoliberal ideology in order to understand how governments and corporations have acted. Yet as Cahill suggests, there is little evidence that neoliberals strove to create the 'free market capitalism' they espoused.

The most profound difficulty for ideas-centred accounts is to explain *why* neoliberal ideas gained such prominence exactly when they did. The notion of ideological capture is ahistorical. In fact the neoliberal turn did not coincide with the organised promotion of neoliberal ideas, which as Cahill notes occurred in the 1940s, thirty years before neoliberalism became hegemonic in the 1970s (Cahill 2009a, p. 302).

Those who see neoliberalism as purely an ideological project – *driven* by ideas, have to explain why these ideas, and the thinkers and organisations that promoted them, remained utterly marginal to both mainstream political thought and government policy for over thirty years, only to capture control of policy making in the mid-1970s. As Davidson rightly asks:

> …why did capitalists, state managers and politicians suddenly become predisposed to listen to these [neoliberal] arguments in the 1970s when they had not done so for over thirty years? (Davidson 2010, p. 22).
>
> Something had happened to make neoliberal solutions necessary as well as possible of implementation (Davidson 2010, p. 18).

In the next section I will argue that only an analysis grounded in the fundamental changes that capitalism underwent in the 1970s can explain the timing of the paradigm shift in favour of neoliberalism. However before proceeding to that it is worth illustrating the limitations of the ideas-driven notion of neoliberalism with reference to its treatment of the state.

It is on this question of the state that actually existing neoliberalism diverges most radically from neoliberal ideology. While an example of idealism (theorists' belief that neoliberalism is anti-state is derived from neoliberal ideology), the notion that neoliberalism is a movement aiming for "small states" is in itself a dominant theory and therefore worth discussing in its own right. Here again we see that Rudd's essay exemplifies the idealist account. Like so many other commentators Rudd looks no further than the mantra of the "small state" in explaining the essence of the neoliberal program. Over pages he builds and then reinforces the case that neoliberals are inherently anti-government and have pushed for withdrawal of the state from the market:

> The central thrust of this ideology [neoliberalism] has been that government activity should be constrained, and ultimately replaced, by market forces (Rudd 2009a, p. 22).

> In the neo-liberal view, markets are spontaneous and self-regulating products of civil society, while governments are alien and coercive intruders (Rudd 2009a, p. 22).

> [Neoliberalism's] central elements [are] the ideology of the unrestrained free market… In the '80s, the Reagan and Thatcher governments gave political voice to this neo-liberal movement of anti-tax, anti-regulation, anti-government conservatives. Neo-liberal policy prescriptions flow from the core theoretical belief in the superiority of unregulated markets — particularly unregulated financial markets (Rudd 2009a, p. 22).

> Government is not the intrinsic evil that neo-liberals have argued it is (Rudd 2009a, p. 29).

Here Rudd falls into the trap described by Cahill above, and conflates neoliberal ideologues' normative calls for a small state with the historical record of neoliberal practice. Rudd claims that under the influence of neoliberalism governments have reduced the size of the state through cuts to taxation and government debt:

> The advocates of neo-liberalism have sought, wherever possible, to dismantle all aspects of the social-democratic state… In the face of vigorous resistance to cuts in public services, the neo-liberal political project has followed a strategy of 'starving the beast', cutting taxes in order to strangle the capacity of the government to invest in education, health and economic infrastructure. The end point: to provide maximal space in the economy for private markets. Neo-liberalism progressively became the economic orthodoxy. It was reflected in wave after wave of tax cuts. Governments bragged about their success in reducing measured levels of debt… (Rudd 2009a, p. 22).

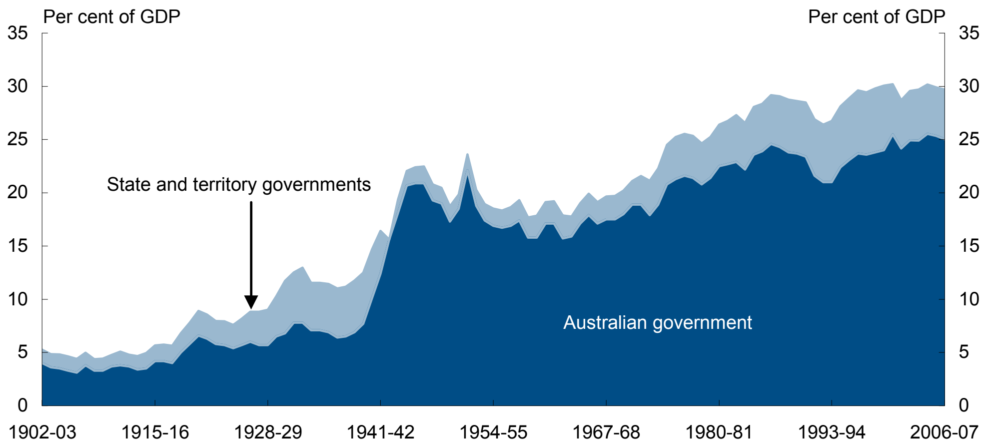
These claims not only misunderstand the central role of the state in the neoliberal transformation, but fly in the face of the historical record. In fact the size of the state has grown in Australia under neoliberal governments.[4] Under Labor Prime Minister Gough Whitlam Commonwealth spending represented 18.3 per cent of GDP, whereas by the end of the Howard government in 2007-2008 this had reached 24.4 per cent of GDP (Cahill 2009a, p. 301). And as Cahill and Davidson (2009a, 2011; Davidson 2010) document, the same pattern is seen in most leading capitalist countries:

> Between 1980 and 1996, total government expenditure as a proportion of GDP in the 17 major industrial capitalist economies grew from 43.1 percent to 45.6 percent (Cahill 2009a, p. 301).

The scale of the increase in the levels of taxation in Australia is visually captured by this figure 1.1 from the Federal Treasury:

[4] Interestingly this is one of the points on which Rudd's essay was criticised by right-wing commentators including conservative columnist Gerard Henderson and neoliberal Labor maverick Michael Costa: "The fact is that the conservatives in [the UK, US and Australia] did not substantially cut regulation or taxation or spending (along with the welfare state which it underpins)."(Henderson 2009) "If you look at the present size of the public sector and the level of public spending in Britain, the US and Australia, the only fair conclusion you can draw is that neo-liberals failed to successfully implement their agenda" (Costa 2009).

Figure 1.1 Australian government and state taxation (1902-03 to 2006-07)



(Treasury 2008, p. 192)

Perhaps more important than the size of the state, the misinterpretation by Rudd and others of the *role* of the state in neoliberalism is a central point to which I return many times in the chapters that follow. Indeed the state has been *the* central actor in the neoliberal transformation of society. The idea that neoliberalism has seen a constraint on the capacity of the state to intervene into the economy, or has treated "governments [as] alien and coercive intruders" as Rudd puts it cannot be sustained in the face of the historical record:

> With respect to the scope of the state, the trend has also been contrary to what is implied by the 'withering away of the state' metaphor. During the last three decades, the state has played an active, indeed *activist,* role in the introduction, implementation and reproduction of neoliberalism (Cahill 2009a, p. 301).

Rather than the erosion of the state, we see its transformation under the influence of neoliberalism, a point to which I return later in this chapter.

1.2 Born of crisis – the case for a materialist explanation

Thus far I have argued that two of the most common readings of neoliberalism are inaccurate and misleading and unable to account for why neoliberalism emerged when it did. Further, that the content usually associated with neoliberal ideology bears little resemblance to the historical record of the last thirty years, and certainly does not provide a blueprint for understanding actually existing neoliberalism. However this does not mean that we can dispense with the concept of neoliberalism itself. In what follows I will concur with Cahill, that despite the many misleading and inaccurate assumptions that accompany the prevailing accounts of neoliberalism, nevertheless the concept remains essential to understanding the development of capitalism over the last thirty years (Cahill 2009a, p. 305).

The fact that neoliberalism has become such an indispensable concept for the left points to the fact that it captures something real in many people's lived experience. Usually this "something" is associated with explaining the difference between the post-war era (often described as Keynesian, or social democratic) and the reality that came to replace it after the 1970s. In providing a firm basis on which to build our account of neoliberalism, it is therefore worth starting from this point.

Here it is necessary to establish the nature of the post-war era itself, against which we will be contrasting neoliberalism. However, just as there is disagreement as to which are the driving features of neoliberalism, so we find disagreement over how to interpret the features of the post-war framework, such as the welfare state; full employment, protectionism, and even toleration by government of mass trade unionism. Once more we find a divide between ideological and materialist accounts. As Davidson explains, these divergent interpretations of the post-war era become important in our understanding of the neoliberal era that followed:

> A failure to understand the way in which the Great Boom was in many respects the successful era in capitalist history has given rise to several

popular misconceptions about the neoliberal period which followed (Davidson 2010, p. 12).

The nature of the post-war welfare state

Ideological accounts suggest that the features of the post-war era flow from a social democratic consensus, underpinned by Keynesian economics. This interpretation of the post-war world understands post-war capitalism as more "civilised", or constrained, both by state regulation and by institutions such as the trade unions - in stark comparison to the more savage face of capitalism which was "unleashed" after the mid-1970s.[5]

Marxists tend to locate the political formations that dominated the post-war world in the extraordinary strength and length of what has come to be known as "the long boom" (1945-1973). Nor is the boom itself understood as resulting from Keynesian regulation. In fact many Marxists have pointed out that the "Keynesian consensus" is a misnomer, as Keynesian policies were neither responsible for the boom[6], and in fact were barely deployed until the stagflation crisis itself [7] (Cahill 2009a, p. 306), at which time they failed (Harman 2009). Rather than seeing capital in the post-war years as constrained by a civilising state, as many of the idealist accounts would have it, for Marxists the post-war era stands out as an historically unprecedented success for capital, "… the greatest period of economic expansion in the history of capitalism" (Davidson 2010, p. 10).

[5] In fact even key Marxist theorists of neoliberalism such as Harvey (2005) and Duménil and Lévy (2004, 2011a) have portrayed capitalism in the post-war period as somehow constrained by government and civil society institutions. However such notions do not sit well with the historic success of capital accumulation during the boom, as I will argue in what follows.
[6] Some argue that the boom was caused by the "permanent arms economy" that not only took leading economies out of the Great Depression, but continued to have a distorting impact on profitability throughout the Cold War period (Davidson 2010; Harman 2007a, 2009; Lavelle 2008). In contrast Robert Brenner saw the uneven size and age of capitals rising to prominence in the post-war era as the cause of the boom (Brenner 2002a, 2002b, 2006, 2009).
[7] Davidson points out that US President Roosevelt's New Deal, often cited as evidence for the Keynesian nature of post-war economic management, was constructed independently of Keynes, and further that it failed to build a sustained economic recovery, with that only occurring with the drive to the Second World War (Davidson 2010, p. 11).

The post-war welfare state is of course precisely what made capitalism of the 1950s and 1960s appear more civilised than that of the neoliberal era. Attacks on the welfare state are at the heart of the experience of neoliberalism, and at the heart also of this thesis. It is therefore necessary at this point to briefly discuss the nature of the welfare state, in order to better understand, in what follows, its transformation under neoliberalism.

In the work of many theorists grappling with the neoliberal assault on the welfare state we find an implicit account of why policies such as universal healthcare, free university education and generous pensions were enacted by Western governments in the post-war period. Often such accounts imply that the welfare state was the product of a 'softer', social democratic capitalism, prepared to enter a "compromise" with unions and civil society (Harvey 2005, p. 10). Harvey describes a 'consensus' built by trade union activity and working class political parties which achieved regulation, decent wages and nationalisation of the 'commanding heights' of industry (Harvey 2005, p. 178). Or, on the contrary, other accounts argue that welfare was extracted from a resolutely opposed capitalist class purely through the strength of the post-war social movements (Hardt & Negri 2000, p. 273).

O'Connor (1984) and Harman (2009), on the other hand, usefully stress the sense in which the post-war welfare state was not wholly antagonistic to the interests of capital, nor extracted at the expense of capital accumulation. Even when social movements were needed to force the expansion of the welfare state into new areas (such as the National Health System in the UK), nevertheless such policies were then implemented "… in ways that could fit with the needs of the system" (Harman 2009, p. 135).

This reading brings into view the ways in which the post-war welfare state fulfilled the essential requirements for the capitalist state - to balance the competing goals of supplying capital's requirements for labour power[8] with the

[8] As well as other factors that facilitate production and exchange, such regulations that make market exchanges reliable, ensuing consistent access to power and transport etc., which are less relevant to the discussion of the welfare state.

need for social cohesion. Or in O'Connor's terms, the capitalist state "… must try to fulfil two basic and often mutually contradictory functions – *accumulation* and *legitimization*" (O'Connor 1984). Coming out of the successful Russian Revolution, the Great Depression, and the Second World War, governments in countries such as Australia keenly understood the need to offer employment and social reforms in order that people did not instead demand social revolution (Harman 2009, p. 135).

Requirement for "legitimization" (in O'Connor's terms) dictated the reformist promises entailed in the welfare state. However at the same time the welfare measures deployed fitted the peculiar requirements for capital accumulation at that time. In full-employment economies, such as that which emerged in the 1950s in Australia, government spending on the expansion of education, leave, and holiday pay were essential to boosting profits by increasing the productivity of the labour force. Gough argues that while the maintenance of labour power has always been a fundamental task of the capitalist state, "… the state's active role in improving the *quality* of labour power, not only by means of education, but also via health services, housing policy, family allowances and other social policies…" (Gough 1975, p. 73) became increasingly important throughout the twentieth century.

In what follows I will discuss the way in which the end of the post-war boom, and with it the end of full employment, brought the state's roles in accumulation and legitimatisation into greater tension. However before proceeding to that we must discuss the end of the long boom and the transition to neoliberalism.

Stagflation and the origins of neoliberalism

Almost universally across the radical literature scholars cite the global "stagflation" crisis that started in 1973 as the catalyst for the end of the post-war era (Bakir & Campbell 2009b; Brenner 2002a, 2006; Cahill 2009a, 2013; Callinicos 2010; Davidson 2010; Duménil & Lévy 2004, 2011a; Harman 2007b, 2009; Harvey 2005; Lavelle 2008; Manne & McKnight 2010; McNally 2009; Quiggin 2010; Shaikh 2010). However this consensus conceals two very different interpretations of the significance of stagflation.

Those who offer an ideas-centred account of neoliberalism tend to treat stagflation as if it were an exogenous shock, an already given historical fact that was then seized as a pretence for ideological assault by the neoliberals already waiting in the wings.[9] For these theorists, stagflation was significant only because it created problems for the "Keynesian consensus" which had been hegemonic since the end of the Second World War thirty years previously. Just as the GFC, as we saw above, is seen as important primarily for its destabilising impact on the ideology of neoliberalism, so stagflation is seen as important only in so far as it helped discredit Keynesian economics and hence, it is argued, open the way for neoliberal ideas.[10]

Marxists have tended to see the stagflation crisis as a symptom of radical and permanent changes in the organisation of capitalism. The importance of this analysis is that the stagflation crisis was not simply a 'patch of bad economic weather', but rather the result of the dissolution of the conditions that had supported the incredible economic stability and dynamism of the thirty years that followed the Second World War. Stagflation was a turning point for the way that capitalism was organised. It ushered in a new, more difficult period of economic instability.

Many Marxists have come to embrace the term neoliberalism to signify this "new stage in capitalism", or new "social order" (Duménil & Lévy 2011a; Michl 2011) or the "neoliberal era" (Duménil & Lévy 2004; Park 2007), the "neoliberal phase of capitalism" (Sotiropoulos 2011), or the "neoliberal period" (Bakir & Campbell 2009a; McNally 2009).[11] The dissolution of the long boom, and the increasingly

[9] See for instance Robert Manne's *Goodbye to all that,* "On the other hand, the arrival of stagflation gave the economic liberals their chance" (Manne & McKnight 2010, p. 15).
[10] Robert Manne argues that the GFC would likely mean the end of neoliberalism on the basis that this was the fate of the Keynesian hegemony within a few years of the stagflation crisis (Manne & McKnight 2010).
[11] Others, many of whom I agree strongly with and have based my own account on, prefer instead to simply refer to 'capitalism in the last thirty years' (Brenner 2002a, 2002b, 2006, 2009; Harman 2005; Harman 2007a, 2009; Kliman 2012), presumably to avoid the many confusions that have been associated with the term

turbulent and crisis-prone conditions that followed, are the basis on which my account of neoliberalism rests. In this context the popularity of neoliberal politics and policies for governments and economists is understood as a pragmatic, at times desperate, attempt to find solutions to the crisis facing capital in the mid-1970s. This view directly contradicts the ideas-centred account, which understands the end of the Keynesian consensus and the rise of neoliberalism as driven by neoliberal ideas and ideologues.

The central insight here is that the hallmarks of the post-war era such as the welfare state, Keynesianism and (at a global level) the Bretton Woods system (Kliman 2012, p. 59) were not vandalised and pulled down by a virulent neoliberal assault. Rather these systems imploded on themselves and were abandoned by their former supporters because they no longer served the purpose of supporting economic growth and capital accumulation as they had done for the previous thirty years:

> The emergence of neoliberalism as a conscious ruling class strategy, rather than an esoteric ideological doctrine, therefore took place in response to the end of the post-war boom, but in changed conditions created by that boom. The failure of Keynesianism and other forms of state capitalism predisposed many capitalists, state managers and politicians, not just to accept, but to wholeheartedly embrace theories which they would earlier have rejected as eccentric, or even dangerously destabilising; but even then, the policy shifts which followed were as often pragmatic adaptations as they were born of ideological conviction (Davidson 2010, pp. 24-5).

The political economy of neoliberalism

I have argued that the starting point for a materialist understanding of neoliberalism lies in the stagflation crisis and the end of the boom. The broad

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neoliberalism. A further concern with common usage of the term neoliberalism in this context is that it blurs the continuities between capitalism of the post-war period and that followed. Kliman argues that understanding the period as neoliberal lends weight to the “political determinism” that assumes that the way the economy worked was driven by policy (Kliman 2012, p. 50).

consensus amongst Marxists suggests that "stagflation" was a symptom of sharply falling profit-rates in the 1960s and 1970s (Bakir & Campbell 2009a; Brenner 2002a, 2006, 2009; Callinicos 2010; Duménil & Lévy 2004, 2011a; Harman 2007b, 2009; Harvey 2005; Kliman 2012; Shaikh 2010; Sotiropoulos 2011).

However from this consensus around the origins of the neoliberal political economy, a major division arises about how to characterise the following thirty years of capitalist development. This debate is best understood as between those who argue that the problems for profitability seen in the 1970s had been resolved by the early 1980s, and those who argue that symptoms of low profitability continued to plague the system in the thirty years before the crisis of 2008, and indeed were the ultimate cause of that crisis.[12]

In what follows I will argue that the latter view – that the neoliberal economy has retained persistent problems with profitability (Brenner 2002a, 2002b, 2006, 2009; Callinicos 2010; Choonora 2009; Harman 2005; Harman 2007a, 2007b, 2009; Kliman 2012; Lavelle 2008; Robert 2002) – provides the most accurate basis on which to build a materialist account of neoliberalism. The counterview holds that while stagflation was caused by a fall in the rate of profit, this was successfully overcome in the early 1980s (Davidson 2010; Duménil & Lévy 2002, 2004, 2011a, 2011b; McNally 2009; Shaikh 2010).

For theorists such as Duménil and Lévy the reestablishment of the rate of profit in the early 1980s represents the rise of an entirely new, "neoliberal" mode of accumulation. I have argued elsewhere[13] that Duménil and Lévy's understanding of neoliberalism is a departure from the way that Marx described the capitalist mode of production. For Duménil and Lévy neoliberalism is a system driven not

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[12] The rate of profit is, of course, an empirical rather than a theoretical question. However the controversy amongst Marxists over what happened from the 1980s reflects disputes about how to properly measure profitability. A good account of this dispute is carried by Kliman (2012). Some debate centres on whether it is appropriate to calculate capital costs at the time of purchase or adjust for depreciation (Kliman 2007), how to get accurate figures for capital costs given companies incentive to under-report for tax purposes(Harman 2009). There is also a debate between Brenner and Duménil and Lévy about calculating the rate of profit here (Duménil & Lévy 2002) and (Brenner 2002b). There are further disputes about whether pre-tax or post-tax rates of profit are more important for the actions of capital, as well as what role interest-rates play (Shaikh 2010).

[13] In (Parker 2012) I argued that Duménil and Lévy's account of neoliberalism proposes a dynamic animating employers that is more like that of feudal lords than capitalists as Marx defined them.

by the competitive accumulation of capital, but rather by quest for higher personal incomes. Duménil and Lévy propose that the interests of capital accumulation have been "divorced" from, and sacrificed to, the wealth of the richest:

> Neoliberalism is a social order aimed at the generation of income for the upper income brackets, not investment in production... In countries of the center, domestic capital accumulation was sacrificed in favor of income distribution benefiting the upper classes (Duménil & Lévy 2011a, p. 22).

The important features of this account are that neoliberalism is judged as an "… unquestionable success..." (Duménil & Lévy 2011a, p. 25). The crisis of 2008 is not seen as the product of the same problems facing capital in the mid-1970s, but qualitatively new economic problems flowing from the "unsustainability" of the neoliberal model (Duménil & Lévy 2011a, p. 1).

Theorists such as McNally, Davidson, Shaikh and Husson (Davidson 2010; Husson cited in Kliman 2009, p. 49; McNally 2009; Shaikh 2010) do not share Duménil and Lévy's framework. However they all argue that capital's success in increasing exploitation, in part by drawing women and Chinese workers into the workforce in unfavourable conditions (for the workers), led to the reestablishment of profitability after the early 1980s (Davidson 2010; Kliman 2012, p. 49; McNally 2009; Shaikh 2010). Davidson, for instance, takes issue with the argument of Brenner, Harman and Kliman in the following terms:

> …it is deeply implausible to think that a system as dynamic as capitalism could exist in a state of permanent crisis (or even stagnation) between 1973/4 and 2007/8 – indeed, it would be difficult to understand why the events of the latter date [the GFC] could have had such significance had they not been preceded by a period of growth and expansion (Davidson 2010, p. 55).

However one challenge for the Davidson and McNally account - that falling profitability in the 1970s was resolved by increasing exploitation - is to explain the woeful record of capital accumulation over this time. Normally the rate at which capital is accumulated corresponds fairly closely to the rate of profit (with the latter providing – or not – the incentive to invest in order to accumulate). However the rate of capital accumulation during neoliberalism shows no major recovery after the 1970s, an empirical point agreed on by many Marxist economists (Brenner 2002b, 2006, 2009; dos Santos 2009; Duménil & Lévy 2004, 2011a, 2011b; Fine 2009; Fine 2010; Harman 2007a, 2007b, 2009; Harvey 2005; Lapavitsas 2009; McNally 2009). As Kliman argues, the trajectory of capital accumulation creates serious problems for the account of those like Davidson and McNally who argue that the cause of the 2008 crisis is unrelated to long-running stagnation in underlying profitability:

> Those who deny that a persistent fall in the rate of profit lies at the root of the Great Recession [the GFC] therefore face a serious problem. To measure profitability they use the current-cost 'rate of profit', which did indeed rebound after the early 1980s. Yet if the rate of profit experienced a sustained recovery during the quarter-century that preceded the financial crisis, how can we explain the extremely curious fact that the rate of accumulation (and thus GDP growth, compensation of employees, and so on) failed to recover along with it? (Kliman 2012, p. 89).

I have touched on what (I argue) is the problematic way that Duménil and Lévy resolve this issue. Yet few Marxists whose accounts of neoliberalism rest on the idea that profitability was restored after the 1970s draw Duménil and Lévy's conclusions (essentially that capital accumulation was no longer the aim of the capitalists and therefore posed no real problem for the system). The record of capital accumulation rates under neoliberalism seems to lend weight to the case put by those such as Kliman, Harman and Brenner who argue that profit-rates since the mid-1970s have remained significantly below their post-war levels. Low profitability, according to these theorists, is therefore not only an explanation for the economic origins of neoliberalism, but a fundamental driving feature of the entire post-1975 period (Bakir & Campbell 2009a; Brenner 2002b, 2006, 2009;

Callinicos 2010; Choonora 2009; Harman 2007a, 2007b, 2009; Kliman 2009; Kliman 2012; Moseley 1997).

Both Brenner and Harman consistently describe the lower level of profitability that continued after the 1970s as the lack of an "engine" (Brenner 2009, p. 6) or "motor" (Harman 2009, p. 289) to drive the expansion of the economy. As Harman argues:

> The overall pattern of the 1990s and the early 2000s was a continuation of that of the 1980s – a certain recovery of profit rates, but not sufficient to return the system to the long term dynamism of the long boom (Harman 2009, p. 232).

The title of Brenner's seminal book *The Economics of Global Turbulence* captures his view, and that of Harman, that despite the successful extraction of greater surpluses from workers, in the final analysis the neoliberal project to restore profit rates failed. At times Brenner characterises the period as "the long downturn":

> But during the long downturn that followed [the post-war boom], between the early 1970s and the mid 1990s, the growth of investment fell sharply and issued in much-reduced productivity increase and sharply slowed wage growth (if not absolute decline), along with a succession of recessions and financial crises, the like of which had not been seen since the 1930s (Brenner 2002a, p. 7).

Kliman shows how a lower average rate of profit, which he argues has characterised the last thirty years, does not entail permanent crisis, or indeed flat-lining stagnation (Davidson was quoted above disputing, rightly, that a system as dynamic as capitalism could be maintained in such conditions). However lower average profitability means that the other cyclical downturns and minor recessions to which capitalism is prone, become far more serious and frequent, and the likelihood of a recovery in capital accumulation rates remains low:

> Thus, short-term declines in profitability of similar amplitude have much more serious and widespread consequences when the rate of profit is low than when it is high. Low profitability as such makes the economy less stable, more prone to crises and serious slumps. A fall in the average rate of profit will therefore have destabilizing effects that persist even if it stopped falling a long time ago (Kliman 2012, p. 18).

Another feature of the neoliberal economy that disguised the stagnation at the heart of the system was the growth in financialisation. The now notorious financialised booms which were seen from the 1990s until the crash in 2008 led many mainstream commentators to extol the health of the system. However for Kliman, Brenner and Harman, the growing financialisation of capital since the 1970s is itself understood as a symptom of faltering profitability. In this analysis the bubble economics of the neoliberal period are the response of capitals that can no longer maintain profits in the commercial and industrial sectors of the economy and therefore throw themselves into any speculative financial bubble that appears on the horizon. Here Callinicos[14] explains the connections:

> … we can definitely see the credit bubble as an effort to allow the US economy (and hence, thanks to its central role in maintaining global demand, the world) to continue to grow, despite its failure to overcome a chronic crisis of profitability and overaccumulation that dates ultimately back to the 1960s (Callinicos 2010, p. 80).

Similar to Callinicos, Brenner also understands low profitability as central to the creation of neoliberalism's credit bubbles. Lapavitsas too explains how the weakness of growth in the global economy as a whole has led to the extraordinary rise of finance:

[14] Here Callinicos refers to the idea that while capital may have succeeded in extracting greater surplus out of workers – which would be expected to lift profit-rates – profitability under neoliberalism remained constrained by the presence of large and unprofitable blocs of capital. Normally these would have been destroyed by deep crisis, but many Marxists have argued that state intervention, learning the lessons of the Great Depression of the 1930s, has prevented such a crisis under the rubric of "too big to fail". As a result the tendencies to the 'centralisation and concentration' of capital discussed by Marx have become a much bigger feature of late capitalism and lie at the heart of the system's endemic profitability problems.

> While real accumulation has been performing indifferently, the capitalist class has found new sources of profits through the revamped mechanisms of finance (Lapavitsas 2009, p. 126).

Where a decent rate of return failed to drive investment, debt has become the motor of growth and has been used to paper over the huge and unresolved problems in the real economy:

> For decades, the relative stagnation was kept under control largely by throwing debt and more debt at the problem. This 'solution' also created some short-term artificial booms, especially in the 1990s and again in the 2000s (Kliman 2012, p. 73).

Consumer debt also allowed wages to stagnate in some economies, without undermining demand, and, in in such a way that partially masked the failure of living standards to improve.

The interventionist state

One important factor in the framework provided by Harman, Kliman, and Brenner, is that states have played a central role in engineering economic outcomes. Governments have consistently intervened to prevent the faltering growth rates produced by low profitability from developing into deep recessions. In particular the US state, by virtue of the key role that the US economy has played in global capitalism since the 1970s, is understood to have acted decisively to change the course of the global economy at various critical moments, in its attempt to stave off crisis.

Brenner argues that the only way the global economy has been saved from recurrence of the crisis of the 1970s until the GFC was through the actions of the state – chiefly the US state – chiefly the policies of the US Federal reserve, in ensuring “titanic volumes of credit” (Brenner 2006, p. Xxiii). According to this account, debt – government and increasingly private household and corporate, became for a time, a substitute for the weak engine of profitability in the economy, and therefore an artificial stimulus. This would have profound consequences for the stability of the system.

This is a crucial point, because it points to the *necessity* of a highly interventionist state in helping stave off recession. Kliman documents a slew of such interventions by the US state including vigorous interest rate reductions; government loan guarantees, the elimination of capital gains tax on most homes, and the bail-outs of creditors, all designed to provide debt stimulus to the economy (Kliman 2012, p. 14). In this sense credit-bubbles underpinned booms in the real economy as asset-price rises fuelled consumption, particularly in the US, of housing and import commodities. Consumer debt in the working class was also essential to maintaining consumption in the face of savage wage suppression. But 2008 was to reveal how precarious such debt-fuelled booms were.

1.3 The nature of neoliberalism

So far this chapter, having argued that many of the predominant theories of neoliberalism are misleading by their focus on ideas, has proposed a broad account of the political economy of the last thirty years. I argue that the changes capitalism underwent during the mid-1970s created what can be described as a neoliberal era, or a neoliberal phase of capitalism. I will now propose an account of developments that can be described as operating at the ideological, political and policy levels. These phenomena should be understood, I will argue, as located within and conditioned by the economic changes described above.

The account of neoliberalism that runs through this thesis is grounded in the economic changes I have described in this chapter so far. My approach reverses the ideas-centred version, which starts with ideology and policy as the fixed essence of neoliberalism, and constructs reality from there. History shows, on the contrary, that the response of governments to the difficulties facing capital accumulation did not spring fully formed out of the writings of Hayek, or indeed of anyone else. Rather, through their practices over time through trial and error, politicians and capitalists have actively constructed neoliberal policies. This is a point well recognised by business insiders such as Martin Wolf from the *Financial Times*:

> To many critics, the last two decades of the twentieth century were the age of a manic “neo-liberalism” imposed by ideological fanatics on a reluctant world. This picture is false. The change in politics was, with very few exceptions, introduced by pragmatic politicians in response to experience (Wolf, quoted in Davidson 2010, p. 26).

For this reason Peck and Tickell insist that it is more accurate to speak of an ongoing process of “neoliberalisation” than suggest that there is a single template of neoliberalism that governments or capitalists are striving towards (Cahill 2009a, p. 306).

Neoliberalism has also been, at the level of individual policies at least, successfully resisted and refused by social movements, unions, and electorates. This is why it has been introduced in different ways in each country. For this reason Cahill argues that neoliberal policies should be understood as “…the outcome of conflict and compromise, mediated by the unique institutional architecture of each nation state.” (Cahill 2009a, p. 302).

Once we recognise the challenges for capitals and their governments in the last thirty years, we can make better sense of the array of policies and ideologies that governments and companies have employed. In fact this vantage-point dramatically alters the meaning of neoliberal governance. As I have argued elsewhere (Parker 2012) this perspective challenges the common view that neoliberalism represents the success of capital. However, as successful as capital has been at imposing its will on workers and the poor through neoliberal policies, as the account I have articulated suggests, this is not a sign of success, as much as driven by the deep weaknesses of capital. As Brenner puts it:

> … all of these interrelated measures of cost reduction, neoliberalization, and globalization unleashed with ever increasing intensity from the start of the 1970s by the advanced capitalist economies constituted little more or less than an ever more frenzied attempt to cope with the pervasive and persistent problem of reduced profitability. But the overriding fact remains that far from restoring economic dynamism, these measures failed to prevent the performance of the advanced capitalist economies *from worsening* as time went on (Brenner 2006, p. xxi).

Once we start from the broad economic processes of neoliberalism and investigate the ideologies and government policies that flow from these, we remove the need to construct a rigid and unchanging notion of neoliberalism. In fact there is a range of policies that governments have enacted in their struggles to overcome the problems created by the neoliberal economy. However, as we will see, these policies are chosen from a narrow range dictated by the constraints imposed by these very same economic limitations.

In what follows I will explain how the most recognisable features of neoliberalism are understood within the political economic schema proposed so far. These features include a range of changes to industrial relations (casualisation, precarity, feminisation of the workforce, anti-union legislation); changes to the nature of state service provision (out-sourcing including privatisation, Public Private Partnerships, marketisation and corporatisation, austerity, growing coercion and control), changes to parliamentary politics (technocratic governance, political convergence in the "centre", the hollowing out of social democracy), and ideological themes such as *There Is No Alternative* (TINA).

Exploitation

It is the endemic and unsolved difficulties for profit-makers that explain why neoliberalism has always and everywhere featured unrelenting assaults on the conditions and organisations of the working class (Davidson 2010, p. 28). This goes a long way to explaining the persistent production by governments and corporations of a culture of austerity. Even when sectors of a national economy were booming, still the lived experience of neoliberalism for working people was consistently dominated by the idea of belt-tightening, cut-backs and 'doing more with less'.

Strategies to drive up exploitation have included full-frontal assault on the most organised workers (as Margaret Thatcher did in the UK by attacking miners who were part of the National Union of Miners), or by co-opting unions into no-strike agreements as was done by Australia's Labor government under Bob Hawke (which I discuss in the next chapter). It also manifests itself in moves towards casualisation, longer hours and just-in-time production (Harman 2009, p. 236). What's more, policies such as privatisation which are introduced ostensibly to make state service provision more efficient (King & Pitchford 1998, p. 314), also function to increase the competitive pressures on a group of what were formally well-organised public sector workers (and whose conditions helped set a higher bar for workers in the private sector) (Duménil & Lévy 2011a; Harman 2002; Harvey 2005).

Political convergence and the rise of technocratic governance

The limited parameters of possibility within which governments can ensure the success of national capitals leads to the political convergence seen under neoliberalism. The highly competitive and volatile economic environment provides government policy makers a very narrow set of alternatives deemed viable. Prospects for the vigorous expansion of the welfare state, nationalisation of industry, and plans for wealth redistribution, have been largely erased from the menu of policy tools seen by governments as economically responsible. This erasure has had the effect of removing from public debate a set of policy alternatives that had previously animated genuine political contestation:

> One of the key successes that neoliberalism has achieved for capital has indeed been to render inconceivable alternatives to the economic policies established by the initial regimes of reorientation–or at any rate, alternatives to their left (Davidson 2010, p. 42).

As I will discuss in the chapters that follow, one of the most important victims of neoliberalism has therefore been the political program of social democracy. Although such parties remain, they have survived on the basis of abandoning their traditional aims of "civilising" capitalism, and redistributing wealth from rich to poor.

Instead they have accommodated to neoliberalism, believing there no longer is any alternative to the constantly growing demands of the market. The central ideology of neoliberalism *TINA* (There Is No Alternative – to the market) receives its deepest justification from the fact that it has become the animating concept behind the policies and promises of nominally social democratic parties. When such parties came to power during the era of neoliberalism, their interventions into the economy were not directed towards the redistribution of wealth:

> What has vanished irretrievably is the notion–characteristic of postwar Keynesianism–that economic intervention should aim at achieving full employment and securing social welfare (Costas Lapavistas quoted in Davidson 2010, p. 67).

Or as Cahill argues "… there has been an ideological and policy convergence around a neoliberal core among both conservative and social democratic parties in most advanced capitalist nations" (Cahill 2011, p. 486). The implications of official social democratic parties' accommodation to neoliberalism cannot be overstated. Official politics becomes transformed into an exercise in technocratic economic engineering, failing even remotely to represent the reformist aspirations of workers. Further, through their connections with, and political influence over trade unions, neoliberalised social democratic parties have profoundly weakened the politics and confidence of the labour movement.

This hollowing-out of the parties that for much of capitalism's history represented the hope that the state could be harnessed to other interests than those of business, has also had a transformative impact on the nature of the state itself. As I will discuss many times in the chapters that follow, the very notion that some part of the state could be used to further "human needs" has been eliminated both at the level of government, but also in the leading echelons of the state's bureaucratic apparatuses. After thirty years of neoliberalism pro-market policies have become completely naturalised throughout the leadership of Australia's public service (Pusey, 1992).

Steering not rowing – the neoliberalisation of the welfare state

Earlier in this chapter I argued that the construction of the post-war welfare state had married capital's need for increasing labour productivity (essential for capital accumulation), with rises in both real wages and the social wage – providing legitimisation for the state and for capitalism itself (O'Connor 1984). However the complementary economic and social goals that the welfare state fulfilled in the post-war period dramatically shifted once the boom ended. In the new economy emerging in the 1980s, capital's requirements from their governments were radically different from those of the boom. From then on, with mass unemployment once more a permanent feature of the system, social spending would be scrutinised and contested far more insistently by the business class. Although policies that improved the productivity of labour would still have been effective in creating social cohesion, they were no longer complementary to capital accumulation. This fundamental shift explains why the coercive apparatus of the neoliberal state has grown (from the expansion of the prison system to the imposition of welfare controls), as aspects of the welfare state that were effective at achieving legitimisation were deemed economically unviable and so reduced.

Later chapters of this thesis are aimed to throw light onto the neoliberal transformation of Australian welfare provision. Government did not, as many critics had predicted, withdraw from all involvement in pensions, housing, health and education. However the consistency of these budgetary allocations (which can be roughly gauged in Figure 1.1 above) disguises the fundamental shift in the nature and purpose of these welfare functions.

One of the most dramatic changes has been the move from direct state provision of services to privatised or outsourced provision (Miraftab 2004; Picciotto 2011). Osborne and Gaebler described this transition as moving from *rowing* to *steering* (Miraftab 2004; Osborne & Gaebler 1992; Picciotto 2011; Wettenhall 2003). Private contractors increasingly replaced the ‘rowers’ of the post-war state – public servants employed to provide social services directly (from construction teams building public works, to government scientists regulating building materials). Instead of rowing, the government’s role became to ‘steer’ private companies responsible for service delivery to the community (Cahill 2009a, p. 303).

As we will see in the next chapter, in Australia this process was initiated and greatly progressed by the Federal Labor governments of Hawke and Keating. They oversaw the corporatisation of the state, which introduced market-like competition between government departments and agencies (Frankel 1997, p. 19; Johnson & Tonkiss 2002, p. 8). With policies of ‘competitive neutrality’ and National Competition Policy legislation, governments at all levels were compelled to open their operations to tenders in which government departments would compete with the private sector. The results of such policies were the widespread privatisation of state agencies and utilities, and the out-sourcing of many of the remaining functions of state.

The marketisation of the welfare state served a number of purposes for governments. A range of private corporations profited handsomely from buying formerly public entities, not uncommonly sold well below their value, and then providing their privatised services back to the state. As markets were created in health, education, low income housing, electricity and water etc. various sectors of capital benefitted. However the profits created from opening the state sector to the market did little to remedy the deep economic problems for capital described in the previous sections, nor were they designed to. Rather policies of privatisation and outsourcing served a key ideological role. By imposing the logic of the market on welfare services, governments found 'economic rationalist' justifications for streamlining elements of the welfare state that no longer suited them. In this sense the ideology of the "small state", rather than actually shrinking the state, justified shifts in resources that boosted elements of welfare spending considered necessary at the expense of those deemed to be redundant (Yeatman 1990).

This introduction to the marketisation of the welfare state provides an example of the way in which my three-level theory of neoliberalism will be mobilised throughout the thesis. We cannot explain why governments across the globe consistently turned to policies such as privatisation by looking to free-market ideology. As I have argued, ideology cannot explain why, in this case, marketisation, occurs in a historically specific period. To explain the proliferation of neoliberalisation from the late 1970s, I have argued, we need to grasp the new strictures that a turbulent and highly competitive global economy imposed on the welfare state. However, as I indicated above, recognising the material basis of neoliberalism is not to suggest that every policy innovation should be mechanically linked to economic prerogatives. In this example, privatisation may, in fact, do little for a national economy, for profitability levels, or even for reducing government expenditure. Arguably its main impact on society is ideological. Like other such policies, privatisation (in this example) was developed in response to a series of interrelated pressures on governments operating at the political and ideological levels, all of which are conditioned by the antinomies of the neoliberal economy.

1.4 Neoliberalism is dead. Long live neoliberalism.

If we accept the interpretation of neoliberalism I have presented so far, then the global crisis of 2008 and states' responses to it are seen in an entirely new light. I opened this chapter by investigating claims that the crisis of 2008 had landed a fatal blow against hegemonic neoliberalism. However, rather than neoliberalism's deathblow, the crisis magnified the very problems to which neoliberal policies and ideologies were supposed to be the only solution. For this reason the crisis appears as a distillation and concentration of neoliberalism itself.

Further, the historic levels of state intervention[15] to stem the meltdown and save the system from itself must also be seen in a new light. The fundamental project of this thesis is to investigate policies that appeared to demolish the neoliberal consensus - such as historic debt-financed stimulus. However when we understand state intervention as central to the nature of neoliberalism, it can no longer be assumed that the "Keynesian turn" of 2008-2009 was utterly antithetical to neoliberalism.

As was discussed in the section above, neoliberalism demanded that governments become more actively involved in economic engineering to help their national capitals overcome constant crises. Often this took the shape of governments bailing out unprofitable sections of industry. Harman quantifies this phenomenon in the 2000s – before the onset of the GFC:

> A worldwide sample of "40 banking episodes" in 2003 found that governments had spent 'on average 13 percent of national GDP to clean up the financial system' (Harman 2009, p. 234).

[15] Kliman notes that the US government interventions in the two years after the collapse of Lehman Brothers, saw debts held by the US Treasury increase by 40% to $13.5 trillion, an increase equivalent to $12,500 per US citizen (Kliman 2012, p. 24)

The history of vigorous state intervention throughout the neoliberal era provides essential context for discerning what was, and what was not, truly novel in governments' responses to the GFC. Earlier I touched on the importance of governments engineering economic growth by facilitating debt-led speculative bubbles and asset-price fuelled booms. Some economists have described this practice as "debt Keynesianism" or "privatised Keynesianism" (Davidson 2010, p. 3). This is important because it captures the way that even those governments that embraced the ideology of the "small state" were in fact involved in a level of interventionism that rivalled, if not vastly exceeded, that of the so-called Keynesian post-war economies.

The Rudd government's extraordinary stimulus initiatives in the face of the crisis, and the numerous overseas equivalents, must be interrogated in this light. As Davidson argues:

> The measures of nationalisation and state control in response to the present crisis are therefore not a return to state interventionism, since it has never ceased (Davidson 2010, p. 66).

Cahill makes the same point, arguing that a correct reading of the persistent and central role of an interventionist state in neoliberalism suggests that state intervention in the face of the crisis cannot in and of itself spell the end of neoliberalism:

> … state fiscal stimulus packages, in the context of the global financial crisis, do not, in and of themselves, constitute sufficient conditions for pronouncing neoliberalism dead, or even terminally ill (Cahill 2009a, p. 305).

1.5 Conclusions

I have proposed an account of neoliberalism that encompasses, and rests on, the difficult and turbulent conditions for capital that followed the collapse of the post-war boom. This materialist view contradicts the ideas-driven definitions of neoliberalism that predominate in the critical literature. I have concurred with Harman, Brenner and Kliman that rather than rid the global economy of the deep problems that manifest in the stagflation crisis of the mid-1970s, the neoliberal economy continued to be plagued by turbulence and stagnation that are ultimately the product of continuing low profitability.

On the basis of this account of the economic foundation of neoliberalism I have situated a raft of measures and policies that neoliberal policymakers and business leaders enacted to stave off crises and attempt to boost profitability. These include changes to the nature of the welfare state, employment relations, and parliamentary political representation itself. I have proposed three categories in which to understand the different levels at which neoliberalism operates. The primary driver of neoliberalism is the first level – that of the neoliberal economy. On the basis of developments at this level I have concurred with Cahill and Davidson that the pragmatic and flexible manner in which states enacted neoliberalisation has resulted in variations between the different national economies.

In the next chapter I will apply this framework to understand the origins of neoliberalism in Australia, and particularly the implications for the Labor tradition. This last aspect is essential for providing context for Rudd's response to the crisis of 2008, which I discuss in Chapter Three. I have also argued that state intervention into the economy has been central to neoliberalism. This insight is centrally important for understanding the wave of fiscal stimulus measures and banking nationalisations in response to the GFC, which I also discuss in Chapter Three.

CHAPTER 2

Labor and the crises of capitalism

The Labor Party has been in power during three of the most important economic crises in Australia's history. James Scullin became Prime Minister two days before "Black Thursday" saw the US stock market crash of 1929 that began the Great Depression. Gough Whitlam had been in power for two years when the "stagflation" crisis hit Australia in 1974, ending the post-war boom. And it was Kevin Rudd's second year in office when the "Lehman Brother's moment" of September 2008 brought Australian stocks tumbling as the "Global Financial Crisis" [16] (GFC) began in earnest. Labor was also in power during the economic stagnation of the 1980s and the sharp recession of 1991. This downturn wasn't a global crisis in the same sense as the Great Depression or the GFC, rather it was the product the turbulence associated with the neoliberal economy (Collins & Cottle 2010, p. 26) discussed in the previous chapter. However the "recession we had to have" in 1990-92 created unemployment for over 10 per cent of the population and saw a more dramatic domestic contraction of production than that which was created by the 2008 events.

In order to contextualise Rudd's response to the GFC we must locate it correctly within the Labor tradition and the record of previous Labor governments. This chapter therefore explores the responses of the Scullin, Whitlam and Keating governments to the economic crises of their day. This will inform our understanding of Rudd's response to the crisis of 2008, which I discuss in the next chapter. This chapter will argue that Rudd's response to crisis represents both a continuity with aspects of the Labor tradition, and also a break with those traditions. In this sense I take *both* sides in the continuity/discontinuity, or

[16] Again, as I did in the previous chapter, in this chapter I will use GFC (Global Financial Crisis) as a shorthand to refer to the crisis that started in Australia in 2008 with the same caveat that I do not characterise the crisis as a "financial" crisis as the term suggests.

"betrayal debates"[17] (see Bramble & Kuhn 2009; Dyrenfurth 2011, p. 117; Griffiths 1989a; Johnson 2011, p. 563). I will argue that on the one hand Rudd's response to the GFC echoes that of a long line of Labor Prime Ministers who, faced with global crisis, mobilised the state's resources to "save capitalism from itself". At the same time the reaction Rudd's response to the GFC received from within the Labor Party reflects the absence of a left reformist pole within Labor. This absence, I argue, is a product of neoliberalism's impact on the Labor Party, and therefore represents a break with Labor tradition, a *dis*continuity.

This chapter starts by arguing that federal Labor governments' responses to economic crises clearly reveal how Labor, once in government and responsible for running the Australian state, elevates the needs of 'its' capitals above those of 'its' supporters. I will use the case of the Scullin and Whitlam Labor governments, forty years apart, to establish the preparedness of Labor governments to rapidly abandon central election promises, override its platform and suspend its reform program in order to steer the state sharply towards meeting the immediate needs of business. In both these cases, as in the case of Keating's response to the crises of the 1980s and the 1991 recession, Labor rapidly and uncritically adopted the economic policy "solutions" advocated by orthodox economists and the treasury officials of the day.

However, while I argue that these governments' responses to crisis represent an historical continuity, and expose something fundamental about the nature of the Labor project, by the time of the Hawke and Keating governments of the 1980s, I argue, we see a qualitative change in Labor's response to crisis. Labor's embrace of neoliberalism has fundamentally changed the Party. This *dis*continuity is best seen not in the economic policies enacted by Labor's Prime Ministers and their parliamentary colleagues, but rather in how the rest of the party (and indeed the broader labour *movement*) responds to government policy. Scullin's response to

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[17] It was during the Hawke government (1983-1991) that Marxist and left Labor/labour theorists initially attempted to come to terms with what had changed in Labor as a result of neoliberalism, in what came to be known as the "betrayal debates". The argument was between those who argued that Labor governments' "betrayal" of their supporters was a constant feature of Labor throughout its history – and therefore Hawke's betrayals represented a continuity, as against those who saw in Hawke Labor a qualitative degeneration – a discontinuity or break in Labor traditions.

the Great Depression remains the quintessential example of the lengths to which Labor politicians will go to save the system. However, the response of the broader party to Scullin's "betrayals" provides evidence of significant and vibrant "left reformist" traditions within the Party – currents that should be regarded as much a part of the Labor tradition as the record of Labor politicians in power.

As I suggested in the previous chapter, it is precisely the content of a recognisably social democratic politics which has been undermined by Labor's accommodation to neoliberalism. Therefore in the second part of this chapter I will provide an overview of the Hawke and Keating government's role in the neoliberalisation of the Australian economy and state. It was the Labor government's leading role in this process that profoundly compounded the hegemony of neoliberalism, the idea that There Is No Alternative to the market. With this in mind I argue that the response of Labor/labour as a whole to the "recession we had to have" in 1991 shows evidence of the already narrowed parameters of politics within Labor resulting from neoliberalism. This is crucial for contextualising the nature of Rudd's response to the GFC, and how that response was met within the Labor Party.

2.1 The antimonies of the Labor tradition

Betray what? Hopes, programs, promises and Labor's social democracy

The starting point of this chapter is to establish the nature of social democratic reformism, or the belief that through elections Labor can use the state to improve the conditions of the working class. Social democratic reformism entails the belief that once in power Labor politicians will enact policies that ameliorate capitalism's production of inequality, exploitation and injustice. These beliefs, themselves the products of workers' contradictory experience of capitalism (Griffiths 1989b), form the basis on which Labor traditionally built its support in the working class. Harrison provides a good summary of the content of Labor's social democracy (in this case as articulated by British Labour politician Anthony Crosland in his 1956 book *The Future of Socialism*):

> The central thrust of Crosland's policy was the re-distribution of resources from rich to poor. Social-democratic parties were to campaign on this basis and, once in government, to use the state apparatus to implement such policies. The rich should be taxed more heavily than the poor and the money used to finance free state provision of certain social services, such as education and health, and the payment of subsidies to the worse off in the form of social security, old age pensions and the like. In this way, a minimum standard of material welfare could be provided and both a reduction in inequality and an improvement in workers' living standards achieved (Harrison 1978, p. 139).

This passage provides a good summary of the political claims around which Labor has built its support amongst working people and its organised alliance with the trade union movement. This social democratic vision for reforming capitalism is embedded in Labor's traditional platform, and the promises around which it contests elections. However Australian Marxists and other radical theorists have long argued that the Labor Party's social democracy is wrought with contradictions (Beilharz 1994; Bramble & Kuhn 2009; Bramble & Kuhn 2010; Cahill 2007, 2008; Collins & Cottle 2010; Conrick 1979; Dyrenfurth 2011; Frankel 1997; Griffiths 1989a, 1989b; Johnson 1989; Lavelle 2005, 2008, 2010; O'Lincoln 1992; O'Lincoln 1993; Scott 2000; Woodward 2005, 2012). One of the most important of these is the gulf between Labor's social democratic platform and the actions of Labor politicians once in government. Because Labor "accepts both the economic relations of the capitalist mode of production, and the legitimacy of the capitalist state" (Stuart Macintyre quoted in Dyrenfurth 2011, p. 114), when it forms government Labor ministers necessarily commit to running the state in a way that ensures the success of Australia's capitalist economy (Bramble & Kuhn 2009, p. 282). That is, once in power Labor governments must service the interests of the private sector in order to effectively promote Australian corporations in a globally competitive market system (Dyrenfurth 2011, p. 110).

Such pro-capitalist policies, however, are necessarily (to a greater or lesser degree) at odds with the interests of Labor's working class supporters (Lavelle 2008).

As we will see in the historical narratives that follow, economic crises profoundly compound and expose these existing tensions between the interests of the capitalist economy and those of Labor voters. Yet despite the recurrence of economic crises in the history of capitalism, Labor's reformist social democracy rests on the belief that the capitalist economy will work smoothly (Johnson 1989, p. 6):

> Belief in crisis-free development of the productive forces for the foreseeable future and in the inevitable extension of bourgeois democracy to all spheres of life are the classic hallmarks of social democracy (Harrison 1978, p. 138).

Economic crisis therefore always comes as a political shock to a Labor government and reveals the irreconcilability of the contradictions around which the Labor project is built. The experience of the working class in the crisis is that of unemployment and deprivation and workers look to the state to protect them from these. But policies that might mollify the suffering of working people (Dyrenfurth 2011, p. 115), such as the nationalisation of failing companies, mass government employment programs and the provision of welfare payments, bear no relation to, and more often than not conflict with the policies necessary to restore conditions for profitability and economic growth.

As Harrison explains, the crisis therefore compels social democratic governments to lower the living standards of the very people who propelled them into power:

> The crisis thus compels reformist parties to switch ground. There are essentially only two possible ways to move[18]… One alternative is to adopt the capitalists' strategy. This involves abandoning any perspective of

[18] The second of the "possible options" that Harrison defines, that of "left reformism" is discussed later in this chapter.

> immediate improvements in living standards and, instead, opting for policies designed to reduce them. The rationale for such a move is essentially the same as that offered by the capitalist class: the possibility of reducing costs, raising profitability, increasing sales abroad and thereby re-establishing the conditions for sustained accumulation. This, it is argued, is the only way to lay the basis for future reforms. This approach can conveniently be termed *right reformism*… Not surprisingly, the leadership of a party adopting such policies tend to lose working class support (Harrison 1978, p. 147).

In what follows I argue that when federal Labor governments have been faced with severe economic crises they have adopted such a "right reformist" response.[19] Even the response of the Whitlam government (1972-5), one of the most progressive reforming Labor governments in Australia's history, can be classified on balance as a right reformist response. The policies of Labor governments during such episodes demonstrate that the material interests of Labor voters, and even the Party's members are of less importance to the Labor leadership[20] than the goal of re-establishing the conditions for capital accumulation. Further, contrary to the common view that it is electoral success alone that drives the Labor party, we find that in the face of deep crisis even Labor's electoral survival can be sacrificed to the policies necessary to re-establish profitability.

Scullin, Labor and the Great Depression

James Scullin took power a mere two days before the 1929 stock market crash. We therefore have no record of Scullin's actions in office prior to the crisis with which to compare his notorious subsequent policies. However the lead up to

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[19] Later in this chapter I discuss the way that the NSW Premier Jack Lang responded to the Great Depression of the 1930s, and argue that Lang's response was a more characteristically "left reformist" response in Harrison's terms.

[20] This chapter relies on an understanding of the antagonistic relationship between the Labor leadership and rank-and-file of the party analysed by Cliff (1957; Cliff & Gluckstein 1986, 1988). Cliff argued that the nature of the Labor leadership derives from the distinct role of union officials inside the working class. The trade union officials mediate between labour and capital, and this role gives them a distinct set of interests and political goals from those of workers. The political implication is that where workers' struggle leads them to confront the limits of capitalism, the "bureaucracy aims at prosperous capitalism, not its overthrow" (Cliff 1957).

Scullin's victory in the largest landslide Labor had known to that time was filled with hopes and expectations after working class voters endured years of brutal attack by the Conservative Bruce government.

The period of Bruce's Prime Ministership had been characterised by bitter class struggles in which the Conservative government mobilised the state – the government, courts and police – against workers, while simultaneously turning a blind eye to illegality on the part of capitalists (McMullin 1991, p. 151). Labor leader "Red" Ted Theodore (who was to become treasurer in Scullin's government) campaigned around the promise that if elected Labor would have the illegally locked-out Hunter Valley mine workers back in the mines within two weeks on the workers' terms. Labor swept the floor and Prime Minister Bruce lost his seat - a stunning humiliation not to be repeated until John Howard's loss of the seat of Bennelong in 2007. Expectations from those voting Labor were that once in government Scullin would direct the state towards the needs of working people.

The Great Depression hit Australia extremely hard. Overnight it derailed the private sector with a 45 per cent drop in the prices paid to Australian export commodities. This in turn ruined government finances.[21] The crisis immediately posed problems for the government in repaying its debts. Any option of covering debt with further borrowing was eliminated by a "credit-crunch" as international financial markets froze. Further, not only did the number of people relying on welfare payments surge, but the crisis drastically reduced the tax income from which the government paid state employees and repaid its loans. Scullin was faced with what today is described as a "sovereign debt crisis". By 1932 Commonwealth Government debt had reached 60 per cent of GDP. Adding to this the debts held by state governments total government debt reached an all-time high of 205 per cent of GDP.

Scullin's immediate response to this calamity was to seek the advice of the existing economic experts. On the advice of Sir Robert Gibson, chairman of the

[21] During the previous boom in the 1920s the Federal government had borrowed heavily in order to expand infrastructure as Australian companies supplied seemingly inexhaustible overseas markets for wool, wheat and minerals.

Commonwealth Bank board (then Australia's central bank), Scullin invited the British banker Sir Otto Niemeyer to tour Australia to advise the Labor government. Niemeyer proposed a package of savage austerity to slash wages and ensure debt repayment. Or as the Labor Party paper *Australian Worker* interpreted it:

> …the workers of Australia must eat cheaper food and wear shabbier clothes, and give up their few pleasures in order that Britain's wealthiest loafers may… wallow still more grossly in sybaritic excess" (27 August 1930).

In the face of growing malnutrition within the working class, Scullin developed an austerity plan based on Niemeyer's advice. In 1931 Scullin oversaw what became known as "The Premiers' Plan" – an agreement with the state governments to cut public spending by 20 per cent. The cuts meant slashing pensions, unemployment payments and public sector wages.

Rarely does a government enact policy that literally pushes its supporters into starvation. Scullin's response to the crisis leaves us in no doubt as to how central the needs of capital are to a Labor government in power. The Labor leadership immediately suspended its election promises. Indeed any notion of reforming capitalism in the interests of workers was postponed until some unnamed period of future economic prosperity. As Scullin himself put it, his government would "maintain our equilibrium, play the game, meet our obligations and, when possible, evolve a better system" (Quoted in Symonds 1999).

Scullin's response to the crisis of the 1930s remains the most graphic example of the primacy Labor governments afford to capital accumulation (in this case to the creditworthiness needed for re-establishing profitability) over the basic survival of those who campaigned to put it in power. As Minister for Health and Repatriation in the Scullin government, Frank Anstey himself put it: "This Labor government has outraged every principle it was sworn to preserve and has been false to the class that had given it life" (Anstey, quoted in Griffiths 1989a).

Whitlam and the 1974 "stagflation" crisis

Forty-one years after Scullin was elected on the eve of the starkest of economic downturns, Gough Whitlam formed government during the "long post-war boom" (1945-1973) that I discussed in the previous chapter. Whitlam was in office for two years before the boom faltered in the "stagflation" crisis that hit Australia in 1974. The nature of Whitlam's term before the onset of the crisis, and even more important the electoral momentum on which Labor rode to office, are crucial for understanding the expectations and aspirations for reform within the Party's base.

In fact the Whitlam government's first year in office in 1972-73 has become legendary amongst Australian progressives. After 23 years of Conservative rule Whitlam's "It's time!" election win established a mandate for sweeping social change.[22] On taking office Whitlam seemed to confirm the hopes of his supporters (and the fears of his critics) by immediately undertaking an ambitious and wide-ranging reform program that included the abolition of university and TAFE fees and the doubling of school funding; the tripling of urban development expenditure; increasing health spending by 20 per cent coupled with the introduction of a universal health system – Medibank. Whitlam also extended the reach of the state with the initiation of progressive government programs in new areas such as the bilingual education program in Aboriginal communities in the NT, The Australia Council, and adult migrant English programs, to name but a few. The government also increased the funding of the Commonwealth public

[22] However this mood was more the creation of the explosive social movements of the late 1960s and early 1970s than of Whitlam, or even of the Labor Party (Bramble & Kuhn 2010; O'Lincoln 1993). Rather the hopes of the 1972 election were a product of events such as the 120,000 workers who struck in 1970 to attend "Moratorium" marches against the Vietnam war; the woman who in 1969 had chained herself to the Commonwealth Building in Melbourne in protest of the limitations of the equal-pay laws(Burgmann 2003), by students hiding Vietnam draft-dodgers on the roof of Sydney University, and by the Aboriginal activists in their nearly year-long Tent Embassy protest directly in front of then Parliament House. Equally important in creating the basis for Labor's 1972 victory was the Victorian general strike of 1969 that had freed tramways union leader Clarrie O'Shea (O'Lincoln 1993). The culmination of years of preparation chiefly by the Communist Party of Australia, this campaign ended in the successful nullification of the "Penal Powers" that had criminalised much union activity in the post-war period. The victory of the O'Shea strike was itself a product of the growing worker militancy of the 1960s. At the same time the defeat of the Penal Powers by workers' struggle helped intensify the industrial confidence of workers in the 1970s. In other words it was Australia's rising social movements and (intimately connected) union militancy that prepared the ground for Labor's election.

service, awarding public servants "pace-setting" conditions such as an extra week of annual holidays, paid parental leave and a 17.5 per cent holiday leave loading.

Whitlam's reforms represent a high watermark of progressive social investment and government intervention in the economy. And as Andrew Scott explains, Whitlam's generous reforms required quite substantial increases in Federal spending compared with the previous Liberal budget (though, as we saw in Chapter One, not in comparison to the budgets that would become characteristic of neoliberalism):

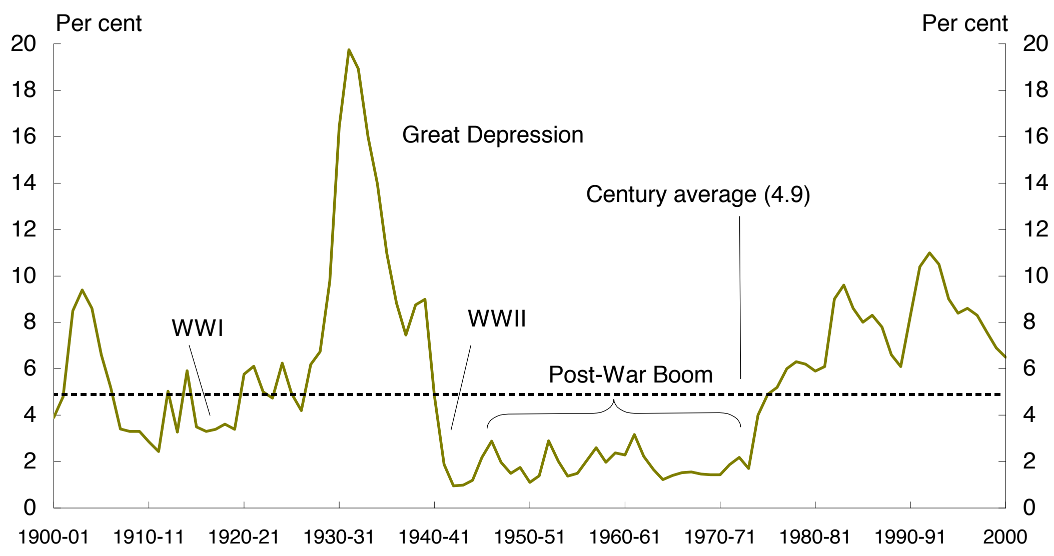
> Budget outlays more than doubled from $10 billion to $22 billion over its three budgets, and the budget deficit as a proportion of gross domestic product (GDP) rose from 1.6 to 4.7 per cent (Scott 2000).

Whitlam made no secret of the dependence of his program on strong economic growth (Lavelle 2010, p. 65). Even before winning government Labor had argued that its plans for increased public spending rested on the ballooning tax-receipts that had, throughout the 30-year post-war boom (in which time Labor had not been in government federally since 1949), boosted government revenue. In his 1972 election launch speech Whitlam explained:

> Our program, particularly in education, welfare, hospitals and cities, can only work successfully within a framework of strong interrupted growth… This requires that the national government must, by consultation and cooperation with all sections of industry, achieve a growth rate of 6% to 7% in each of the next three years… This is the real answer to the parrot-cry 'Where's the money coming from?'. Even at the present low rate of growth, Commonwealth income has nearly doubled in the past six years (Whitlam 1972).

It is interesting how explicit Whitlam was about the dependence of his reform package on the strong economic growth that characterised the time of his election. The post-war boom in Australia had seen unemployment below 2 per cent and economic growth above 5 per cent annually for a generation (see Figure 2.1). On Whitlam's election there was no expectation, either from Labor (Lavelle 2010, p. 65), or from the Liberals or from Treasury that this extraordinary economic boom could falter (Lavelle 2005, p. 758).

Figure 2.1 Australia's unemployment rate 1901 – 2001



(Treasury 2001)

However, as Johnson explains, the fundamental assumptions that Whitlam's program rested on, not least the boom, would all prove fallacious during his time in office:

> The flaws of the Whitlam model were present from the start. The most central flaws were the assumptions that a capitalist economy would function smoothly as long as it was properly managed; that the high levels of economic growth, necessary to Labor's plans for social reform, could be achieved; and that a massive expansion of public expenditure would have no detrimental effects on the private sector. All of these assumptions, which underpinned most of the Government's policies, were to prove incorrect in practice (Johnson 1989, p. 54).

In 1974 the stagflation crisis that had begun oversees the previous year hit Australia. Industrial production fell by 13 per cent in 1974, overall economic growth by 4 per cent and profit-rates dropped from 14 per cent to 9 per cent (O'Lincoln 1993). Unemployment rose from 1.5 per cent to 4 per cent (Lavelle 2008, p. 59). But as the term "stagflation" suggests, the contraction in economic activity was combined with astounding inflation, reaching 22 per cent in Australia in 1974. This rise of unemployment to 4 per cent demolished the illusion that Australia would forever remain a 'full employment' economy. Having come out of nearly thirty years where the jobless rate was below 2 per cent, the labour movement was completely unaccustomed to dealing with the issue of unemployment, an important point to which we will return later in this chapter.

The sudden appearance of serious global crisis after such a long period of uninterrupted growth had a profound impact on Whitlam Labor. Initially it manifested itself in sharp debates inside the Labor cabinet. On one side there were people such as Jim Cairns who articulated the idea that the recession provided the chance to enlarge the relative weight of the state in the economy (therefore seen as a step towards enacting Labor's historic commitment to socialisation). Influenced by Cairns, Minister Frank Crean made the following argument in his launch of the 1974 budget:

> The governments' overriding objective is to get on with our various objectives in the fields of education, health, social welfare and urban improvements. The relatively subdued conditions in prospect in the private sector provide the first real opportunity we have had to transfer resources to the public sector (Quoted in O'Lincoln 1992, p. 134).

However as the crisis deepened a quite different politics was to win the day inside Labor. The 1975 Labor Conference at Terrigal, described by Barry Hughes as a "pro-business orgy" (Lavelle 2010) centred on the idea that the Labor government should ensure "reasonable returns on investment". Whitlam's personal intervention was dominated by discussion of "ways of restoring profitability" (Quoted in Lavelle 2010, p. 66). Even Labor Left figures like Cairns had been won over to the idea that the Labor government had to ensure the restoration of private sector growth before there could be a return to Labor's reform program. As Cairns now conceded:

> We live in a society where the determinants, the things that happen in society as a whole are taking place in the private sector. Now if we're going to get activity going, if we're to get production up, if we're to keep people in work or get them back to work, we have to work on the private sector (Quoted in O'Lincoln 1992, p. 135).

From having been one of the most reformist Labor governments in history, Whitlam's Labor dropped its program in the face of the crisis and set about meeting the demands being made by a business class increasingly panicked by the new economic environment (O'Lincoln 1993). Labor came to see industrial militancy as the main obstacle in restoring profitability. Whitlam therefore proposed a referendum to seek the powers to supress wages. The Labor government also turned itself to delivering fiscal restraint. By the beginning of 1975 Whitlam had introduced an expenditure review committee with the aim of reducing public spending. Labor also withdrew planned capital gains and company car taxes (Lavelle 2005, p. 760).

Whitlam's policy reversal, however, was not sufficient to placate his growing list of critics in the business community and the press (O'Lincoln 1993). The dismissal of the Whitlam government by Governor General John Kerr on November 11th 1975 was itself conditioned by the climate created by the economic crisis and the urgent calls from the business community for a government that would be prepared to decisively shackle the union movement (Lavelle 2010, p. 66).

Compared to the overnight embrace of an austerity agenda by Scullin, Whitlam's accommodations to business in the period between the onset of stagflation in 1974 and his dismissal at the end of 1975 are minor. Indeed they have generally been brushed under the carpet of Australian historical memory, and Whitlam's legacy as a left reformer has, if anything, grown over time. However a close reading of the tumultuous final year of the Whitlam government indicates that the “economic rationalist” trajectory of Hawke and Keating was set by Whitlam’s response to stagflation. As Carol Johnson argues:

> The last years of the Whitlam Government saw a desperate attempt to salvage their social and economic model in the face of deepening recession. As the recession deepened, an inadequate welfare system that had been designed to complement a healthy economy, and could not cope with an economy in recession, became a carrot offered to wage-earners in return for wage restraint. Economic growth went from being a means to an end to being essentially an end in itself (Johnson 1989, p. 70).

Elsewhere Johnson describes Whitlam as the “bridge” between the Labor of Chifley and that of Hawke (Johnson 1989, p. 94). Lavelle goes further, arguing that Whitlam’s change of emphasis in response to the crisis marks a crucial stage in Labor’s endorsement of neoliberalism:

> Labor’s reforming ambitions were drastically curtailed in this new economic scenario [the end of the post war boom], which marked a turning point in the gradual shift by the ALP to the neo-liberal policy approach that has both reduced union influence and benefited business (Lavelle 2010, p. 66).

While Whitlam’s policy response to stagflation was nothing on the scale of the savage attacks on living standards embodied in Scullin’s brutal austerity policies, nevertheless it represented a significant turning point for Labor. This despite the fact that the budgetary situation that Whitlam inherited was far sounder than the historic indebtedness that Scullin faced. Further, even with stagflation the economy that Whitlam presided over was far stronger than the Depression economy of the 1930s. Finally Whitlam’s removal by the Governor General in the dismissal fiasco of 1975, less than a year into the crisis, cut short the rightward trajectory that Whitlam had begun in response to the recession.

For all these reasons it is quite remarkable the extent to which the Whitlam government, elected on such a strong tide of social justice sentiment, abandoned its program in order to meet the needs of the economy. Journalist Paul Kelly has described this as “the most dramatic reversal in economic policy in the shortest possible time” (Quoted in Lavelle 2005, p. 760).

The implosion of Keynesianism

One of the fundamental developments that occurred in Whitlam’s final year in office, and was consolidated during Labor’s period in opposition under Malcolm Fraser’s Liberal government, was the party’s abandonment of Keynesianism. The break with Keynesianism would play an important role in Labor’s accommodation to neoliberalism, and so it is necessary to introduce it here.

As mentioned in the previous chapter, the post-war boom itself had almost universally been interpreted as a product of Keynesian economic policy. The consensus across the Australian political spectrum (including within the Liberal Party) held that any slowing of the economy could be remedied by measures such as deficit government spending and pump-priming. But, as Harrison documents, Keynes’s policy prescriptions were enacted in many countries as growth slowed at the very end of the 1960s, and they failed to prevent the deepening crisis that re-emerged in the stagflation of the mid-1970s:

> A significant slowdown in economic growth began in mid-1969. From then until the middle of 1971, world capitalist output grew at less than one per cent a year. Governments in all major countries responded by initiating keynesian measures in the summer of 1971. The next 18 months saw an extremely dramatic boom. Output grew at a rate of nine per cent a year. But the boom was short-lived… It came to a sharp halt at the end of 1973. Keynesian policies were abandoned (Harrison 1978, pp. 142-3).

Australia's attempts at enacting Keynesian solutions to the crises were also deemed to have failed (Johnson & Tonkiss 2002, p. 181; Lavelle 2005, p. 7). Labor's mildly deficit budget of 1974 was interpreted as having increased inflation while failing to restore growth (Lavelle 2005, p. 758). The implosion of the Keynesian paradigm, therefore, was not the outcome of ideological assault by neoliberal think tanks, but of the experience of governments for whom the hallowed policy prescriptions demonstrably failed. Many Keynesians themselves turned towards the new 'monetarist' paradigm that, it seemed, offered some hope of rebuilding economic growth (O'Lincoln 1993).[23]

Globally political parties from the left to the right that had incorporated Keynesian ideas into their programs were left scrambling for coherent explanations for their policy choices. The impact was especially pronounced for social democratic parties. As Lavelle explains, in Keynesian economics social democratic parties had managed to reconcile reformist pledges to harness state spending to improve the lives of the working class, with economic growth. However, as he goes on to argue, the end of the long boom increasingly brought Labor's official economic framework – Keynesianism – into tension with the economic problems facing governments:

> In the wake of Keynesianism, social democrats lost the post-war luxury of not having to choose between orthodox economics and government intervention to raise living standards. Social democrats now had to choose between being responsible managers of capitalism or advocates of policies to raise workers' living standards, but not both (Lavelle 2008, p. 33).

Andrew Scott has argued that the failure of the Keynesian framework left the Labor Party without any coherent alternative to the "economic rationalism" of the emerging neoliberal hegemony (Scott 2000, p. 83). I will return below to the impact that this would have on Labor.

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[23] In April 1975 neoliberal economist Milton Friedman toured Australia preaching 'monetarism' – that the way to end inflation and restore growth is to slash back government spending and allow unemployment to rise. This ideology helped the Liberals break with Keynesianism and consolidate a more coherent right-wing opposition to the Labor government.

2.2 Radical poles, the other side of the Labor tradition

So far I have provided two brief historical case studies of the way that Labor governments have responded to economic crisis by decisively abandoning their plans for social democratic reform and instead turning the state to the assistance of capital and the goal of re-establishing economic growth. I have argued that this pattern (even from governments such as Whitlam's that are remembered by the left as heroically progressive) shows that Labor's commitment to the interests of capital overrides its commitment to its own supporters. I have also suggested that this orientation is consistent within Labor governments across time, and reflects the class nature of the Labor leadership with its distinct social role in negotiating between capital and labour. In the final section I will show how the Labor governments that followed Whitlam would also act in this way and put the needs of business above those of Labor's base. In other words this aspect of Labor's response to economic crisis represents a historic continuity.

However this is only a part of the picture. In order to illustrate what impact neoliberalism has had on Labor, we must first recognise that the response of the Labor leadership to economic crises is not the whole story. In this section I will argue that up until the 1990s the Labor Party contained different voices, different interests even, to those of the politicians and Prime Ministers who rushed to prop up capital regardless of the impact on working people. In order to illustrate this I return to the cases of Scullin and Whitlam, and show that within the broader Labor Party, and indeed crucially within the Labor-affiliated labour movement, we find an organised politics that calls for a radically different response to the crisis. Recognising these alternative poles that traditionally formed part of the Labor Party is necessary to grasp the impacts of neoliberalism, which I will discuss in the final section.

Lang, socialisation, and the left revolt against Scullin

We have seen how dramatically Scullin's policies in power repudiated the expectations and promises around which Labor had built its support and won power. However one key result of Scullin Labor's "outrages against the class that had given it life" (Anstey, quoted in Griffiths 1989a) was an organised struggle inside the party that culminated in an historic split. Opposition to Scullin's policies cohered around a rival economic program presented by the NSW Labor Premier Jack Lang. Lang, having already served as Premier of NSW from 1925-27, was certainly part of the professional layer of Labor politicians who aspired to manage a stable capitalist economy, just as Scullin did. Nevertheless in the 1930 NSW state election Lang campaigned on a platform of rejecting Scullin's Melbourne Agreement (an austerity package that had preceded the Premier's Plan and sought to bind all state governments to cuts that included a 10 per cent reduction in the minimum wage). Lang's election victory ensured the collapse of the Melbourne Plan.

NSW Labor's rival "Lang Plan" proposed suspending interest payments on Australia's debts even while committing to paying the debts in full as the economy recovered. It should be noted that this position was itself moderate compared to demands for entirely repudiating the debts that were mounted by other sections of Labor. However, for Scullin, even countenancing a loosening of the terms of the London loans represented a mortal threat to Australian capitalism. From the Imperial Conference in London, Scullin wrote to describe the discussion about postponement of interest-payments being undertaken in Labor caucus as "appalling" and "disastrous". He argued that "To default would weaken the value of… investments, would destroy public confidence, and would delay for years the restoration of economic prosperity" (Quoted in McMullin 1991, p. 167).

In response to the Lang Plan, Scullin therefore effectively expelled NSW Labor from the Party. This left Scullin in a minority government, dependent on Lang's federal parliamentary supporters, and soon to fall. In other words Scullin was prepared to give up Federal Labor's tenure on government in order to preserve Australia's credentials in the international credit markets. This episode is a counter-example to the notion that Labor's entire raison d'être is electoral success and retaining government (Dyrenfurth 2011).

In Section II above I deployed Harrison's definition of "right reformism" to characterise the way in which both Scullin and Whitlam responded to economic crisis. The "Lang Plan", on the other hand, is better characterised as a "left reformist" response. Harrison defines left reformism as proposing a solution to the crisis based on

> … policies that will work to defend workers' immediate interests. This implies opposition to cuts in social service expenditure, support for programmes aimed to reduce unemployment and so on. Those who believe such policies capable either of re-stabilising capitalism or of gradually introducing socialism can conveniently be termed *left reformists…* As living standards continue to fall without any improvement in the economic situation materialising, support for left reformists grows (Harrison 1978, p. 148).

Lang's policies included a moratorium on evictions for unemployed workers who could no longer make rental payments. He also physically withdrew NSW's tax revenue from the treasury and housed it in the NSW Trades Hall Building in order that public servants receive their wages ahead of the debt repayments that the Federal government was determined to collect. Lang was not personally radical and his record as Premier before the Depression indicated nothing of the role that he would subsequently play. However, Lang's government was able to position itself as the beneficiary of the rapidly growing support for left reformist responses to the crisis, just as described above by Harrison.

Lang's opposition to Scullin's austerity packages created a radicalising dynamic that propelled his government to the left. However the real source of Lang's radicalism and determination was the NSW labour movement. Its political trajectory is illustrated by the development of a movement, initially with limited support from Lang but eventually in opposition to him, for “socialisation”. Long part of Labor’s platform in some form but never enacted by Labor in power, socialisation was a nebulous concept that could be interpreted to mean a gradual move to nationalised ownership of key sections of industry over time (by the more conservative sections of the party), or as socialist revolution (by the radicals in the party). However in response to the deprivation and ideological turmoil created by the Depression, a significant and vibrant movement of “socialisation units” arose in Labor branches.

The “units”, initially seeing themselves under the wing of Langism, enacted an active propaganda campaign to build community support for Labor to introduce “socialism in our time”. The socialisation units operated adjacent to Labor branches and many people joined Labor solely in order to be active in the branch’s socialisation unit. While the unit movement had its own organic leadership composed of labour militants who had led the campaign against conscription in the First World War and the syndicalist “One Big Union” movement (Conrick 1979), it was politically dominated by workers and the unemployed themselves.

The meteoric growth of the units within Labor in NSW itself gives us a rare insight into the class nature and potential political instincts of Labor’s base.[24] At its height in 1932 the socialisation unit movement had 178 units attached to 90 per cent of NSW Labor branches. At the NSW Labor conference that year the unit movement dramatically revealed its hold within the party by passing, against the opposition of Lang and the Party officials, a motion that sought to bind Labor politicians to introducing socialism within 3 years!

[24] It is worth noting that the greatest factor in the growth of the “units” was the Depression itself. In fact across the developed world the experience of the 1930s seemed to have weakened the plausibility of reformism to such a degree that Trotsky forecast its demise, saying: “in [the] epoch of decaying capitalism, in general, there can be no discussion of systematic social reforms and the raising of the masses’ living standards, when every serious demand of the proletariat and even every serious demand of the petty bourgeoisie inevitably reaches beyond the limits of capitalist property relations and of the bourgeois state” (quoted in Cliff 1957).

Putting aside the dubious political strategy of such a motion[25] and the severe limitations of the socialisation units' strategy for winning socialism, nevertheless the existence and growth of such a movement *within* the Labor party in response to Scullin's program and the experience of the Great Depression is extremely revealing. For one thing it indicates the way in which the right reformist commitment to capitalism and the maintenance of the capitalist state was not always the only strand within the Labor tradition. Even given the extraordinary convergence of factors that led to a development like the socialisation unit movement, its existence illustrates that for workers within the Labor party the experience of capitalism's inability to deliver economic democracy, or in extreme circumstances to deliver basic sustenance, tends to the possibility of anti-capitalist radicalism.

The experience of the socialisation units is also important because it provides a brief glimpse of the action of Labor's rank and file independent from, and eventually in opposition to, the Labor leadership. The fact that, under the pressure of the Depression, Lang was forced to act in opposition to Scullin (to the extent of a complete organisational split), and that the units were forced to act in opposition to Lang (more to the point Lang was forced to liquidate the units once he became aware of their capacity to act independently of him) exposes the fundamental conflicts of interest that have existed within the Labor Party.

Resistance to Whitlam?

According to the argument I have developed above we might predict that Whitlam's accommodation to the needs of capital in the face of stagflation in the mid-1970s would create tremendous tensions and possibly splits within Labor, and between Labor's leaders and the rank and file. This is not what happened. However, the failure of Whitlam's right-turn to generate an organised opposition

[25] The idea that socialism could be introduced through parliament, and that the Labor politicians would be influenced to introduce it by the passage of such a motion, itself illustrates the units' fallacious reading of the nature of the state, and indeed the class contradictions within the Labor party. Such political confusion doomed the units movement, and allowed them to be crushed by the Lang leadership within 12 months of the carriage of this motion (which itself was cleverly amended by the leadership the following day).

from within Labor does not appear to result from the absence of a vibrant left reformist current in the party in the 1970s. Even less can we explain it as resulting from any weakness of the rank-and-file labour movement (on the contrary this period was one of pinnacles of industrial militancy in Australia's history) nor by a lack of independence by the movement from the Labor machine.[26]

Rather it seems that the historical contingencies of Whitlam's removal from power by the forces of the right militated against the development of an organised left response to the crisis of the mid-1970s. The 1975 dismissal crisis demanded the Labor Left and the entire labour movement, as critical as sections had been of elements of Whitlam's response to the crisis, defend Whitlam against the Liberals and the office of the Governor General. The dismissal naturally drew the broad labour movement behind the ALP leadership.[27] The 1975 'coup' was seen by the ACTU as an attack on the workers' movement in general, and therefore all criticisms of the Labor leadership were subsumed in the (unsuccessful) struggle for Labor's re-election, and then (more successfully) against the Fraser government's attacks on the unions.

2.3 The neoliberal break

So far I have introduced a discussion of two Labor governments that allows us to draw some conclusions about the structural nature of Labor in relation to capital, the state and the working class. It is an attempt to distil the essence of the Labor project across time. It is a narrative of continuity. However when we come to look at Keating's treatment of the 1991 recession it is necessary to explore what, I

[26] Earlier in this chapter I described the nature of political and industrial radicalism that helped prepare the way for Whitlam's election. In all these examples – the general strike in defence of Clarrie O'Shea that broke the Penal Powers laws, the strikes against the Vietnam War and Green Bans movement, we can see a movement largely independent of the Labor Party and growing in confidence. This same independence was seen in the spontaneous strikes that met the announcement of Whitlam's dismissal. In fact the Labor Party and the ACTU led by Bob Hawke invested considerable energy in diffusing the industrial response to the dismissal and steering it into election campaigning. Importantly also the level of industrial activity surged again during the Fraser years. This picture indicates that failure for an organised left opposition to the Labor leadership's rightward trajectory cannot be explained by the absence of raw materials in the labour movement in this period.

[27] Scott (2000, p. 74) describes the dismissal as a "trauma" that the unions struggled to overcome with their turn to industry policy, and that this led to their support for Hawke's Accord (more on this below).

argue, is an equally important break in the Labor tradition that comes with the advent of neoliberalism.

I will argue that the hegemonic rise of neoliberal ideology alongside the changing conditions for capital after the mid-1970s has altered the nature of the Labor party and its relationship to the labour movement. Further, there remains strong tension between Keating's policies for rebuilding economic growth and the interests of the working class. However, neoliberalism changes Labor, narrows its internal life in such a way that these contradictions are no longer manifested organisationally inside the Party.

In other words, when it comes to the way that Keating and the Labor leadership approach the 1991 recession we see the same primacy being attached to the needs of Australian capital at the expense of Labor's working class support base as we saw under both Scullin and Whitlam. In terms of the Labor leadership there is a clear continuity in the approach to the crisis. However there is a stark historical difference between the Labor of Keating and that of Whitlam and Scullin. This difference becomes clear when we look for an organised response to what many saw as the Keating government's "betrayal" of its members. However before examining the recessions of the 1980s and 1990s we must first establish the nature of Hawke and Keating's governments more broadly.

The Hawke/Keating revolution

The "stagflation" crisis that helped land the fatal blow against Whitlam in 1975 was not resolved during the 8 years of Fraser Liberal government that followed. Fraser's key promise to the business world was that he would be able to break union power and suppress wages in a way that Whitlam's Labor, with its connections to the union movement, would not be willing to (O'Lincoln 1993). However, despite Fraser's early successes in set-piece confrontations with the union movement (for instance Fraser endured a 24-hour national strike to proceed with the closure of Whitlam's Medibank scheme), the Liberals ultimately failed to dismantle the power of the unions. This became clear in the aftermath of the brief commodity boom of 1979 when workers won13.5 per cent wage increases in 1980-81 and 16 per cent in 1981-82. As Johnson & Tonkiss note, it was under the Liberals that the profit-share of Gross Domestic Product fell to its lowest point (Johnson & Tonkiss 2002, p. 11).

Fraser's inability to curb industrial militancy acted as a straightjacket on his broader policies. With John Howard as his treasurer and governing simultaneously with the archetypal neoliberal administrations of the United Kingdom's Margaret Thatcher and the United States' Ronald Reagan, we would have expected Fraser's government to be Australia's neoliberal vanguard government. However the bitter stalemate between Fraser and the unions left the government both unwilling and unable to enact such radical reforms lest they re-ignite the spontaneous strike waves seen during the 1975 dismissal crisis.

This provides a clear example of why the process of neoliberalisation proceeded differently in different countries. As I discussed in Chapter One, the evolution of neoliberalism varied based on the determination and ability of different governments to enact neoliberal reform. In Australia the strength of the unions and their absolute unwavering hatred of Malcolm Fraser – the man who was seen as having illegitimately robbed Whitlam of power – ensured that Fraser would rule under the constant threat of an outbreak of full-scale industrial unrest. This put the process of neoliberalisation beyond the capacity of the Liberal government.

It is in this context that the Labor opposition, led by long-time head of the Australian Council of Trade Unions (ACTU) (1969-1981) Bob Hawke began to win the support of sections of business and the media. Labor's proposed "Accord" between the government, business and the unions credibly offered wage restraint where Fraser's Liberals could not. The Accord was the centrepiece of a new politics of "social harmony" with which Hawke promised to "bring Australia together" and end the bitter social divisions of the Fraser years. It was on this basis that Hawke was elected in 1983.

Labor's Accord formed the heart of the Hawke-Keating's strategy. It was central to Hawke and Keating's successful neoliberalisation of the Australian economy, which I discuss below. However whether Labor's Accord with the ACTU and business can or should be understood as itself a neoliberal policy remains an issue of serious contention. After all, the Accord originated in the most militant section of the union movement – the then Communist controlled Australian Manufacturing Workers Union (AMWU). Indeed when the Accord was devised Labor's Socialist Left faction argued that it was "… a vehicle for strategic or 'political unionism' and the so-called transition from capitalism to socialism" (Frankel 1997, p. 9). For this reason there are obvious and important differences between the Accord, which incorporated the ACTU into the highest levels of bureaucratic oversight of the economy[28], and the anti-union industrial relations policies of many other Western governments during the 1980s.

However the impact of the Accord on supressing wages and reducing levels of union organisation was in fact greater than the full-frontal attacks of conservative governments overseas. The Accord was responsible for real wage repression (Bramble & Kuhn 2010, p. 107) that decisively shifted wealth from workers to capital. Megalogenis (who celebrates Hawke and Keating's neoliberalism) calculates that wage suppression under the Accord amounted to a $50 billion transfer of GDP from wages to profits (Megalogenis 2012, p. 207). Collins argues, "… the Accord represented the subordination of working-class interests, manifested by wage growth, to the interests of capital" (Collins & Cottle 2010, p. 32).

Despite these facts some theorists continue to maintain that the Accord nevertheless protected workers from a worse fate in the event of a Liberal government introducing neoliberalism in Australia (Spies-Butcher 2011, p. 205; Woodward 2012). Similarly Collins and Cottle argue that due to the ACTU's

[28] While many theorists contend that the access the ACTU had to government committees (and similarly the access of some social movements such as feminist and environmental non-government organisations) to government was a positive feature of the Accord period (Spies-Butcher 2011; Woodward 2012), others have contended that such an incorporation into the state greatly weakened the progressive movements(Bramble & Kuhn 2010; Cahill 2008; Frankel 1997; Lavelle 2005). For instance Frankel argues that "… the most significant outcome of the ACTU's uninterrupted power [through the Accord] was the bankruptcy of alternative policies…" (Frankel 1997, p. 22).

leadership role in the Accord it is “nihilistic” to view the Accord, or more generally the government of Hawke and Keating, as neoliberal (Collins & Cottle 2010, p. 34).

However rather than protect Australian workers from the anti-union offensive being mounted against workers in the United Kingdom under Thatcher, for instance, the Accord was instrumental in preparing the ground for the imposition of neoliberal policies first under Hawke and Keating, and then under the Howard government. As Johnson & Tonkiss have argued:

> Labor’s implementation of softer free market policies ultimately did not protect Australian society from the ravages of Thatcherism and Reaganism: one could well argue that whereas the British experienced Thatcher and then Blair, Australians have experienced Blair followed by Thatcher (Johnson & Tonkiss 2002, p. 14).

Cahill goes a step further, arguing that the neoliberal transformations effected by Hawke and Keating were, in fact, “…more radical than those undertaken by successive Coalition governments between 1996 and 2007… (Cahill 2008, p. 328).

When Hawke came to power in 1983 very few changes to government provision had been enacted, and he and his Treasurer Paul Keating wasted no time in enacting them:

> … it was Labor governments in Australia that implemented programmes of privatisation, deregulation and public sector cuts. It was also Labor that opened up public utilities and services to market competition. As Treasurer in the Hawke Labor Government, Keating was a robust supporter of financial deregulation, floating the Australian dollar and deregulating the banking system to ensure foreign competition (Johnson & Tonkiss 2002, p. 8).

Soon after forming government in 1983 the head of his department informed the newly elected Treasurer Keating that his predecessor John Howard had hidden a $9.6 billion "hole" in the government's finances (Kelly 1992, p. 57). Not only would this budget short-fall serve as political ammunition against the Liberals, it would be used by the Hawke government as a rationale to drop the spending promises Labor had campaigned on (Megalogenis 2012, p. 151). Within a week Keating had formed an alliance with Treasury officials (Kelly 1992, p. 57) and begun the budget cut-backs that would characterise the "economic rationalism" of the government.

In the thirteen years that Labor governed it oversaw the most radical transformation of government services since the end of the Second World War. Rather than enlarging the state, Hawke and Keating's counter-reforms reduced funding for many services, and devised tools such as National Competition Policy that forced remaining agencies to compete for funds – creating pseudo markets for government services. Boris Frankel explains the waves of restructuring undertaken by Hawke and Keating:

> …an internal shake-up of the public sector was carried out in two stages. Federal departments were administratively reorganized, staff were subjected to cuts, contractual arrangements and the adoption of pro-market philosophies and work practices. Public-sector enterprises were also commercialized and, in a later stage, despite strong internal ALP opposition, eventually earmarked for privatization in the late 1980s and early 1990s. By the 1990s, public-sector employment had been reduced by a third—from approximately 30 per cent of the total workforce to about 20 per cent! Federal and State government regulation of the private sector was not only reduced, but the traditional five-day working week gave way to an increasingly 24-hour, seven-day deregulation of services not yet seen in European countries such as Germany (Frankel 1997, p. 19).

Labor reversed its historic opposition to privatisation and sold off a range of Australia's state assets including Aerospace Technologies of Australia, Australian

Industry Development Corporation, AUSSAT, Australian Airlines, Commonwealth Serum Laboratories, Moomba-Sydney Pipeline, Qantas and the Snowy Mountains Engineering Corporation and the Commonwealth Bank. As Arestis indicates, Labor's enactment of privatisations represented a radical departure from the traditional social democratic approach to the state in which "Each postwar Labour government, and other 'old' social democratic governments, made some extension of public ownership" (Arestis & Sawyer 2005, p. 180). Instead Hawke and Keating's policies reversed existing public ownership.

Alongside the culture of competitive tendering that Hawke and Keating imposed as part of the corporatisation of the state sector, Labor transformed the welfare system from one based on notions of universal entitlement to a "safety-net" for an underclass composed of the most marginalised sections of society. They introduced "user-pays" for social services and "reciprocal obligation" conditions for welfare recipients.

"The recession we had to have": Keating's 1991 One Nation package

As was noted above, the economic turbulence that manifest in the stagflation of the mid-1970s was inherited by Hawke and Keating in the form of the recession of the early 1980s. In fact rebuilding economic growth was at the heart of Labor's justification for neoliberalisation. By making Australian capitalism more efficient, Hawke and Keating argued, Labor would get the economy growing and create jobs. However, despite the success of the Accord in supressing wages and minimising industrial disruption, the partial recovery of growth after 1984 saw unemployment maintained above 6 per cent. Further, what growth that did occur during the second half of the 1980s was more than reversed by the 1991 recession. Between July 1990 and February 1993 3.9 per cent of the Australian workforce were laid off. Australia's unemployment rate reached 10 per cent in September 1991, peaked at a post-war high of 11.2 per cent in December 1992 and was still above 10 per cent in July 1994 (Megalogenis 2012, p. 210).

After months of reassuring the public that recovery was just around the corner[29], in 1991 Keating acknowledged that there would be no "soft landing", and that Australia was in recession. But now it was, according to Keating, "the recession that we had to have" in order to keep inflation low:

> Australia was about to go back to the dismal business of wage breakouts. And the seven years of Accord and wage restraint would have been thrown out the door in the event that there wasn't a substantial slowdown. How you technically rate the slowdown – as a recession or a slowdown – is more or less beside the point. The fact is we had to have it (Keating quoted in Megalogenis 2012, p. 211).

If we compare Keating's approach to the 1991 recession with that of Scullin and Whitlam, we find that even while the latter were committed to undertaking whatever policies were necessary for the restoration of economic growth, they understood the crises of their day as a negative development. In contrast, Keating's view of crisis – as a positive force for restructuring the economy in ways that make it stronger – was alien to the concerns of earlier Labor governments. Keating was happy to 'let the market rip', to embrace the capacity of recession to increase the competitiveness of Australian capitalism. While earlier Labor governments were prepared to suspend all other plans in order to restore growth, at times Hawke and Keating saw economic crisis as a complement to their reform program.

One Nation (a combination of words that would only later become indelibly linked to racist politician Pauline Hanson) was the policy statement that Keating released in February 1991 that plotted out his alternative to the Liberal *Fightback!* package and Labor's plans for dealing with the crisis. This document provides a good sense of Labor's response to the crisis. Overwhelmingly the 130 pages of *One Nation* are dedicated to explaining and celebrating Labor's reforms of the

[29] One concrete indication of his confidence in the promised recovery was Keating's announcement in the launch of the 1990-91 budget of his intention to take spending levels down to those of the 1950s, under the Conservative Menzies government (Johnson & Tonkiss 2002, p. 8).

1980s. The document clearly indicates that the recession would not alter Labor's plans for further "structural reform" (in fact the zeal with which *One Nation* describes Labor's existing reforms leaves the reader wondering how such an economy could be facing such recession at all).

The rather occasional reference to the way in which the recession was hurting worker's lives (*One Nation* contained a promise to create 800,000 new jobs as a response to the recession) are far out-weighed by the impression of the government's commitment to future competition-oriented reforms: "The recession has set us back, but we will not allow it to stop the clock" (Keating 1992b, p. 4).

One Nation celebrates neoliberal reforms including Labor's efforts to suppress wages, and indeed the resultant rise in profits:

> The aggregate wage and profit shares have been restored to levels which are consistent with a structurally sound economy and durable economic growth. The rebound in the gross profit share of the private non-farm corporate sector since the early 1980s… has reversed the previous fall (Keating 1992b, p. 30).
>
> The Accord between the Government and the ACTU has delivered unprecedented wage restraint since 1983, and has been a key factor in achieving record job growth through the 1980s and today's low inflation (Keating 1992b, p. 44).
>
> The structural reform initiatives announced in this Statement will further enhance that process… real wage restraint under the Accord has meant that the downturn in profitability during this recession has been less marked than in the 1982-83 recession. This leaves business well placed to take advantage of opportunities to invest and expand output (Keating 1992b, p. 116).

Even in the darkest period of the Scullin government's austerity plans, Labor parliamentarians saw themselves as committed to policies that benefited workers, albeit at some unnamed future time when the economy recovered. In contrast, the Keating reforms, as seen in *One Nation,* are those policies that increase the efficiency of the market. The traditional social democratic notion of controlling the state in order to pursue policies that address inequality and injustice is replaced by the idea that the market itself is the best mechanism for empowering workers, and the role of the government is merely to facilitate the market.

While Labor under Hawke and Keating maintained its official mantle as a social democratic party, and indeed maintained strong official links to the trade union movement, we can see a clear degeneration in the social-justice commitment of Labor's social democracy in this period. Even more important, even as the Labor leadership moved to embrace neoliberalism, we see a failure of an organised left response, either from the rank-and-file of the party, or from within the labour movement. Indeed as I noted in the discussion of the Accord above, the Socialist Left of Labor, and even the Communist Party actively embraced and promoted Hawke and Keating's key industrial relations policies.

Yet it was these very policies, and in particular the Accord, that oversaw a decimation of union density and the traditions of delegate organising that had been central to the strength of the movement in the post-war years. Union membership declined from what had been the highest density of union members in the developed world (after Austria and Belgium) between 1970 and 1987 (Frankel 1997, p. 9). During the Hawke and Keating years the rate of unionisation fell from 48 per cent in 1983 to 31 per cent in 1996 (Cahill 2008, p. 328; Leigh 2008). One of the arguable results of this shift was the fact that in the 1990s Australia achieved one of the greatest levels of income inequality in the Western World (Johnson & Tonkiss 2002, p. 10).

There is not space here to adequately explain the role of the Labor Left and Communist Party in policies that would relegate their organisations to the margins of Australian society. What is clear is that these and other major forces in the left of the labour movement failed to mount an alternative strategy (Frankel 1997, p. 24) for dealing with the economic turbulence of the 1970s and 1980s, and particularly the phenomenon of mass unemployment that re-emerged under the Whitlam government. Hawke and Keating's embrace of neoliberalism communicated to the Australian public that "There Is No Alternative" (TINA) to the market, and indeed no alternative to the level of unemployment that the market created. In its role in supporting Hawke and Keating's profit-restoring measures, the Left within and outside Labor signalled that it also concurred.

The Left's collaboration in the introduction of neoliberalism by Hawke and Keating would have deleterious effects, both on the viability of left reformism inside the Labor tradition, and indeed on the nature of social democracy itself. Scott describes the way that during Hawke's leadership the already weakened Labor Left was marginalised, even humiliated (for instance by the Labor government's stance on nuclear disarmament and East Timor) within cabinet (Scott 2000, p. 198).

Scott argues that this period also saw a fundamental shift in what both the Labor Left and the Labor Right stood for. The programs of Labor's factions that had remained largely consistent throughout the twentieth century, regardless of the policies Labor governments had been enacting in power or arguing for, were fundamentally changed in response to neoliberalism:

> … the division between Left and Right [in both the British and Australian Labo(u)r parties in the post-war years] did signify real ideological alternatives: between a Left committed to the class struggle and to fundamentally overhauling capitalism through an extensive program of nationalisation, and a Right trying to more cautiously civilise capitalism through parliamentary activity. It is clear that the mainstream Left which remains inside both British and Australian labour parties now however is, in contrast to the past, essentially committed to much the same gradual, parliamentary approach towards achieving piecemeal social change as the Right traditionally has been. With the general move by both parties to the Right, the Left finds itself trying to uphold not so much class struggle nor social revolution, but just some of the traditional labourist policies such as

> full employment, public ownership, progressive taxation and some Keynesian intervention by the state to promote a measure of egalitarianism. These are the same policies which used to be championed by the Labor Right, although many of their number, and especially those of the new generation, have been shedding these in their enthusiasm for free-market liberalism (Scott 2000, p. 199).

Nor was the damage confined to Labor's left faction. Labor's extremely successful introduction of neoliberalism started a long-running existential crisis for the party itself, as we will discuss in the chapters that follow. Paul Kelly, an enthusiastic supporter of neoliberalism and Labor's role in initiating it in Australia, nevertheless points out the woeful implications for the health of the Labor Party:

> The irony for the Labor Party was that in addressing the issue of international competitiveness it was destroying the ethos and institutional pillars on which Labor's support had always been based. This was the cruel historical paradox for Labor in the 1980s. The more successful it was the more it destroyed the basis of Laborism (Kelly 1992, p. 15).

Megalogenis, also an ardent supporter of Keating's policy record notes that its "…political legacy was to make Keating the most unpopular person of the reform era" (Megalogenis 2012, p. 212). At the Special National Conference of the Labor Party held in 1990 Barry Jones made similar observations:

> … a party cannot survive simply on the basis of a commitment to economic efficiency, political pragmatism, and a particular set of leaders. It must have an ideology too. I agree that that ideology has to be redefined and updated, but it has to be there… It will be difficult, probably impossible to recruit people to join a Labor Party on the basis that it repudiates its past and believes only in… the market… lower levels of government activity… and in higher budget surpluses" (Barry Jones, quoted in Scott 2000, p. 85).

Jones's words would prove to be prophetic. Hawke and Keating's governments oversaw a historic erosion of Labor's primary vote. By 1996 it had dropped to 38.75 per cent, a low not then seen since the 1931 defeat of the Scullin government (Lavelle 2008, p. 65). Lavelle notes that 600,000 people who had voted Labor all their lives (including nearly half of manual labourers) voted Liberal in 1996 (Lavelle 2008, p. 65). This erosion of Labor's traditional voter base was accompanied by the withering of its branch membership. While exact Labor Party membership figures over time are not recorded, Lavelle cites a post-war ALP membership level of 300,000 members dropping to only 38,000 in 2003, (with former Labor leader Mark Latham claiming the real national membership to be as low as 7,500) (Lavelle 2008, p. 67).

2.3 Conclusions

At one level Hawke and Keating's period in government represents a response to the problematic economic growth that dominated the 1970s and 1980s with a program of neoliberalisation underpinned by their Accord with the ACTU and business. However Hawke and Keating's neoliberalism changed fundamentally the nature of Labor itself.

As we have seen, in responding to the economic difficulties facing capital by enacting policies that promoted growth at the expense of the working class, Hawke and Keating can be seen replicating the responses of the Scullin and Whitlam governments to the crises of their day. However this historical parallel hides the transformation in the very constitution of Labor as a social movement broader than the professional politicians and parliamentarians. When Scullin embraced policies that preserved Australia's relationship with London financial markets over the very survival of Labor's supporters vibrant resistance emerged. The Lang movement, and indeed the even more radical, even more grass-roots socialisation unit movement, represent another strand of the Labor tradition. In their resistance to Scullin's austerity drive, they expose a left reformist current within Labor itself, capable of bringing down federal Labor, and of building a sizable movement, eventually independent of even the left reformist Lang leadership.

This strand existed but did not manifest itself in organisational opposition to Whitlam's right-turn, as I have argued, because of the historical contingencies of Whitlam's dismissal. However the existence of left reformist radicalism and labour movement militancy enmeshed with the Labor party itself can certainly be seen as a force that underpinned the progressive nature of Whitlam's early reforms. We can also see evidence of this side of the Labor movement in the struggles mounted to defend Whitlam, and in the stalemate between the unions and the Liberal Fraser government that emerged after Whitlam's defeat.

However, Hawke and Keating's adoption of neoliberalism, and importantly the support they received from the leaders of the Socialist Left of the ALP and indeed the Communist Party, have undermined this left reformist pole within the Labor tradition. At the same time, even the right reformist social democracy that characterised Labor's leadership in the post-war period has been fundamentally eroded. Indeed the very notion that Labor should seek to use the state to change capitalism in the interests of working people has become a marginal view among professional Labor politicians. In the next chapter we will use the account of Labor established above to investigate the Rudd government's response to the crisis of 2008.

CHAPTER 3

Rudd's response to the crisis

> …the sun had been shining on Australia for the better part of a decade. But all that began to change… with the beginning of what we now have come to call the Global Financial Crisis. What began as a bad patch of weather in America has now become a cyclone that has threatened to engulf the world. It has smashed across the globe. It has swept aside financial institutions that had survived a combination of World Wars and world depressions across the centuries. And it has even threatened nations themselves – with one nation-state declaring itself to be officially bankrupt. These are testing times (Rudd 2008a).

This chapter overviews and interrogates the response of the Rudd Labor Government to the economic crisis that hit Australia in 2008. It includes a brief introduction to the government's various stimulus measures, which I will explore in greater detail in Chapter Four. Attention here will focus on what I will argue is a rather extraordinary ideological intervention made by Kevin Rudd, both to justify his government's stimulus program, and to harness the experience of the crisis to make an argument for the Labor Party's social democracy.

By way of introduction, the chapter opens with a discussion of the election of the Rudd government, which came just less than a year before the Global Financial Crisis (GFC) reached its height in 2008. This will include an explanation of the political background of the Labor party in opposition in the years following the defeat of the Keating Labor government in 1996. Following this will be an assessment of the legacy of the "Kevin'07" election and the standing of the Rudd government in the year before the onset of the GFC.

Having established this background, attention will turn to the impact of the economic crisis in Australia following the "Lehman Brothers moment" in

September 2008. As well as summarising the response of Australian financial regulators such as ASIC and the Reserve Bank, this section will recall the near apocalyptic panic as the financial system teetered on the edge of collapse. Revisiting the atmosphere engendered by the systemic financial collapse of late 2008 is essential to frame Rudd's economic and ideological response to the crisis. Without this frame, the gravity of the economic situation that faced the Labor government in 2008 and 2009 is somewhat obscured by Australia's eventual escape from the depression-like stagnation that, even five years after the GFC, continues to plague other developed economies.

The second section of this chapter explores the key themes in Rudd's ideological response to the crisis. Rudd took the unusual step of authoring an 8,000 word essay in *The Monthly* (Rudd 2009a). This article was indicative of his strategy of using the crisis to wage an argument against "neo-liberalism" and for a reinvigorated "social democracy". In chapter Two, I argued that under the leadership of Bob Hawke and Paul Keating the Labor party had discarded key tenets of its traditional social democratic platform in order to take a leading role in the neoliberalisation of the Australian economy. In this chapter I will argue that Hawke and Keating are the figures that most clearly expose the contradiction between Rudd's simultaneous celebration of the Hawke/Keating market reforms and his denunciation of neoliberalism. I will argue that Rudd's ideological interventions are fundamentally incoherent, and that the "social democracy" he is seeking to reclaim for Labor is, in essence, no more than a defence of the capitalist state. Rather than a break with the neoliberalism pioneered by Hawke and Keating, Rudd's ideological interventions seek to theorise, and hence consolidate, Labor's commitment to the free market. The vision of social democracy that emerges from Rudd's essay, I will argue, empties it of its historical concern for wealth redistribution, full employment and the protection of the working class from the vicissitudes of the free market. What remains is merely the assertion that the government should "act" to save the market from itself, but with a novel fiscal twist.

The key act that Rudd's ideological innovations aim to theorise and justify is the use of massive fiscal stimulus to support economic growth, thus avoiding financial crisis. In the final section I introduce the macroeconomic strategy that Labor adopted in late 2008 and early 2009, and its context in the debates prompted by the fiscal activism similarly embraced at that time by numerous governments across the globe.

3.1 The making of Rudd

In Chapter Two I discussed the way in which Keating's break with key social democratic principles opened the way for Labor to embrace neoliberalism. Labor's electoral successes under Hawke and Keating through these years impacted the political strategy of the Liberal Party, prompting its turn under John Howard to adopt many of Keating's policies. The Liberal Party successfully used this position to consolidate a conservative voting block into what became known as the "Howard battlers". These developments posed a serious electoral crisis for Labor. The Party was faced with the prospect of a complete break with Keating's legacy in order to challenge Howard's neoliberalism, or of competing for the centre-right ground by embracing the new Howard paradigm. Labor chose the latter strategy. In effect this meant consolidating the Hawke/Keating embrace of neoliberalism despite evidence that this approach had fundamentally eroded Labor's 'rusted-on' working class voting base.30 Tim Battin stresses the possible turning-point for Labor represented by the defeat of Keating in 1996, alluding to the electoral and political costs of the party's continued neoliberalism:

> …the ALP is stymied by its recent embrace of neoliberalism… [it] has never repudiated this crusade. If it was ever going to come close to doing so, it was after its withering defeat in 1996 and its first period of opposition (Battin 2009, p. 31).

[30] As was discussed in the previous chapter, key sections of the heartland Labor constituency voted for the Liberals in unprecedented numbers in the 1996 Federal election.

In opposition under leaders Kim Beazley, Simon Crean, and to a lesser extent Mark Latham, Labor's strategy for defeating the Liberal government was based around the strategy of presenting a 'small target'. That is, Labor felt that Howard was largely impregnable on the primary issues on which he built his Prime Ministership, such as border security, privatisation, the introduction of a goods and services tax (GST), support for the 'War on Terror' etc. According to this strategy, Labor's best chance of election rested on waiting for the Liberals to make political mistakes. The task of wining the electorate against Howard's policies was left to extra-parliamentary social movements, and increasingly, to the minor Australian Greens party.

Rudd's victory over Beazley in the December 2006 ALP leadership ballot did not result in a shift in Labor's commitment to opposing Howard from within a neoliberal framework. Rudd's appeal to the ALP caucus was primarily based on the public and media profile he had developed through his regular slot on the morning television talk show Sunrise and his dogged campaign against the Liberal Government's role in the AWB scandal.[31]

Rudd continued the "small target" strategy, particularly, as Carol Johnson notes, on social issues such as same-sex marriage and the so-called Northern Territory Intervention (Johnson 2011, p. 573). However, Rudd also carefully crafted his image as alternative Prime Minister to include a novel ideological component.[32] Just prior to winning the Labor leadership he used an address to the right-wing Centre for Independent Studies to produce a critique of the work of neoliberal theorist Friedrich Hayek. Rudd attempted a redefinition of social democracy against the economic philosophy of Hayek, claiming social democracy as a political "middle ground". Among other important themes that I will discuss below, Rudd argued that the Howard government's embrace of "market

[31] Formerly the Australian Wheat Board, the privatised corporation AWB was found to have assisted Sadam Hussien's Iraqi regime by-pass UN sanctions in return for Iraq maintaining Australian wheat contracts. While the sanctions were supported by the Australian government, evidence emerged that Australian officials in the Department of Foreign Affairs and Trade had been aware of the role the AWB had been playing in contravening the sanctions during the period of Liberal government.

[32] Prior to Rudd's leadership Mark Latham had also attempted to consolidate Labor's "Third-Way" neoliberalism. In some ways, Latham's departure from traditional social democracy, influenced as it was by the notion of a post-industrial "informational economy" popular in the 1980s and 1990s (Johnson 2004, p. 536), was even greater than Rudd's.

fundamentalism", embodied as he argued by the "WorkChoices" industrial relations legislation, had alienated both conservatives (around the issue of the family), and progressives, from the Liberal Party (Rudd 2006, p. 18). Rudd claimed that this division in the right "presents a rich policy and political opportunity for Australian social democrats to restore the balance and once again reclaim the centre ground" (Rudd 2006, p. 5).

The "social democracy" that Rudd presented in this address was expressly anti-Marxist, and derived instead from the philosophy of Adam Smith (Rudd 2006, p. 15). Rudd explicitly rejected "Attleean[33] forms of socialism" in favour of the "Blairite[34] enabling state that is characteristic of much of modern social democracy" (Rudd 2006, p. 15). In themes that Rudd would later deploy during the crisis of 2008, social democracy is here posed as the only alternative to Hayek's rejection of state intervention into the economy. At the same time Rudd used his address to insist that the market was at the heart of his social democratic vision, claiming that "[s]ocial democrats have always respected and accepted the creativity, the efficiency and the wealth-generating capacity of markets" (Rudd 2006, p. 15). Thus for Rudd, the social democratic state is an essential complement to the market, albeit in very strictly limited terms:

> The task of politics is to craft constituencies through policy leadership capable of delivering long-term market-friendly reform – reform tempered by social responsibility. Hawke and Keating did this for 13 years. Howard has done little by comparison… Finally, tempering the market with the interventions outlined above within the categories of market failure, public goods and the preservation of social capital… (Rudd 2006, p. 14).

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[33] Clement Atlee was the Labour Prime Minister of Britain 1945-1951 and led the British Labour Party from 1935-1955. Atlee's government was seen as a strongly reforming administration that greatly increased welfare benefits and introduced, for instance, the National Health Service (NHS).

[34] Tony Blair was leader of the British Labour Party from 1994-2007 and Prime Minister from 1997-2007. Blair pioneered the "Third Way" vision of Labour that many have described as an attempt to marry social democracy with neoliberalism.

I will return to discuss in depth Rudd's depiction of social democracy as being animated by "market-friendly reform", "public goods" and so on below, as well as to the contradictory figures of Hawke and Keating within Rudd's schema.[35]

Another more concrete and more important indication of where Rudd sought to politically position Labor in the lead up to the 2007 election can be seen in his attitude to the Party's relationship to trade unions. Industrial relations policy was at the heart of the 2007 election.[36] Indeed many argue that the campaign against the Liberal's WorkChoices legislation was the key factor in Labor's victory (Spies-Butcher & Wilson 2008). Importantly that campaign was not fronted by the parliamentary Labor Party, but by the trade union movement led by the ACTU. However, despite the role played by the union movement (Battin 2009), Rudd was careful to indicate that under his leadership it would not resume the position of influence with parliamentary Labor it had enjoyed prior to the Keating years.

As well as presenting Labor balancing between the interests of unions and business, Rudd actively cultivated a personal image of himself as an adherent to mainstream neoliberal economics. The lead up to the 2007 election saw Rudd pointedly identify himself as a "fiscal conservative". In an interview on ABC radio in November 2007 Rudd said:

> On the question of economic conservatism, let me put it to you in these terms. Economic conservative means a fundamental belief in budget surpluses, and you go back to my experience in this respect. I worked at a senior level in the Goss government in Queensland in the first half of the 90s. When national economic circumstances were difficult, when there wasn't a lot of money flowing into the economy particularly, there wasn't the presence of a global resources boom, and budget after budget, we produced budget surpluses (Rudd 2007b).

[35] Again, here Rudd's vision echoes that articulated by Mark Latham in the late 1990s. As Carol Johnson notes, Latham argued that the state exists in order to provide "… public goods like education, training, research or development" (Johnson 2004, p. 536).
[36] Andrew Scott notes the "dramatic rise" in concern about industrial relations according to Newspoll data, following the 2004 election (Scott 2009).

Indeed Rudd was prepared to position himself to the right of Howard on the issue of government spending, by presenting Labor as more economically responsible and promising to spend less than the Liberals once he was in power:

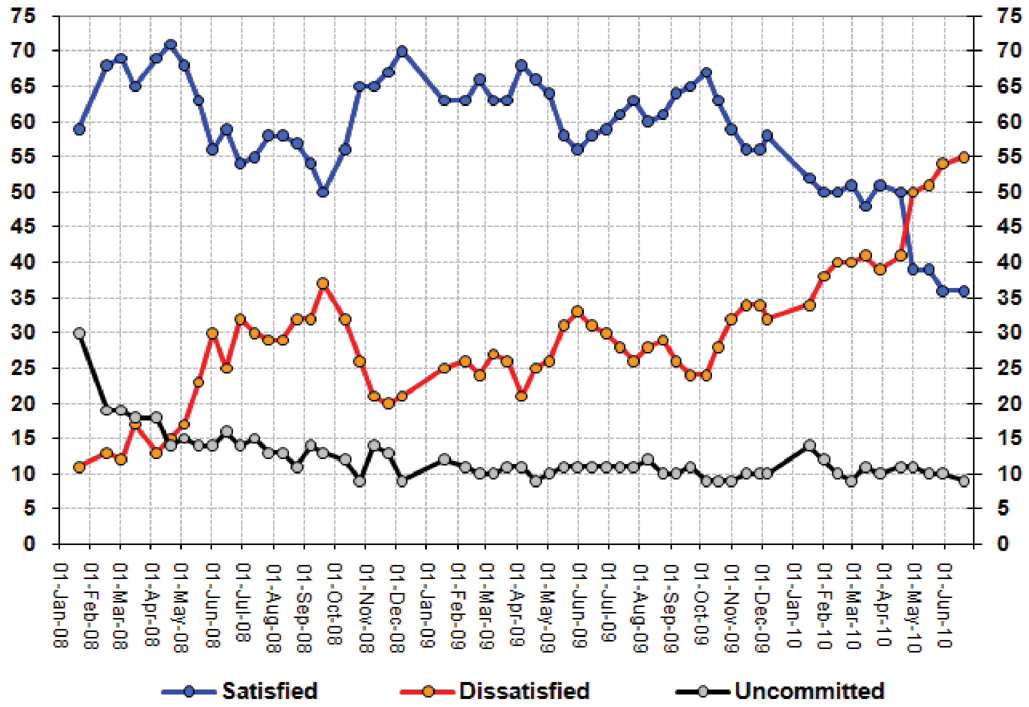
> I have no intention today of repeating Mr Howard's irresponsible spending spree. Unlike Mr Howard, I will heed the warnings of the Reserve Bank… Today I am saying loud and clear that this sort of reckless spending must stop. I am determined that any commitments I make are first and foremost economically responsible. That's why the commitments I announce today will cost less than one quarter of those Mr Howard announced on Monday… And I have said I am an economic conservative. Today, I deliver on each of these undertakings (Rudd 2007a).

Kevin '07

Despite Rudd's pledge either to continue, or indeed intensify, the neoliberal economic policies of the Liberal's platform, in the public mind "Kevin '07" was understood as a radical break with Howard. The election of the Rudd government in November 2007 carried with it a popular hope for progressive change echoing similar sentiment following the elections of James Scullin, Gough Whitlam and Bob Hawke, as discussed in the previous chapter. Rudd came to power with a clear mandate for change emphatically confirmed in a 23-seat swing to Labor, including Howard's shock loss in his seat of Bennelong to former ABC TV presenter Maxine McKew. Rudd enjoyed an historically unprecedented honeymoon from the formation of his government in December 2007 until April 2010, with public satisfaction levels that never dropped below 50 per cent (see Figure 3.1). David Marr recounts Rudd's extraordinary support in the community during his first two years in office:

All through this time he was living in a paradise of immense approval… in his first months in office: 84 per cent of us thought him decisive and strong, 89 per cent thought him a man of vision, 86 per cent thought him likeable, and 79 per cent thought him trustworthy (Marr 2010).

Figure 3.1 Prime Minister Kevin Rudd Newspoll satisfaction ratings



(Comitatus 2010b)

One reason for the length of this honeymoon was Rudd's ability to cultivate the perception that his government was making genuinely radical policy interventions. In his first months in power in early 2008 he oversaw three highly symbolic political gestures. First, he formally apologised to the Aboriginal Stolen Generations in a major ceremony in Parliament. Secondly he led the move to ratify the Kyoto protocol committing Australia to carbon emissions reductions. Third, Labor scrapped the Workchoices industrial relations reforms, but maintained some Howard-era restrictions on union rights (Battin 2009; Cahill 2009b, p. 14). Adding to this sense of radical rethinking, Rudd also convened and participated in the "Australia 2020 Summit" where over 1000 participants workshopped new ideas to "help shape a long term strategy for the nation's future". The combination of lingering anti-Howard sentiment and Rudd's skilful employment of political symbolism ensured that by the time the global crisis hit the Australian economy in October 2008, he had immense public support. The Liberal opposition could seem to gain no ground and he was as free as any previous Prime Minister had been to respond to the unprecedented economic shock in the way he saw fit. This popularity would be sustained through the first year of the implementation of the stimulus program.

Crisis 2008

When the GFC hit Australia during October 2008, key sectors of the economy were experiencing historically high levels of growth and as a result, the federal budget was strongly in surplus.[37] Compared to the preceding decades of turbulence and low growth experienced by many leading national economies, the Australian economy had experienced uninterrupted growth in the 17 years between the 1992 recession and the onset of the 2008 crisis [See Figure 3.2] (Gruen & Clark 2009). At the time of Rudd's election, Australia's terms of trade were at historic highs, having risen by two-thirds between September 2003 and September 2008 to their highest point in sixty years (Gruen & Clark 2009). In February 2008 the official unemployment rate fell to its lowest point in 33-years at 3.9 per cent (Kennedy 2009).

[37] However there was a dramatic unevenness to the Australian economic performance in the 1990s and 2000s. Often described as a "two-speed" economy, sections including, but not only, the mineral export sector and the housing sector expanded rapidly, while others, such as the manufacturing sector, were depressed. This meant that significant sectors of the Australian economy were in deep recession and producing significant unemployment. For all the talk of Australians having "never had it so good", for many Australian workers and unemployed people the Howard years brought hardship rather than prosperity (Bramble 2004).

Figure 3.2 Annual GDP Growth by percentage Australia 1990-2007

(Brent 2011)

A report by the International Monetary Fund (IMF) released in October 2009, a year after the start of the GFC, found that Australia was the sole country out of 33 "advanced" economies to escape recession (Taylor & Uren 2010, p. 3). As the severe global downturn spread and deepened in the five years following the crash, Australia's peculiarly resilient economic performance has continued. These facts create the surface appearance that the global shock had minimal impact on the Australian economy. However in order to properly understand the fiscal stimulus implemented by Rudd Labor, it is important to detail the calamitous, even apocalyptic, climate created by the crash. With the value of world trade falling by 20 per cent per cent through the course of 2008 and 2009 (Gruen & Clark 2009), the crisis appeared at the time as a serious threat to the global economy, Australia included. The Australian economy was slowing even before the "Lehman Brothers moment" of 15 September 2008 devastated global financial markets. At a speech he delivered to the Small Business Summit on 24 October, Rudd cited that month's Private Business Barometer published by PricewaterhouseCoopers, which reported that, even in the year prior to the crisis there were worrying signs:

> … sales growth is down from 13.2 per cent to 10.9 per cent in the past year; profit growth is down from 11.3 per cent to 10.3 per cent; hiring intentions have fallen from 46.1 per cent to 26.7 per cent; credit availability is a growth impediment in two-thirds of businesses; and the

> family home is security to obtain business finance for two-thirds of businesses (Rudd 2008c).

From July 2008 Rudd and his inner circle, including Deputy Prime Minister Julia Gillard, Treasurer Wayne Swan, Finance Minister Lindsay Tanner and their advisors, began receiving Treasury briefings on the unfolding of what was then termed the US sub-prime mortgage collapse (Kennedy 2009). But it was in late September and October 2008 that the economic outlook began to deteriorate more rapidly. The sense of crisis is well captured by Rudd's pronouncements at the time:

> The Australian market fell more than 8 per cent on Friday 10 October – the worst day since October 1987. The US Dow Jones had its worst week ever, even worse than the 1929 stock market crash. Financial markets in many countries were closed as a result of significant share price falls. By October 1 more than 25 major banks around the world had failed. Around the world, people were losing confidence in their banking systems. And the contagion was spreading – as people watched a nightly stream of negative news on their TV screens (Rudd 2008f).

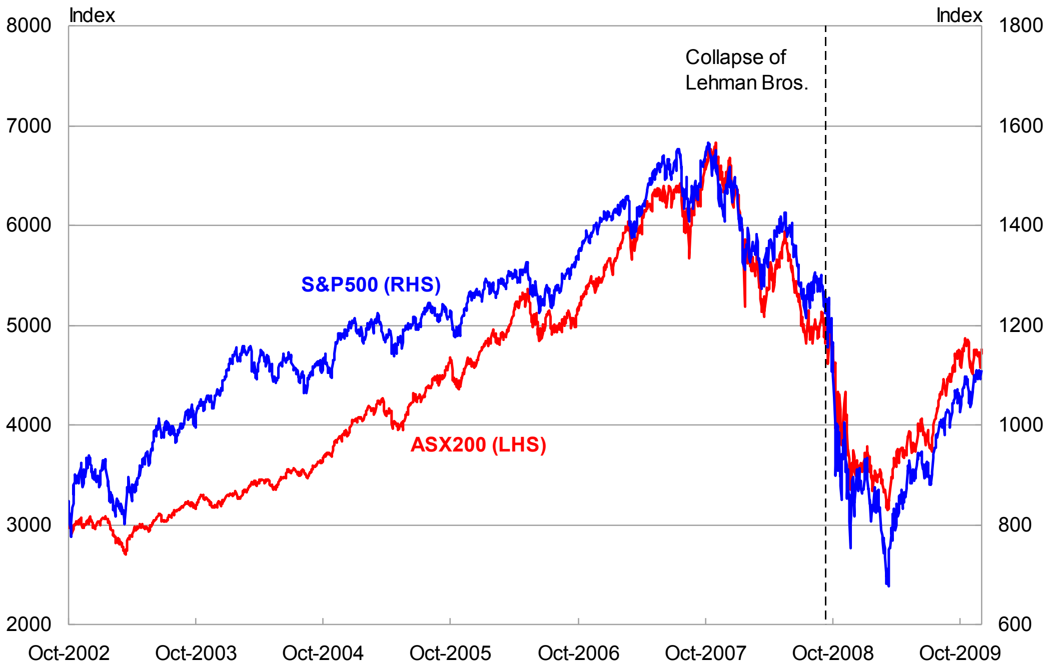
Elsewhere Rudd warned:

> And that is where we've arrived in recent weeks, as markets have lost confidence even in leading global financial institutions and in the international system itself. Financial markets reduced to panic. The global financial system pushed to the brink. We've seen some of the largest one-day movements in stock markets of any time in history. And these developments are now taking us into recession across most of the industrialised world (Rudd 2008a).

As the crisis unfolded in October 2008 Rudd embarked on a national tour, meeting business groups and others around the country. He spoke as if Australia was being besieged by a hostile force, of Australia in a sea of troubles. With this metaphor of external threat Rudd positioned the crisis within the familiar discourse of Australian fears of invasion and infection. This imagery allowed Rudd to evoke a sense of emergency, a war-time footing with Australians from all classes pulling together behind the Prime Minister to save the country from peril. The “national interest” was the concept that Rudd used to mobilise support for the government’s stimulus response. For example, on October 17 2008 Rudd told the Business Forum of the Australian Industry Group: “… government, business, the unions, the community – we’re all in this [crisis] together. And together, we’re going to come through this thing” (Rudd 2008c) . Elsewhere Rudd argued his initial $10.4 billion Economic Security Strategy “…puts Australia first. It puts the Australian economy first. It puts Australian families and seniors first” (Rudd 2008a).

The “credit-crunch” of October 2008 sent Australian stock prices into free-fall. During the December quarter of 2008, Australian businesses ran down their stocks by a record-making $3.4 billion (Kennedy 2009). As the following Reserve Bank of Australia (RBA) graph clearly shows, the value of the Australian stock market fell in a virtually identical pattern to US markets in the aftermath of the collapse of Lehman Brothers.

Figure 3.3 US and Australian Stock Prices October 2002 – October 2009



Note the fall of Australian stocks (red line) in step with the fall of US stocks (blue line) in the aftermath of the "Lehman Brothers moment" of October 2008 (the dotted vertical line).

(McDonald 2009)

The response of the RBA was to "aggressively" reduce interest-rates in "…a series of actions in March, June, August, September and October to inject liquidity in to markets" (Rudd 2008a). The result, as David Gruen explains, was that "[f]rom September 2008 to April 2009, the official cash rate was reduced by 4¼ percentage points from 7¼ per cent to 3 per cent" (Gruen 2009).

On September 19 2008 the ASIC banned "short selling" (stock trading that, in effect, bets that the value of a stock will fall). On October 3 the government purchased $4 billion worth of "residential mortgage backed securities" (Rudd 2008a). These drastic measures would be only the first of a number of government actions designed to stabilise financial markets. The terrain of the government's responses shifted quickly in October 2008. In an interview with the

ABC's Chris Uhlmann on 10 October Rudd discussed a proposal being worked on by Treasury and the banks for a government guarantee which covered up to 85 per cent of depositors (Rudd 2008d). However only two days later on Sunday 12 October the Prime Minister announced that the Federal Government would guarantee all 15 million deposit accounts held by Australian banks, credit unions and building societies for the following three years (Rudd 2008f). This was unprecedented in Australian history (Kennedy 2009). Further the Federal government would guarantee "banks' term wholesale funding [worth $1.2 trillion] to ensure [their] access to global credit in the future" (Rudd 2008f).

According to Rudd:

> These actions covered the core elements of the Australian financial system. They were necessary in the national interest. In the weeks preceding the government's announcement, it became clear that events were entering a dangerous spiral. Globally, confidence in the banking and finance sectors was shattered (Rudd 2008f).

3.2 Rudd's ideological response to the GFC

The critique of Hayek that Rudd articulated prior to his election to the Labor leadership in late 2006 would surely have remained a footnote in the party's history were it not for his return to the theme of neoliberalism from the position of Prime Minister. The centrepiece of Rudd's high-level ideological intervention was his remarkable 8,000 word essay The Global Financial Crisis (Rudd 2009a) that was published in The Monthly magazine in February 2009.[38]

Rudd's essay was released concurrently with his February 3rd announcement of Labor's largest stimulus package, the $42 billion Nation Building Jobs Plan. The

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[38] According to the editor of *The Monthly*, Robert Manne, Rudd's essay was the first "substantial analysis published in Australia of the reasons for crisis of the global financial system…" (Manne 2011, p. 63). However Manne notes elsewhere that a subsequent article Rudd wrote was rejected by prestigious US journal *Foreign Affairs* (Manne 2011, p. 65).

stimulus package will be examined in more detail in the Chapter Four, however the essay itself must be seen as an ideological accompaniment to, and justification for, an activist fiscal intervention of a kind not seen in Australia since the end of the post-war reconstruction period. In Chapter One I discussed some of Rudd's claims about the end of neoliberalism resulting from the GFC, including his view that the crisis was an event of "…truly seismic significance… that mark[s] a turning point between one epoch and the next, when one orthodoxy is overthrown and another takes its place" (Rudd 2009a, p. 20). With a level of self-assuredness that is rare even for a PM, the essay implies that Rudd is not only able to diagnose the "seismic significance" of these historic developments, but was also prepared to act to shape the course of history. Perhaps it was these implications that led Germaine Greer to describe Rudd's essay as "pretentious" (Greer 2009).

Rudd dedicates much of his essay to a broadly uncontroversial account of the process of financialisation, its promotion of the sub-prime mortgage bubble, and the havoc caused in the real economy when that bubble burst. More controversially Rudd argues that the fundamental cause of financialisation was the removal of government regulations in the US as a result of the successful campaign by neoliberal ideologues influential in successive administrations since Ronald Reagan.

As was argued in Chapter One, Rudd's essay suggests that the GFC was a product of the influence of neoliberalism, or as he describes it: "… that particular brand of free-market fundamentalism, extreme capitalism and excessive greed…" (Rudd 2009, p. 20), on economic decision-making since the 1980s. Furthermore, according to Rudd, the depth of the 2008 crisis terminally discredited the neoliberal orthodoxy:

> In the past year, we have seen how unchecked market forces have brought capitalism to the precipice. The banking systems of the Western world have come close to collapse. Almost overnight, policymakers and economists have torn up the neo-liberal playbook and governments have

> made unprecedented and extraordinary interventions to stop the panic and bring the global financial system back from the brink (Rudd 2009a, p. 22).
>
> The time has come, off the back of the current crisis, to proclaim that the great neo-liberal experiment of the past 30 years has failed, that the emperor has no clothes. Neo-liberalism, and the free-market fundamentalism it has produced, has been revealed as little more than personal greed dressed up as an economic philosophy (Rudd 2009a, p. 25).

It fell to social democrats, Rudd argued, to "prevent liberal capitalism from cannibalising itself" (Rudd 2009a, p. 25). This involved the immediate stabilisation of the financial sector, followed by the development of a new global regime of financial regulation, and lastly the creation of fiscal stimulus to hold up demand until the private sector could recover. I discuss this last element extensively in what follows.

Rudd's intervention into the ideological fall-out from the crisis has impressed many commentators (Cahill 2009b; Caunce 2010, 2011; Hobsbawm 2009; Johnson 2011; Manne & McKnight 2010; Nairn 2009) and continues to inform perceptions of Rudd's Prime Ministership and his leadership of the Labor Party. Germaine Greer captures the way Rudd's essay was broadly interpreted "… as promising to drive out this [neoliberal] orthodoxy by strengthening government controls, reining in private enterprise, raising taxation and bringing more industries under state control". However, pointedly, Greer goes on to note, "[t]his was not said in so many words" (Greer 2009, p. 7). Greer here alludes to the gulf between public expectations resulting from Rudd's critique of neoliberalism, and the actions of his government. Robert Manne, editor of *The Monthly*, an avowed 'Ruddite', shares the view that the essay proves Rudd's left credentials. For instance, Manne claims that the essay infuriated editor of Murdoch-owned Australian newspaper Chris Mitchell because, according to Manne, Mitchell had "…constructed in his mind an image of Kevin Rudd … as a right-wing neoliberal. Here [Rudd's essay] was the definite or canonical proof that he was wrong" (Manne 2011, p. 64).

However for every commentator who interpreted the essay as a declaration of Rudd's adherence to social democracy, there was another for whom the essay represented a mass of irreconcilable contradictions. For instance Damian Cahill argues that "… a close reading of Rudd's Monthly essay suggests an on-going commitment to neoliberalism, even as he rails against it" (Cahill 2009b, p. 15). One element of Rudd's essay that jars with commentators both from the left and the right is his treatment of the Hawke and Keating governments. As was argued in the previous chapter, any sensible reading of the neoliberal transformation in Australia must begin with the Labor government of 1983-1996. Yet Rudd's essay denounces neoliberalism, while simultaneously categorically celebrating the "economic reforms" of his Labor predecessors:

> Examples of such a [social democratic] government are the Australian Labor governments of Bob Hawke and Paul Keating during the 1980s and early '90s. Hawke and Keating pursued an ambitious and unapologetic program of economic modernisation. Their reforms internationalised the Australian economy, removed protectionist barriers and opened it up to greater competition. They were able dramatically to improve the productivity of the Australian private economy, while simultaneously expanding the role of the state in the provision of equity-enhancing public services in health and education (Rudd 2009a, p. 25).

Rather than acknowledge that Hawke and Keating's "ambitious and unapologetic program of economic modernisation" was itself the process that neoliberalised the Australian economy (Battin 2009; Cahill 2009b), Rudd instead promotes Hawke and Keating as model social democrats. Interestingly Michael Costa, former NSW Labor Minister, and himself an ardent supporter of neoliberalism, takes issue with Rudd's treatment of the Hawke-Keating legacy:

> In the one case he can't avoid, the Hawke-Keating governments of the '80s and '90s, he praises their commitment to "economic modernisation"… So deregulation, privatisation, greater market

> competition and expanded private participation in equity markets through compulsory super[annuation], is OK if it's undertaken by Australian Labor governments, but it is neo-liberal ideology if anybody else does it. All the way through his essay Rudd tries to have it both ways, cherry-picking economic history to support his political prejudices (Costa 2009).

A similar criticism comes from those who would like to see Labor repudiate neoliberalism in entirety, as Battin argues:

> … had [Rudd's essay] contained an acknowledgement that the Labor governments of Hawke and Keating, together with the Labor oppositions between 1996 and 2007, share responsibility for the unfolding phenomenon [of neoliberalism], it would have been a work of much greater significance (Battin 2009, p. 31).

Moreover, it is not only Hawke and Keating who are praised as model social democrats despite their record as neoliberals. Andrew Scott notes that Rudd closes his essay by rephrasing a slogan used by British "New" Labour Prime Minister Tony Blair, which as Scott argues, "… is a problem because the neo-liberal policies which contributed to the crisis were substantially pursued by Blair…" (Scott 2009).

Rudd's essay constructs a historical narrative that demarcates neoliberalism and social democracy along crude party political lines: "The political home of neo-liberalism in Australia is, of course, the Liberal Party itself" (Rudd 2009a, p. 28). According to this history, neoliberalism has been represented in Australia by the Liberal Party, in Britain by the Tories and in America by the Republicans and conversely social democracy by the Australian Labor Party, the British Labour Party, and the US Democrats.[39] The partisan historical account created by Rudd reveals his fundamentally erroneous conception of the attitude of neoliberalism to

[39] Unlike the British and Australian Labo(u)r parties, the US Democratic Party has never had any of the connections to the labour movement, or commitment to socialisation that characterises social democratic parties. However Rudd's partisan schema is used to falsely claim that US President Rooservelt's response to the Great Depression was underpinned by social democracy, and even to claim that social democracy informs Obama's response to the GFC (Rudd 2009a, p. 21).

the state (Cahill 2009b, p. 12). As was argued in Chapter One, Rudd's essay embodies a profoundly misleading account of the actually existing relationship between neoliberal governments and the state. While the ideological account of self-correcting markets has played a prominent role in public debates, it has not been directed at abolishing state intervention into the economy (Cahill 2009b, p. 13) or genuinely de-regulating markets. Rather, neoliberal ideology has in fact assisted the re-regulation of economic and social practices directed more directly towards capital accumulation. Crucially this transformation has not materially shrunk state spending, as we saw in Chapter One, even during the period of the Howard government, which Rudd suggests as the archetype of neoliberalism (Rudd 2009, p. 28).

Social Democracy

Throughout his time in federal politics Rudd described his own political beliefs as "social democratic" or even at times "Christian socialist". However it is in his response to the 2008 crisis, and particularly his rationale for Labor's ambitious fiscal stimulus program, that he embraces social democracy most emphatically as a descriptor of his government's mission. Social democracy is the central concept in Rudd's Monthly essay appearing, or variants thereof, 40 times. Rudd argues that the 2008 crisis both vindicates social democrats' opposition to neoliberalism and demands that they lead an historic process of political and economic transformation:

> The challenge for social democrats today is to recast the role of the state and its associated political economy of social democracy as a comprehensive philosophical framework for the future... (Rudd 2009a, p. 25).

Against the two extremes of a pure market society and a purely state-run economy, or "state socialism" as Rudd calls it, Rudd defines social democracy as representing any mix of market and the state:

> Long before the term 'Third Way' was popularised in the policy literature of the 1990s, social democrats viewed themselves as presenting a political economy of the middle way, which rejected both state socialism and free-market fundamentalism (Rudd 2009a, p. 25).

Rudd's suggestion that neoliberalism is wholly anti-state is used to assert the argument that any politics that supports state intervention into the economy is necessarily social democratic. This definition of social democracy is wholly inadequate. As was argued in Chapter Two, Labor politicians – fundamentally committed to the preservation of the capitalist state and economy – have consistently shown a preparedness to act to "save the system" in times of crisis. However, the content of traditional social democracy went much further than this, envisaging use of the state to control or civilise the market in the interest of the working class and the oppressed. This notion of reforming and controlling capitalism is wholly absent from the content of Rudd's social democracy. Also absent is any conception of a project of economic redistribution. Neither is there any sense of a goal of sustaining full employment, a point to which I return below. Lastly, Rudd emphatically repudiates the idea that his government's response to the crisis aims towards the nationalisation of any industries.

In place of the social democratic notion of workers' representatives wielding the forces of the state in their interests, Rudd defines social democracy as any state intervention to preserve capitalism. Rudd deploys a consistent theme of social democracy reinvigorating capitalism in times of crises. According to Rudd, social democrats are called upon at the critical time of crisis because neoliberalism is hostile to state intervention and thus incapable of launching rescue packages and stimulus programs: "Not for the first time in history, the international challenge for social democrats is to save capitalism from itself..." (Rudd 2009a, p. 20). At the heart of Rudd's essay lies the notion that using the state to bail-out banks, re-regulate financial markets and stimulate the global economy is essentially antithetical to neoliberalism and therefore necessarily social democratic. This is why he claims history demanded that social democratic governments act to stem the destruction wrought by the GFC.

However even while laying the blame for the economic crisis at the door of “extreme capitalism”, Rudd’s vision of social democracy is nevertheless centred around the market as the essential driver of innovation and human excellence (Cahill 2009b, p. 15). Rudd warns that social democrats are needed to defend capitalism from the radical leftists who will want to:

> …throw the baby out with the bathwater. As the global financial crisis unfolds and the hard impact of jobs is felt by families across the world, the pressure will be great to retreat to some model of an all-providing state and to abandon altogether the cause of open, competitive markets both at home and abroad (Rudd 2009a, p. 21).

> [social democrats, however, are both able to] recognise the great strengths of open, competitive markets while rejecting the extreme capitalism and unrestrained greed that have perverted so much of the global financial system in recent times (Rudd 2009a, p. 20).

Having thus established the centrality of the market in his view of a social democratic society, Rudd then suggests three limited roles in which the state should operate; to address and prevent market failure; to fund public goods – particularly education and infrastructure; and to regulate markets and in so doing temper short-termism and provide economic sustainability:

> The contrast between the competing political traditions within Australia on the role of governments and the market is clear. Labor, in the international tradition of social democracy, consistently argues for a central role for government in the regulation of markets and the provision of public goods (Rudd 2009a, p. 28).

> … [G]overnment has a clear role in the provision of such public goods as universal education, health, unemployment insurance, disabilities insurance and retirement income. This contrasts with the Hayekian view that a person's worth should primarily, and unsentimentally, be determined by the market (Rudd 2009a, p. 25).

The intellectual challenge for social democrats is not just to repudiate the neo-liberal extremism that has landed us in this mess, but to advance the case that the social-democratic state offers the best guarantee of preserving the productive capacity of properly regulated competitive markets… (Rudd 2009a, p. 21).

At the heart of Rudd's vision is a state that facilitates capital accumulation. Through market-friendly regulation, funding of services that are deemed essential but that private companies would otherwise neglect, the state guarantees the functioning of the market. A view supporting state provision of such public goods is not alien to neoliberalism. In fact Cahill argues "… there may be little to distinguish Rudd's vision from that of Milton Friedman, who also saw a role for the state in providing public goods and a framework of rules within which markets could operate" (Cahill 2009b, p. 15). Rather than a repudiation of neoliberalism, Rudd's case for the new social democracy in response to the GFC seems to be little more than a recycled version of what Andrew Scott describes as the "neo-liberalised notion of social democracy akin to Tony Blair's Third Way and Gerhard Schroeder's Neue Mitte" (Scott 2009). However is it in response to the market-failure embodied in the global crisis of 2008 that Rudd's strongest case for the state emerges. As I will elaborate in following chapters, the need for states to step in and, quite literally, rescue capital from market failure on a massive scale, connects Rudd's ideological intervention with the actions of his government, particularly its embrace of fiscal stimulus:

> Social democrats, by contrast [to neo-liberals], stress the central role of the state in maintaining aggregate demand, both for consumption and investment spending, at a time of faltering growth. That is, the state must involve itself in direct demand-side stimulus to offset the large-scale

> contraction in private demand. The IMF revised its growth forecast for 2009 down four times, by a total of 3% of global GDP. This "growth gap" indicates the dimensions of the fiscal-stimulus task that now lies ahead for governments if the demand-side gap is to be met and massive unemployment avoided. This is classic Keynesianism, pure and simple (Rudd 2009a, p. 26).

3.3 The return of fiscal activism

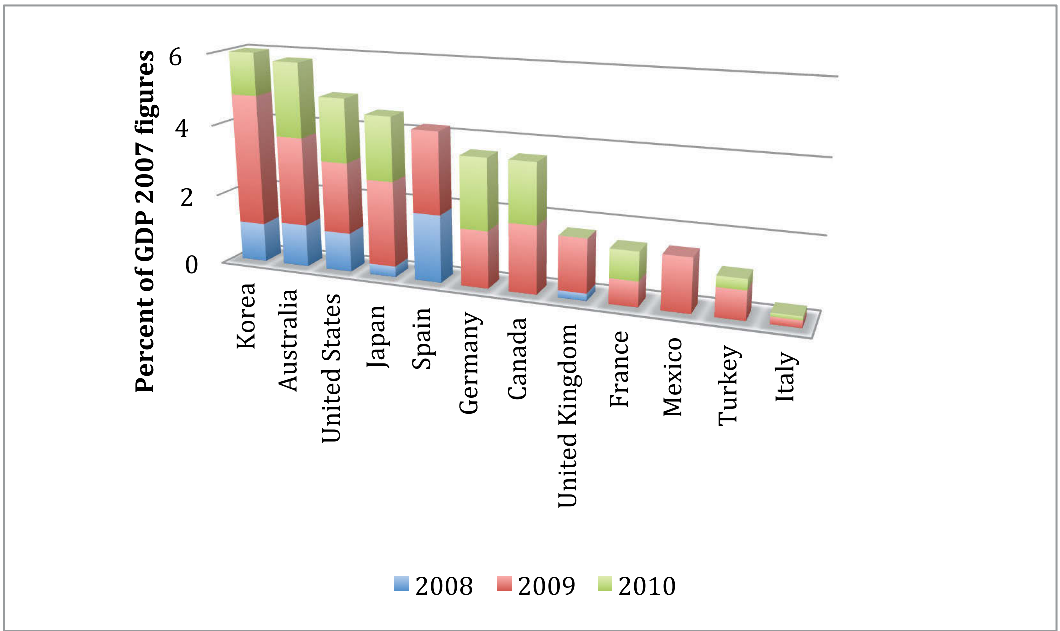
As we have seen, at the same time as reversing anti-fiscal orthodoxy, Rudd launched an ideological campaign to promote his vision of Labor's social democracy. Rudd's massive fiscal injection was the jewel in the crown of this narrative. As we saw above, Rudd argued that only social democratic governments are capable and willing to support state intervention into the economy. The level of intervention represented by his stimulus measures came to embody Rudd's claim that a resurgent social democracy is indispensable in the face of the crisis:

> Social-democratic governments across the world must rise to the further challenge of developing a practical policy response to the crisis that rebuilds shattered economic growth… This is our immediate challenge (Rudd 2009a, p. 21).

With the demise of neo-liberalism, the role of the state has once more been recognised as fundamental. The state has been the primary actor in responding to three clear areas of the current crisis… [including] in providing direct stimulus to the real economy because of the collapse in private demand...(Rudd 2009a, p. 25).

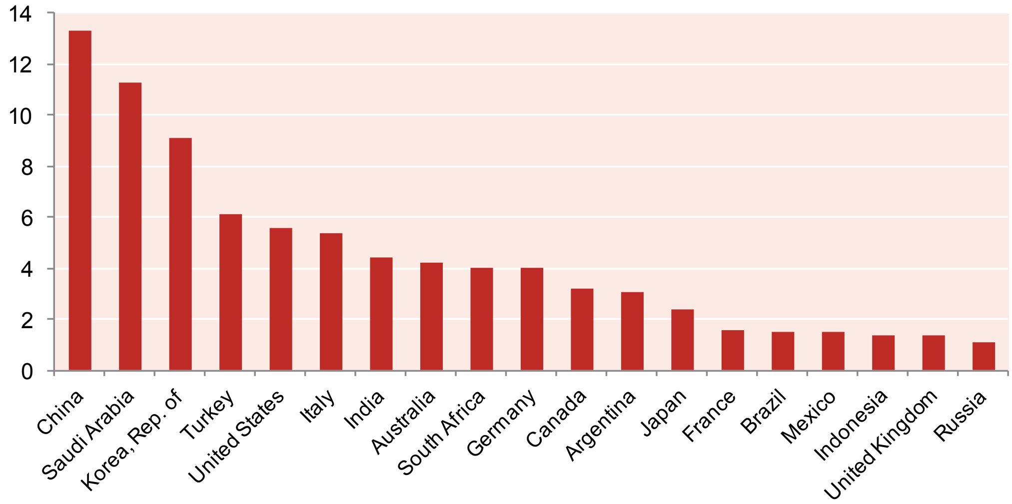
One glaring problem with Rudd's argument is that the revival of fiscal activism to stem the GFC was not limited to, even nominally, social democratic governments. Yet by the framework deployed in Rudd's essay, as we have seen, such huge state interventions were necessarily social democratic. At the time Rudd deployed his stimulus programs, all across the globe governments were enacting similar measures. This can be seen from the figures 3.4 and 3.5, which illustrate percentage of GDP spent by various governments in response to the GFC:

Figure 3.4 OECD Stimulus spending (as budgeted at June 2009)



(Source: OECD 2009)

Figure 3.5 Overview of global economic stimulus in response to the 2008-09 Crisis (as a per cent of 2008 GDP, weighted averages)



(IILS 2011)

Further, such stimulus measures were endorsed and advocated universally by international bodies such as the International Monetary Fund (IMF), the Group of 20 (G20), and the Organisation for Economic Co-operation and Development (OECD). Only a year previously these same bodies had been the globe's leading advocates of neoliberal restructuring (Miraftab 2004).[40]

Indeed it was not only Rudd who noticed that "Almost overnight, policymakers and economists have torn up the neo-liberal playbook and governments have made unprecedented and extraordinary interventions to stop the panic and bring the global financial system back from the brink" (Rudd 2009a, p. 22). Quiggin describes the neoliberal fiscal approach that fell so quickly out of favour in the face of the GFC, describing it as the "treasury view of the 1920s" (Quiggin 2011):

> In fiscal policy, the treasury view embodies a predominant, indeed near-exclusive, focus on keeping faith with bond-holders, rejecting not only default but any tolerance of inflation as a way of sharing the burden of un-

[40] Rudd himself acknowledges the role of the IMF in propagating neoliberalism: "The tragedy is that after decades of neo-liberal ascendancy, the IMF, Keynes's child from Bretton Woods, for a time became the agency through which neo-liberal doctrines were spread around the world..." (Rudd 2009a, p. 27).

> sound debt. This position is intertwined with a contractionist macroeconomic analysis, in which cuts in budget deficits are supposed to promote 'business confidence', particularly if they are achieved through reductions in expenditure (Quiggin 2011).

Yet overnight this set of practices was put to the side as governments announced large fiscal stimulus packages. So rapid and globally coordinated was the revival of fiscal policy, that it earned itself the label "the Keynesian moment". In Chapters One and Two I discussed the divergent interpretations explaining the decline of Keynesianism's hegemonic role in the post-war ideology. For some, including Rudd, the sudden re-popularisation of Keynes in 2008 represented a fundamental break with neoliberalism itself.

In Australia many left commentators and Keynesian economists welcomed the fiscal turn in the belief, or hope, that it represented the end of neoliberal macroeconomics. For instance, amidst furious debate over Labor's economic record in the lead up to the 2010 Federal Election, fifty academic economists, led by some notable Keynesians, took the unusual step of publishing an open letter praising the Labor government's fiscal response to the crisis. With particular reference to Rudd's stimulus spending the letter concluded:

> The performance of the Australian economy had been outstanding… We hope that the economic achievements of the Australian Labor Government will be recognized by the population (Junankar et al, 2010).

Interestingly the open letter makes the case for the government's stimulus measures entirely on the basis that they were "…carefully crafted and implemented in a clever sequence…" and that they "…prevented the Australian economy from a deep recession…" (Junankar et al, 2010). In other words the letter praises Rudd's spending for its maintenance of GDP, rather than on the grounds that it broke with the "treasury view" or with neoliberalism. Others such as Scott (2009) supported the Rudd government's fiscal turn on a more ideological basis. Scott favourably compares the prompt and expansive response of the Rudd government to the "slow and insensitive manner" in which the Hawke-Keating government responded to the recession of the early 1990s (Scott 2009). From this Scott concludes: "… these stimulus packages have been steps in the correct direction, away from neo-liberal and towards more Keynesian economics (Scott 2009).

Scott's comparison between Keating's response to the crises of the 1980s and 1990s and Rudd's response to the GFC provides a crucial contrast. As I discussed in the previous chapter, while eventually Keating's *One Nation* package included a small element of spending designed as fiscal stimulus, the Labor government had a very different overall response to the "recession we had to have" from that mounted by Rudd in 2008. For Rudd the GFC was definitive proof of "market failure". For Keating the crisis of the early 1990s was sometimes depicted as a creative agent of change – forcing through the productivity increases that the Australian "had to have" in order to remain globally competitive. In this sense Keating's treatment of crisis shared the spirit (though not the social impact) of Scullin and the other leaders during the Depression who 'let the market rip'. Rudd consciously positions his response to the GFC as learning from the failures of previous governments, that compounded crises by cutting expenditure just as their economies slowed (however Rudd avoids mention that Labor governments were amongst those responsible for this approach). In his launch of the Economic Stimulus Strategy in October 2008 Rudd refers to this history by saying "[to] put it simply – when markets fail, governments must act. We know that from history" (Rudd 2008a).

The "Keynesian moment" of 2008 and 2009 dramatically reversed the marginalisation that fiscal policy had endured during the course of neoliberalism thus far. However, as the term "moment" suggests, even as the fiscal turn earned its label there was a sense that Keynes's influence was fading as governments who had sunk massive sums into bail-outs and stimulus packages began to impose austerity budgets in order to recoup the funds. The brevity of the consensus around fiscal spending, however, does not detract from its importance. Even five years later there remains a real question of how to understand it. While fiscal stimulus on this scale smashed the monetarist model, as Quiggin notes, "After a brief, though intense, embrace of Keynesian stimulus policies in the immediate aftermath of the crisis, policy-makers have largely returned to the policies that produced the crisis" (Quiggin 2011, p. 356). Robert Manne, who as I noted earlier was arguably the greatest proponent of the view that Rudd had repudiated neoliberalism, articulated a similar sentiment. In June of 2009 Manne commented, "In the pre-Keynesian neo-liberal era, the Rudd government budgeted for a $22 billion surplus. In the post-neoliberal new Keynesian era, it budgeted for a $58 billion deficit. Nothing much else had changed" (Manne 2009). This suggests that governments were able to harness elements of Keynesian economics, without repudiating the broader framework of neoliberal economic management

The New Keynesians

Fenna argues that in Australia the imperative of stimulating the economy was understood by a range of (normally) economic conservatives as a result of the 'perfect storm' created by the GFC:

> Such a willing embrace of traditional Keynesianism was made possible by a highly unusual confluence of conducive conditions at the level of theory, in the economy, in the fiscal position of government, the nature of the crisis and the international response. This is the first time since the postwar boom that there has been consensus support for deficit spending. Domestically, this has been most evident in the unusual degree of business support. Both the Business Council of Australia and the Australian Industry Group endorsed a Keynesian approach. This is consistent with the urgent recommendations of the leading international economic bodies, the OECD and the IMF (Fenna 2010, p. 363).

Much of the clearest evidence that fiscal policy has been adopted in isolation from a reappraisal of neoliberalism comes from within Rudd Labor. For example in his essay Keynesians in the Recovery (Swan 2011b), Treasurer Wayne Swan is at pains to indicate that the government's embrace of fiscal stimulus in no way undermines its commitment to further neoliberal restructuring:

> Adopting Keynesian strategies for avoiding recession does not mean jettisoning the reform lessons that made us more prosperous over the last three decades… This [stimulus spending] wasn't done because of any politically-motivated ideological preference. And it wasn't done because we had suddenly rejected the commitment to competition-enhancing economic reforms that the ALP has championed since the beginning of the Hawke and Keating eras (Swan 2011b, p. 22).

Further, some Keynesian economists argue that the "New Keynesians" omit Keynes' central concerns from their approach. For instance Nasser and Tcherneva stress that Keynesian economics revolves around the problem of attaining and maintaining genuine full employment, and that it was in this context that Keynes suggested fiscal stimulus policies:

> For Keynes, the first objective of policy was to hire people by whatever means possible. Once full employment had been reached, policy must plan, redesign, and substitute expenditures to make these public works useful and effective and to integrate them into a broader agenda for long-term, stable public investment… The benefits of public works are, first and foremost, to be ascertained by their employment-generation effects (Tcherneva 2008, p. 15).
>
> Keynes was explicit that the goal of macroeconomic stabilization policy is 'a closer approximation of full employment as nearly as is practicable' (Nasser 2011).

What's more, Tcherneva and Nasser argue that Keynes' preferred tool for economic stabilisation in a crisis was for government to directly employ people in the locales where jobs are needed:

> [Keynes] did not talk about deficient demand of output, but of deficient demand of labor …One can extrapolate from this analysis the following argument: instead of aiming for some level of growth, which may or may not bring full employment, the objective should be to target a clear and attainable goal of full employment directly (Tcherneva 2008, p. 18).

[Keynes] was unambiguous as to the principal effective means of accomplishing this goal [of full employment]: direct government job creation through public works projects (Nasser 2011).

In the later chapters I will discuss in more depth the question of direct public service employment as opposed to generalised fiscal stimulus. It is worth noting here that there is no evidence that Rudd Labor contemplated a direct employment stimulus in the way Nasser suggests. This contrasts with the preparations for specific employment-rich public works made by the post-war Chifley Labor government.[41]

Most commentators were impressed by the Rudd government's determination to act in the name of jobs. Treasury estimate that more than 250,000 people would have lost their jobs were it not for Rudd's stimulus spending (Swan 2010). However the extensive use of cash payments (over $22 billion worth) within the Nation Building Jobs Plan led some to question the number of jobs produced per dollar spent on economic stimulus. Bill Mitchell from the Centre of Full Employment and Equity (CoFFEE) led research that calculated the number of low skill jobs that government could create with $8.3 billion per year. By surveying local councils and community organisations CoFFEE estimated that 560,000 jobs could rapidly be created to fulfil unmet community needs.
Richard Denniss argues that the Federal Government should have provided funds to local councils in order to create regionally targeted schemes. Denniss put a case

[41] The consensus in Labor that emerged from the Second World War and the experience of the Great Depression saw the Curtin and Chifley governments embrace a policy of full employment. Chifley's post-war government had prepared a substantial list of government infrastructure programs that were ready to be deployed to create direct employment in the case of another recession. As it turned out these projects were never enacted because there was no recession before Labor lost power to Menzies in 1949. In fact the post-war boom kept the economy virtually recession-free for the following twenty years and the question of deficit spending was never tested.

to the Senate Committee that investigated the stimulus spending, arguing that the funds should have been directed towards:

> … direct job creation, particularly through community organisations and local councils… an effective way of not just spending money but spending it in regions that can absorb it and also in a way that can create jobs where they are needed most" (Denniss in Senate 2009d, p. E 62).
>
> …
>
> When you employ someone for $50,000, you employ someone and the $50,000 still gets spent. What we have done instead is to give people $50,000 and hope that when they spend it a job will be created. One of the reasons for doing that was the need to spend the money very quickly, but again I think that that could perhaps be offset with better planning in the future (Denniss in Senate 2009d, p. E 62).

A small package created through negotiation with The Greens did fund the direct employment of workers in local councils. The "Local Green Jobs Package", worth $435 million, was funded by a reduction in the taxpayer bonus from the Government's proposed $950 to $900. This package was claimed to create 10,000 new jobs (Ludlham 2009) by offering funding to community sector service providers and heritage programs to hire new workers. However, as I will indicate in the following chapters, this program's direct creation of jobs set it apart from the rest of the stimulus programs.

Timely, temporary, targeted

One crucial legacy of the "treasury view" which has remained intact throughout the Keynesian moment is an aversion to deficit-financing. As Quiggin explained, in the "treasury" (neoliberal) model "…cuts in budget deficits are supposed to promote 'business confidence', particularly if they are achieved through reductions in expenditure" (Quiggin 2011). This is precisely the rationale we have seen with the austerity drive that followed the bail-outs and stimulus spending in Europe. And as I will detail below, Rudd Labor's embrace of stimulus spending did not lessen the government's commitment to the creation of a budget surplus in the fastest possible time-frame.

At a global level the Keynesian moment created the strange marriage of fiscal activism to budget-balancing, as bodies such as the IMF and the OECD counselled governments to construct stimulus packages that were "targeted, timely and temporary". The intended meaning conveyed by this phrase was that the government's intervention should be rapid and short term. This would ensure that stimulus funds were anti-cyclical, in other words that they assisted when the economy slowed, but also in order that they not increase inflation when growth began to improve.

I suggest that there is a further, unintended, political meaning conveyed in the much used "targeted, timely and temporary" mantra. Stimulus was to be targeted – not to those made unemployed by the crisis – but rather to the sections of business that were deemed vulnerable to collapse. Further, the strictly temporary nature of the stimulus programs, when understood outside its strictly economic logic, conveys the government's intention to politically quarantine the injection of new funding. I will suggest in the following chapters that the government strove to inject money into areas such as education and social housing, while at the same time insisting that such increases would not be ongoing.

The following table shows the way in which the fiscal measures introduced in a whole range of countries were designed to be withdrawn rapidly (T = temporary stimulus measures). Note that those measures which are permanent are almost exclusively those that remove taxes or provide additional incentives for business:

Table 3.1 G20 Stimulus measures, 2008 – 2010

Measure	Argentina	Australia	Brazil	Canada	China	France	Germany	India	Indonesia	Italy	Japan	Korea	Mexico	Russia	Saudi Arabia	South Africa	Spain	Turkey	UK	US
Expenditure																				
Infrastructure investment	T	T		T	T	T	T	T	T	T	T	T	T		T	T	T		S	T
Support to SMEs and/or farmers				T			T				T	T		T				T		
Safety nets	T	T	T	T	T	T	P	T	T	T	T	T	T	T		T	T	T	T	T
Housing/construction support		T	T	T	T	T	P	T		T	T	T		T		T	T		T	
Strategic industries support				T	T		T			T				T			T	T		
Increase in public wage bill																				
Other		T	T	T	T	T	T	T	T	T	T	T	T	T			T	T	T	T
Revenue																				
CIT/depreciation/incentives 2/		T	P	P			P		P	P	P	P		P				P		P
PIT/exemptions/deductions 3/	P		T	P		T	P		P	T	P	P		P			P	P	P	P
Indirect tax reductions/exemptions 4/	P		T		P	P	P	T	P	T		T					S	T	S	
Other		T								P	P	T						P	P	

Sources: Country authorities; and IMF staff estimates.
Note: T = temporary measures (with explicit sunset provisions or time-bound spending); S = self-reversing measures (measures whose costs are recouped by compensatory measures in future years); and P = permanent measures (with recurrent fiscal costs).
1/ Measures announced through early May 2009.
2/ Some of the corporate income tax (CIT) reductions in Germany, Italy, and Korea are temporary.

(IMF 2009)

The "targeted temporary and timely" mantra is writ large throughout the design of Rudd Labor's stimulus program. Every element is designed to be discreet and easily separated from federal and state government's continuing funding commitments. This design attempted to quarantine the stimulus spending from on-going community demands for more hospitals and schools etc. (a point to which I return in following chapters). Further Rudd Labor's package was designed in order to be withdrawn as quickly as it was deployed. Community need for works investment comes second to the counter-cyclical economic impact of the stimulus programs.

As we shall see in later chapters, the design of Rudd Labor's packages, not only the cash payments, but also the infrastructure programs are carefully designed to be discreet, temporary projects, as Stephen Kennedy from Treasury explains:

> …the fiscal stimulus packages have been temporary in nature and do not build in structural spending, and the introduction of revenue and saving

measures designed to impact the budget in two years time (Kennedy 2009).

Here Rudd echoes this vision and emphasises that the stimulus is designed to be withdrawn as soon as the effected sections of capital recover:

> The challenge for new Keynesians is also to ensure that this stimulus is targeted, timely and temporary. As private consumption and business investment recover, fiscal stimulus should be reduced commensurately, so as not to push up inflation during the period of economic recovery (Rudd 2009a, p. 26).

A remarkably similar articulation of the economic design of Rudd Labor's stimulus packages comes from the architects of the packages. Chief amongst them was then Secretary of the Department of Treasury Ken Henry.[42] Here Henry explains that the stimulus measures were designed as a temporary substitute for the failing private sector, in order to hold up GDP and stimulate growth whilst the rest of the economy recovered from the shock of the GFC:

> In structuring the fiscal policy response, what was in our minds and in advice that we tended to government was that the government has a temporary role to play in effectively moving in behind a retreating private sector. Think of aggregate demand as having two components in concept: a private contribution to aggregate demand—household consumption activity and business investment principally, but also exports, or net exports, if you like—and also the public sector making a contribution to

[42] "From September 1986 to June 1991, Dr Henry worked as a senior adviser to the Treasurer. He advised the Treasurer on taxation policy and administration, retirement incomes policy, industry policy and microeconomic reform (including telecommunications reform). At the end of June 1991 he returned to the Treasury as head of the Microeconomic Modelling Unit. In July 1992 he took up the position of Minister (Economic and Financial Affairs) in the Australian Delegation to the OECD in Paris. Dr Henry returned to the Treasury in January 1994 as head of the Taxation Policy Division. In August 1997 he was appointed Chairman of the Government's Taxation Task Force, responsible for providing advice to the Government on tax reform options. In October 1998 he was promoted to the position of Executive Director (Deputy Secretary) of Treasury's Economic Group, and a member of the Treasury Executive Board. In that role he had executive responsibility for domestic macroeconomic policy advice, domestic economic forecasting, and advice on international economic issues (including Australia's relationship with the multilateral international financial institutions). On 27 April 2001, Dr Henry commenced his appointment as Secretary to the Treasury" (2002).

> aggregate demand, and the circumstance that we were confronting was a collapse in private sector demand. We saw a case for government demand—public sector demand—increasing to some extent to come in behind that retreating private sector demand. But at the same time we saw the probability of private sector demand coming back at some time in the future and in those circumstances, with the private sector contribution to aggregate demand increasing, it is of course appropriate that the government then withdraw, that public demand then withdraw. It would be appropriate for government demand to withdraw as the private sector is increasing even if the economy were still growing below its trend rate (Ken Henry, Senate 2009c).

As we will see in the following chapters, the particular sectors of the economy that Rudd and his advisors feared would be worst hit by GFC were retail, construction, and housing. Therefore the government stimulus was an attempt to hold up activity in these sectors, both by injecting cash stimulus (in the case of the retail sector), and by fast-tracking government-funded construction projects (including Building the Education Revolution and the Energy Efficient Homes Program):

The Government and its advisers had been discussing possible fiscal policy responses for some time before the package was announced, and considerable thought had gone into its structure. The fiscal package was directed at the economy's weak sectors, which at that time were consumption and housing. With housing and consumption representing over 60 per cent of the economy, it was thought important that these weak sectors were supported. The package also followed the key tenets of good-quality discretionary fiscal policy in that it was timely, targeted and temporary (Kennedy 2009).

As Nasser argues, solutions to economic crisis which see the government strive to come in behind the retreating private sector and stimulate GDP, or aggregate demand, rely heavily on the belief that the market is the best tool for distributing employment, and indeed wealth. In this sense the government abdicates from the need to form its own analysis of where jobs and services are needed, and its own provision of those jobs and services. Instead it adds the weight of the federal budget to economic activity, and waits for the market to take care of the rest:

The Achilles heel of aggregate demand policy is its implicit reliance on the market, and hence on a form of trickle-down theory… It's a reasonable bet that attempts to stimulate the abstraction Aggregate Demand will do nothing for working people. Aggregate demand policies[43] work through the market; effective demand policies[44] are initiated and implemented by government (Nasser 2011).

This is an important insight into the politics of the fiscal revival seen in the GFC. Not unlike Rudd's concept of social democracy, for the New Keynesians the market remains firmly embedded as the central mechanism for meeting social need. This is a departure from Keynes, whose solutions for remedying recession were embedded in a vision of economic management in which the government would play a substantial and ongoing role. As Stilwell and Primrose remind us, "it is pertinent to call that Keynes advocated the 'somewhat comprehensive socialisation of investment', as well as the use of fiscal and monetary policies" (Stilwell & Primrose 2010, p. 21).

Tim Battin argues that there is an affinity between those advocating a New Keynesian response to the crisis ("…centred on temporary stimulus and countercyclical government expenditure"), and the ideology of the third way (Battin 2009, p. 31). As we saw in the previous sections, for Rudd the fiscal turn in the face of the GFC signified a "seismic shift" and a rising social democracy. However this dramatic assessment sits uneasily with the views of the Treasury officials that Rudd relied on to construct his fiscal program. For instance, in the following statement to the Senate Inquiry into the government's stimulus initiatives one of the central minds behind Rudd's stimulus measures, Treasury Secretary Ken Henry[45] explains that the acceptance of monetarism (the idea that

[43] Rudd's stimulus measures were all designed as "aggregate demand policies".
[44] According to Nasser and others by "effective demand policies" Keynes referred to direct government job creation programs.
[45] To illustrate his point Henry refers to the Howard Government's doubling of the First Home Owners Grant in 2000, which Henry refers to as a case of "… expansionary fiscal policy".

monetary policy is the best lever for finetuning the economy) since the 1980s in no way implies that fiscal policy cannot be revived in cases of severe downturn:

> The consensus that emerged in the 1980s, and perhaps more particularly following the recession of the early 1990s, was that there were considerable limitations in using fiscal policy to fine tune the economy… [and that] monetary policy is probably better able to play that role. But certainly I never interpreted that consensus as implying that, when an economy is hit with an unprecedented negative shock, one should expect that monetary policy could play all of the role (Ken Henry, 2009c).

By placing the 2008-2009 fiscal measures in the context of the economic practice of the previous two decades, Henry and others greatly underplay the differing scale of the Rudd stimulus measures.[46] There are several possible interpretations of such efforts to minimise the exceptional nature of the fiscal turn by Treasury officials. On the one hand, in emphasising continuity, such officials elide claims that the previous neoliberal aversion to fiscal policy (over which they presided) was problematic. On the other hand if the pre-2008 monetarist focus is still deemed appropriate then the degree to which the Rudd stimulus measures breaks this mould is downplayed.

Regardless of the interests Treasury staff may have in portraying their policy shifts as seamless and coherent, for our purposes it is very revealing that the senior architects of Rudd's stimulus measures do not see them as a break with the policy paradigms of the 1980s, 90s and 2000s. Certainly there is little trace of Rudd's view, as discussed above, that the fiscal turn represented a break with the existing (neoliberal) economic paradigm.

In a speech titled "The Return of Fiscal Policy" that Dr David Gruen (Executive Director of the Treasury's Macroeconomic Group) gave to the Australian Business Economists Annual Forecasting Conference at the end of 2009, Gruen refers to the neoliberal aversion to fiscal policy as the "… growing

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[46] For instances, Keating's *One Nation* included cash payments of $125- $250 as a form of stimulus, at a cost of $317 million. Rudd's packages saw nearly $23 billion in cash payments deployed within three years.

disillusionment… about the capacity of discretionary fiscal policy to be genuinely counter-cyclical” (Gruen 2009). Gruen goes on to explain “The nature of most economic downturns renders it difficult to implement activist expansionary fiscal policy in a timely manner” (Gruen 2009). However, Gruen argues, the collapse of Lehman Brothers provided precisely such an unusual “unequivocal signal that a severe contractionary shock was about to envelop the globe” (Gruen 2009).

In other words Gruen argues that the sudden embrace of fiscal stimulus after the hiatus of thirty years was a pragmatic response to the unique qualities of the GFC. This formulation echoes the “…highly unusual confluence of conducive conditions…” (Fenna 2010, p. 363) quoted above, whereby Fenna attributes Australia’s fiscal policy as flowing from a perfect storm of unusual conditions.

Gruen’s speech goes on to argue that the fiscal actions of the GFC period should not lead to the abandonment of the consensus that fiscal stimulus is “not well suited to playing a counter-cyclical role… for more usual economic downturns…”(Gruen 2009). Elsewhere Gruen indicates how Australia’s fiscal spending was envisaged from within the framework of returning the budget to surplus:

> From the mid 1980s onwards, Federal Governments of both political persuasions have demonstrated the resolve needed to bring deficit budgets back into surplus after the economy had recovered from recession, and have committed themselves to increasingly well-articulated medium-term frameworks for fiscal policy. The discretionary fiscal policy actions in late 2008, and early 2009, which provided substantial and rapid support to aggregate demand at a crucial time, were undertaken in the context of a medium-term fiscal framework that included an explicit, articulated strategy to return the budget to surplus once the economy returned to above-trend growth (Gruen & Clark 2009).

In Chapter Two I introduced Prime Minister Paul Keating’s1992 *One Nation* package, which included fiscal stimulus measures (such as the cash payments mentioned above). It is worth briefly revisiting Keating's rationale and noting the strong similarities with corresponding statements from Rudd. It is also worth remembering that Paul Keating was an avowed "economic rationalist", or neoliberal, as we saw in the previous chapter. Both Rudd and Keating rely heavily on the support of the global economic establishment to argue for their fiscal packages, and as we shall see, also on the plan for returning the budget to surplus in the fastest possible time-frame:

> Those opposite [then the Hewson led Liberal opposition] are sort of beached… at a time when the principal policy organisations of the world are urging an expansionary fiscal stance by governments and an expansionary approach to policy, [Hewson] is arguing for the reverse… ahead of the rest of the world [the Labor government] decided that engaging in some fiscal stimulus was an appropriate policy mechanism to use in Australia's circumstances… Now we find conclusive evidence that the action that we took… is in fact the policy prescription which is now being condoned, ratified and encouraged by the OECD… the collective wisdom of the economists of the developed world, as represented by the OECD, who are not only condoning what we have done but are actually encouraging other members of the developed world to follow our lead… So many other countries failed to take the opportunity that we took in the late 1980s to repair our Budget position, to return our Budget to surplus during the good times so that on this occasion we have the capacity to expand our fiscal activity in order to provide a stimulus necessary for moving the economy along (Keating 1992a).

A further parallel between the Keating and Rudd episodes is seen in the fact that the esteem which Labor shows for economic bodies such as the IMF and the OECD is reciprocated. As Treasurer in 1984 Paul Keating had been awarded title of Euro Money Magazine Finance Minister of the year. As a result of Labor's stimulus package Treasurer Swan won the same accolade in 2011. As Ken Henry here articulates, Labor's stimulus efforts were endorsed by bodies of the economic mainstream:

> I think the international consensus, including the OECD and the International Monetary Fund, is that Australia's policy settings, at least to date, have been quite consistent with what is generally regarded as an appropriate stance, including in respect of timeliness and being temporary and well targeted (Henry, 2009c, p. E 13).

The support of global neoliberal institutions for Labor's fiscal policy is matched domestically by the support of the business community. Both the Australian Chamber of Commerce and Industry (ACCI) and the Australian Industry Group (AIG) heartily endorsed the stimulus:

> The effect of the stimulus has impacted across the ACCI membership. Support to households has bolstered retail spending, and this evidence has been recorded amongst our retail members and those in the hospitality and restaurant-cafe sector (Greg Evans, Australian Chamber of Commerce and Industry, 2009e, p. E 54).

In a very revealing exchange during a hearing in the 2009 Senate Inquiry into the stimulus, Dr Ken Henry explains how former fiscal conservatives (including perhaps Rudd himself) and adherents of neoliberal economics came quickly around to supporting Labor's stimulus efforts, and those of so many governments around the world. When Labor Senator Doug Cameron points to the contradiction between fiscal intervention and the neoclassical embrace of Hayek, and 'Say's Law', Henry responds by explaining how such "few quibbles" were suspended in the face of the economic crisis:

> But, whilst being aware of those issues for many years [opposition to deficit spending], I can tell you that, confronted with the crisis that the world has been dealing with these past 12 months or so, those few quibbles with the use of expansionary fiscal policy – or expansionary monetary policy, for that matter – or other actions of governments to prop

> up credit markets are not ones that I considered should detain us for too long. They were rather quickly put aside (Henry, Senate 2009c, p. E 13).

The surplus wars

Earlier in this chapter we noted Rudd's self-identification as a fiscal conservative in the lead up to his election in 2007. To the disappointment of some of Rudd's supporters[47], the commitment to running consistent budget surpluses implied was manifest in Rudd's approach in office.[48] Rudd and Swan's opposition to deficit financed government spending can be seen consistently throughout the crisis. The stimulus spending was constructed within a set of budgetary rules, including a "deficit exit strategy" (Treasury 2009).

In terms reminiscent of those used by Keating thirteen years previously, Rudd justified his first stimulus package in October 2008 on the basis of large surplus which Rudd and Swan had presided over in the only budget since their election (May 2008):

> Journalist: You won the election declaring yourself to be an economic conservative. Has this calamity, this economic calamity worldwide, transformed you into an economic radical?
>
> PM Rudd: The credentials of being an economic conservative is about this – planning for the future and putting money away for that. This government has planned for the future, it's put money away for that, and we've decided the time has now come to invest, and to invest in the ways which we've described.

[47] Robert Manne in particular became locked into argument with the editor of Murdoch's *The Australian* over how to interpret Rudd's political trajectory. Manne described Rudd's right-ward "… 'me-tooism' in the 2007 contest with Howard as "to some extent a front", whereas *The Australian* held that Rudd was "fundamentally conservative" and that he had won the 2007 election by outflanking Howard on the right. (Manne 2011, p. 60)

[48] In power Rudd moved quickly to consolidate the Reserve Bank's "…independent, inflation-targeting regime…" with a formal Statement on the Conduct of Monetary Policy (Caunce 2011). As Caunce argues, this statement clearly indicated that "… fiscal restraint, rather than increased demand, was believed to constitute a crucial *precondition* for growth and employment – a decidedly anti-Keynesian perspective" (Caunce 2011)

> TREASURER: Can I just add to that, if that's your categorisation, just look at those people around the table at the G20… Both the G7, the G20, the IMF – they all regard this as a global problem that requires a global solution (Rudd & Swan 2008).
>
> …
>
> The Australian Government is committed to responsible economic management, with a strong Budget surplus as a buffer for the future. We achieved that surplus by reprioritising spending and cutting back on waste, implementing a total of $33 billion of savings over a four year period. As a share of GDP, we reduced spending to its lowest level since 1989, while revenue as a share of GDP fell to its lowest level in a decade[49] (Rudd 2008e).

Rudd consistently presented the $10.4 billion Economic Security Strategy (ESS) as being viable as a result of the surplus budgeted in May 2008. Further, he initially argued that the ESS spending was viable because the government could stimulate the economy "… while still maintaining a comfortable surplus for the future" (Rudd 2008c), as Rudd reassured viewers on the Channel Seven Global Financial Crisis Special on 19th October 2008.

The same argument was used by Treasury officials explaining the Rudd government's decision, and according to Treasury its economic capacity, to offer guarantees to financial institutions (Gruen & Clark 2009).

As the crisis and its impact on the Australian economy deepened, Labor ministers adapted their argument to recognise that indeed the Labor government would be prepared to run a budget deficit in order to fund its stimulus packages. The combined impact of Labor's stimulus spending and diminishing tax receipts as a

[49] Rather than representing an adherence to Keynesian economics connected to social democratic aims, the version of fiscal stimulus being discussed here by Rudd Labor and its economic advisors is deeply imbued with the concerns of neoliberalism. Rudd's 2009 essay contains the following characterisation of the neoliberal aversion to deficit financing, perhaps unconscious of how many of his own pronouncements contain the same "brags": "Governments bragged about their success in reducing measured levels of debt… and repudiating an appropriate role for public debt in financing investment in the infrastructure that underpins long-term economic growth" (Rudd 2009a, pp. 22-3).

result of the slow-down[50] took the budget from an (underlying cash) surplus of 1.7 per cent of GDP in 2007-08 to a deficit of 2.3 per cent of GDP in 2008-09 (Gruen & Clark 2009). According to Swan, at its peak the stimulus initiatives raised government spending by a record-breaking 25 per cent in one year in 2009-2010 (Swan 2011b, p. 19).

However the government's stark budgetary reality failed to provoke an ongoing re-assessment of Labor's adherence to tight fiscal policy. Rudd and Swan continued to pledge that Labor would get the budget back to surplus in the fastest possible time-frame.[51] This 'return to surplus a.s.a.p' was built into the entire structure of Rudd's stimulus program, see also (Swan 2011b, pp. 15-6), and Labor would slavishly follow the fiscal rules that it set itself in order to cut the deficit. Cahill provides important context for interpreting Rudd Labor's political approach to the question of budget deficits:

> It might be argued, for example, that the Rudd Government's fiscal stimulus package is an example of Keynesianism, and therefore contravenes neoliberal principles. However, fiscal packages working on the demand side of the economy, such the Baby Bonus, family tax concessions and the first home owners' grant, were central to the Budget strategies of the Howard Government. Therefore, the major difference between this package and those of the Howard Government is its counter-cyclical nature, not the fact of a fiscal stimulus itself. While fiscal deficits were uncommon in the Howard era (there was a small deficit in 2001-02), they were a feature of the Hawke and Keating Labor governments and the Fraser Liberal government, suggesting that deficits have more to do with the normal fluctuations of budgets in line with prevailing macroeconomic

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[50] Which, at 6.5 per cent of GDP below the 08-09 budget estimate, represented the "…largest collapse of Government revenue since the Great Depression…" (2009c)

[51] See for instance Swan's comments on the fiscal rules that Labor set for itself and slavishly followed: "So as I approach my fourth official budget, it's worth examining the discipline we have imposed on ourselves through our fiscal rules, particularly in the face of ill-founded criticism of the sort advanced on these pages this week by economics editor Michael Stutchbury. Stutchbury argues for a fiscal policy framework to anchor expectations. That is exactly why, when we put in place the stimulus strategy, we also adopted a set of strict fiscal rules that would chart the course back to surplus. We agreed to save the revenue improvements that flow from a recovering economy and to constrain real growth in government spending to 2 per cent or less in above trend growth years until we return to surplus. We've since extended this cap so it's in place on average until the surplus reaches 1 per cent of gross domestic product. No Australian government has ever imposed such strict limits on itself for this period of time" (Swan 2011a).

> conditions than with an anti-neoliberal position. It should also be noted that fiscal deficits have been persistent features of neoliberal Republican governments in the USA and, therefore in and of themselves, should not be read as a retreat from actually existing neoliberalism" (Cahill 2009a, p. 309).

3.4 Conclusion

As we have seen, Rudd Labor's response to the crisis of 2008 was bold both ideologically and economically. Rudd simultaneously broke with the prevailing anti-fiscal orthodoxy, launched an attack on "neo-liberalism" as responsible for the crisis, and proposed a renewed social democracy.

However I have argued that beneath the appearance of a sharp departure from neoliberalism, the substance of Rudd's ideas and actions merely re-state the Third-Way neoliberalism of Blair, Hawke and Keating. Ideologically Rudd's proposals for social democracy amount to a justification of the kinds of regulations and "public goods" that are outside the market, and yet are directed to enhancing the operation of the market. This, too, is what we find in a close examination of the fiscal revival embraced by leading economists. Robert Manne, who as I noted in Chapter Three was arguably the greatest proponent of the view that Rudd had utterly repudiated neoliberalism, wrote in June of 2010, "In the pre-Keynesian neo-liberal era, the Rudd government budgeted for a $22 billion surplus. In the post-neoliberal new Keynesian era, it budgeted for a $58 billion deficit. Nothing much else had changed" (Manne 2009). Rudd's stimulus spending embraced Keynesian tools hitherto considered both alien and discredited by neoliberal policy makers, and yet when we assess the Labor Government's overall approach, very little indeed had changed.

While the "Keynesian moment" was interpreted by Rudd as breaking the neoliberal straitjacket of monetarism, in essence it more accurately represented an embrace of fiscal policy geared to saving the market from itself.

CHAPTER 4

Evaluating and interpreting Rudd's Stimulus Plan

The next component of the thesis analyses the major programs that comprised Rudd's stimulus spending.[52] Chapter Five discusses the cash payments contained both in the Economic Stimulus Strategy of October 2008, and in the Nation Building Jobs Plan released in February of the following year. Chapter Six looks at the Building the Education Revolution. Chapter Seven examines the Home Insulation Program – the largest component of the Energy Efficient Homes Package. And finally Chapter Eight discusses the Social Housing Initiative.

In this introductory chapter I will situate the key themes that emerge from my exploration of the stimulus measures and make some comments about the overall balance of Rudd's stimulus measures. In the chapters that follow, each of the case studies is organised around two interrelated investigations. I will examine the nature of each measure with an eye to comparing it to Rudd's rhetorical intervention against neoliberalism and for social democracy, as discussed in the previous chapter. With these themes in mind the following chapters examine the intended impacts of the stimulus programs, the mechanisms chosen for their delivery, and the legacy they have left behind.

However, in order to assess what choices Rudd and his fellow ministers made in constructing the stimulus spending, we must inevitably come to terms with the neoliberalisation of state prior to the period of the Rudd government. For this reason a second component of each of the chapters that follows is a historical account of the relevant area of state expenditure, be it social housing or school 'works'. This history is essential for understanding the choices that faced Rudd

[52] As can be seen in Figure 4.1, the Nation Building Package of December 2008 (worth \$4.7 billion) and the \$22.5 billion Nation Building Infrastructure Measures released as part of the May 2009 budget are also substantial parts of Rudd's stimulus spending. However because these programs fast-tracked existing infrastructure programs, and were not specifically designed to respond to the GFC, I have chosen not to examine them closely as I have done with the Nation Building Jobs Plan and the Economic Security Strategy. However they would be usefully part of further research into Rudd's stimulus response, as would the business tax breaks, and the grants to local councils that made up the \$900 million community infrastructure program.

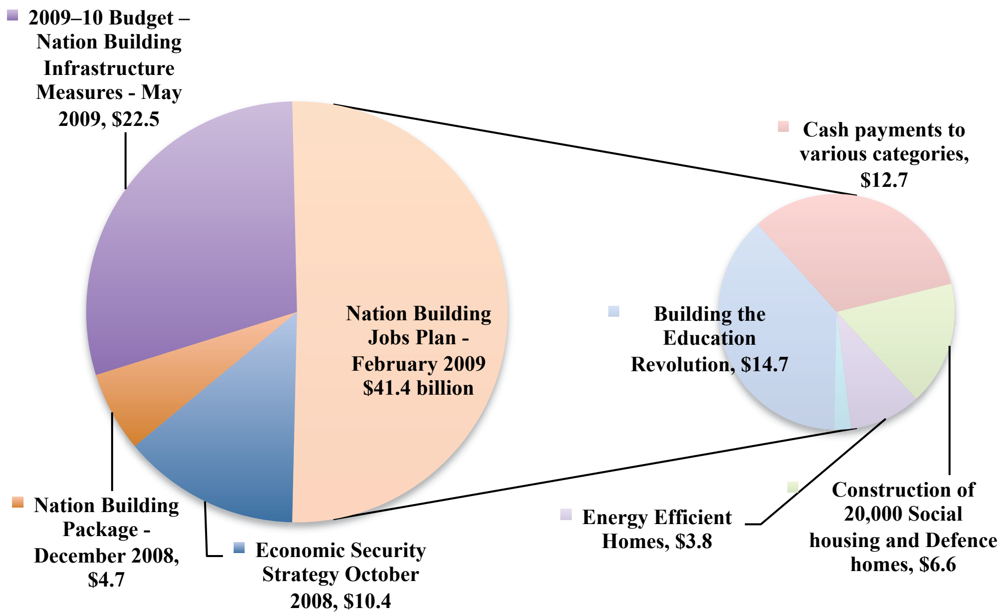
and his advisors, and is therefore essential to interpreting Rudd's stimulus program.

4.1 The 2008-09 stimulus measures in outline

On the 12th October 2008, Rudd and Treasurer Swan announced the first of their stimulus packages, the Economic Security Strategy (ESS) worth $10.4 billion, or 1 per cent of GDP (Kennedy 2009). The ESS was primarily composed of one-off cash payments to many categories of pensioners and family payment recipients. Delivered over Christmas in 2008, the ESS represented "almost half as much as the planned military spending that year", and was worth more than the Rudd government's first budget allocation for education and health (Taylor & Uren 2010, p. 1). But the ESS was only the beginning. Almost immediately after its deployment the Strategic Policy Budget Committee had started planning a larger stimulus package (Kennedy 2009). On the 3rd of February 2009 Rudd unveiled the boldest and largest component of Labor's response to the GFC, the $42bn Nation Building Jobs Plan (NBJP). By May 2009 Rudd had allocated $77 billion[53] towards stimulus measures.

[53] Rudd claimed to have spent $77 billion on stimulus measures in *Pain in Recovery,* a long article he wrote for the *Sydney Morning Herald* in July 2009 (Rudd 2009b). The Liberal dominated Senate inquiry stated that $94.3 billion was spent on fiscal stimulus in their final report into the Government's stimulus measures in October 2009. Uren and Taylor calculate the stimulus measures as totalling $75bn. These divergences come about because the Senate included the deployment of two nation building infrastructure packages which Rudd had committed to prior to the stimulus framework, but which included measures similar to those that made up the official stimulus packages.

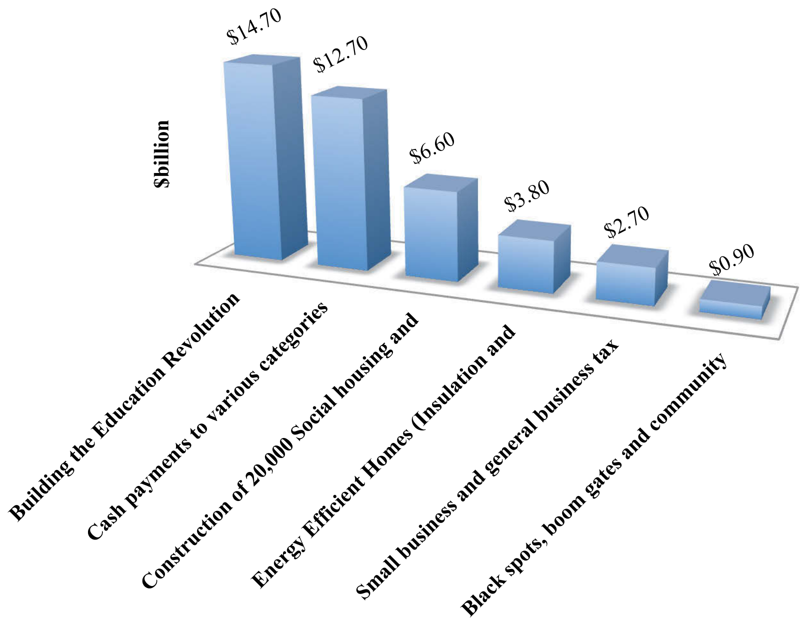
Figure 4.1 Composition of total $75 billion of stimulus spending as announced (not final spending)



(Source: Senate 2009a, p. 6)

The NBJP is perhaps best remembered by the $900 cash payments that were available to all tax-payers earning under $80,000 a year (with a slightly reduced amount for those earning up to $100,000 a year). However as can be seen in Figure 4.2, in this second stimulus package cash payments comprised less of the spending than the specially designed infrastructure programs that accounted for 70 per cent of the NBJP (Kennedy 2009).

Figure 4.2 Composition of the $41.4 billion Nation Building Jobs Plan



(Source: Senate 2009a, p. 6)

The largest of these programs was the $16.2 billion (initially budgeted for $14.7 billion) Building the Education Revolution (BER), which funded the rapid construction of a school hall building, library or 'covered outdoor learning area' (COLA) at every school in the nation. Along similar lines the government funded the construction of 20,000 social housing residences, and a further 829 homes for defence personnel at a combined cost of $6.6 billion. The third largest component of the NBJP was the $3.8 billion Energy Efficient Homes Package, which was dominated in terms of funding and also in terms of public profile by the $2.7 billion Home Insulation Program (HIP). The February stimulus announcement also contained a $2.7 billion business tax break, and $900 million towards "Black spots, boom gates and community infrastructure". The last of these was delivered in the form of grants to local councils for existing projects of various sizes.

As Bajada and Trayler argue (2010), the timing and combination of stimulus measures was designed to have a range of economic impacts. Table 4.1 displays the stimulus programs in relation to the time each took to boost economic activity.

Cash payments have a low economic multiplier (Leigh in Senate 2009d, p. E 30), but they "… produce significant short-run impacts on economic activity – exactly what is needed during short sharp declines in economic activity and consumer and business confidence" (Bajada & Trayler 2010, p. 145). Household payments and grants to first homeowners were designed to buoy market confidence before the impacts of shovel-ready infrastructure programs such as the Building the Education Revolution and the Homeowners Insulation Program came into effect.

Table 4.1 The short- and long-run effects of the Australian stimulus initiatives

Table 8.1 The short- and long-run effects of the Australian fiscal stimulus initiatives

Australian fiscal stimulus initiatives	Short-run (impact)	Long-run (impact)
Payments to pensioners	Fast	Low
Payments to low- and middle-income families	Fast	Low
First-home buyer scheme	Medium	Medium–high
Funding for new training places	Medium	Medium
Ceiling insulation and solar hot water rebates	Fast	Low
Social and defense housing improvements and construction	Slow–medium	Medium
Tax, single-income family and back-to-school bonus payments	Fast	Low
Tax breaks for small business	Fast	Medium
School building construction initiatives	Slow–medium	Medium
Science and language center initiatives	Fast	Low
Local community infrastructure projects	Slow	Medium–high
Local road and railway projects	Slow	Medium

(Bajada & Trayler 2010, p. 145)

4.2 The nightmares of the past

> Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living (Marx 1907).

Funded as a response to the mounting criticisms facing the Building the Education Revolution (BER) program, the Building the Education Revolution Implementation Taskforce (BERIT) was tasked with investigating how the BER was run, and in particular whether the program had achieved value for money. BERIT staff undertook their task with a great deal of energy. They created a matrix for comparing the value for money achieved by a representative sample of BER projects.[54] This data allows for a comparison between the value for money achieved in public and Independent schools, and also delineated on the basis of state and territory. Having established the fact that the BER saw a huge variation in the quality and value achieved by its different administrators, the Taskforce went further, setting itself the goal of explaining *why* this level of variation had occurred. Their findings connect directly to the concerns of this thesis:

> The [Building the Education Revolution Taskforce – (BERIT)] found that the impact of the availability of public works capacity to have such a significance and correlation to the success of the BER roll out that it decided to investigate public works capacity across Australia (BERIT 2011, p. 53).

In other words BERIT concluded that it could not explain the divergent quality within the BER without accounting for the varying degrees to which each state government had eroded its public works capacity. BERIT therefore investigated the political and legislative changes since the mid-1970s that informed the outsourcing of public works functions to the private sector. BERIT's conclusion – in substance that that the three-decade history of outsourcing school construction dictated the varied quality of the BER projects – thereby inserted the history of neoliberalisation of the state into the public debate surrounding Rudd's stimulus measures.

In fact the neoliberalisation of the state in the three decades prior to Rudd's election continuously imposed itself on my investigations of the stimulus

[54] The methodology for these assessments, and the traffic light system that the BERIT implemented to make their findings accessible, are included in appendix 7 of the BERIT Final Report (BERIT 2011).

programs. This is not surprising given the nature of the stimulus episode as an emergency response. In devising emergency stimulus measures Rudd ministers had no choice but to use the state exactly as it existed. In seeking ways to deploy funds into the economy immediately, Rudd and his advisors were necessarily forced to use the state they inherited. These were not programs decades or years in the making. In constructing the stimulus Rudd's team was not able to "… make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past". Consequently, the stimulus programs are continually marked by the previous decades of neoliberalisation.

The stimulus package took existing state functions, and pumped over $70 billion through them over the course of a few short years. The resulting programs are therefore themselves case studies in the nature of the Australian state. For this reason Tim Roxburgh has described the Building the Education Revolution as a "natural experiment" (2012). Massive, and rapid, they were also high profile. From the parliamentary scrutiny they received, to the media attention given each "scandal" as it erupted, the stimulus programs generated a rich trail of data. This level of scrutiny of government operations is rare. An unintended consequence of the stimulus spending was close scrutiny of a vast array of state functions and government departments from housing, to education, to social security and climate change. Rudd's stimulus program therefore provides a lucid snap-shot of the very mechanisms of the state itself, stress-tested, turbo-charged, and exposed for all to see.

Steering not rowing – the neoliberalisation of the welfare state

In every government department and agency that played a role in administering the stimulus packages we find evidence that the portfolio had previously been transformed from, in the terminology introduced in Chapter One, a public service that "rowed", to one that now "steers" (Miraftab 2004; Picciotto 2011; Wettenhall 2003).

As I suggested in Chapter One, this transformation flowed from a range of causes. These include the pressure that increased and globalised financialisation puts on government debt financing, embrace of market ideology within the upper echelons of the public service, the abandonment of a concern by governments for wealth redistribution – which is achieved much more easily when hidden under the depoliticised notion that the private sector is more efficient, and then must be allowed to operate along corporate lines. All of these factors, which converge to encourage governments to outsource and privatise, are ultimately products of the neoliberal economy as I described it in Chapter One.

The result is that often it seems that the state is no longer involved in the direct provision of social services but rather is now envisaged as a mechanism for distributing tax funds into the market. In other words neoliberalism has seen portfolios that in the post-war period involved governments providing housing and building schools, reduced to administrating revenue going to the private sector. As Quiggin notes "Until the 1970s, it was common for Australian public infrastructure projects to be constructed by government public works and main roads departments using public-sector employees" (Quiggin 2004).

Public works are no longer carried out using public sector workers, as is evident in all the chapters that follow. Indeed the BERIT concluded that so few are the numbers of public servants with experience in the construction industry, that government departments no longer have the capacity to act as informed buyers in their dealings with private contractors (BERIT 2011, p. 54).

The transformation from a state that directly provides services to one that dispenses funds into the market is key theme that emerges out of the experience of the stimulus programs. It flows from the process of neoliberalisation (Peck & Tickell 2002) resulting from three decades of what have been come to be termed New Public Management (NPM) reforms (English 2006; Wettenhall 2003). One of the key moments in this transition in Australia was the enactment of National

Competition Policy (NCP).[55] NCP compelled governments at both the state and federal levels to open their operations to competition with the private sector under the rubric of "competitive neutrality". Competitive neutrality included the requirement that governments "…remove any net competitive advantage of the public option (such as non-tax status) relative to the private option" (English 2006, p. 255).

These competition policies have had a profoundly transformative effect. However this qualitative transformation is largely hidden from public awareness, as I noted in Chapter One, by the fact that the new functions continue to require large amounts of taxpayer funding, or budgetary outlay. Despite the fact that the central claim of outsourcing is the efficiency of the market over government (English 2006) and the aim of cost-cutting, in fact we have seen government departments maintain fairly consistent budgets in most areas throughout the last thirty years. However these funds are now directed to private companies rather than to public servants engaged in direct service delivery. As I argued in Chapter One, this needs to be understood not as a retreat, but as a transformation of the state (Picciotto 2011, p. 87).

This transformation of the state has spurned a glittering array of marketised forms of state service delivery including corporatisation, privatisation, out-sourcing, contracting-out, competitive tendering and Public Private Partnerships, as "…state restructuring … stumbled through an often bewildering variety of experiments…" (Picciotto 2011, p. 91). While many of these marketised forms of the state co-exist, some of them have become less popular with governments and have been (at least partially) superseded by other forms. In particular privatisation has become less prominent, having generated significant public backlash (English 2006; Wettenhall 2003). Meanwhile alternatives[56] such as Public Private

[55] NCP arose out of the 'Hilmer Report' commissioned by Keating in 1993, however Harman (1996) claims that the policy can be traced back to a statement made by Hawke in March 1991, "Building a Competitive Australia" (Harman 1996, p. 206).
[56] Where PPPs were in some early cases promoted as an alternative to privatisation, in time they have come to be seen "… not as an alternative to, but rather as a feature of contracting-out practice, as a commercial partnership between purchasing agency and service providers defined by the terms of a legal contract"(Wettenhall 2003, p. 78)

Partnerships (PPPs) have increasingly become the delivery mechanism of choice for governments. Wettenhall therefore describes PPPs as the:

> … dominant slogan in the rhetoric of public sector reform, arguably capturing that status from privatization which held similar dominance throughout the 1980s and 1990s (Wettenhall 2003, p. 77).

Similarly Quiggin suggests that privatisation was part of a first generation of marketization, with PPPs deriving from a second generation associated with UK New Labour Prime Minister Tony Blair (Quiggin 2004). Wettenhall also associates the popularisation of PPPs with Blair's Third Way (2003).

Some of the terms listed above depict different degrees of public/private ownership and control of infrastructure and services. For instance 'outsourcing' signifies that the state retains ownership of infrastructure, but contracts a private company to run the services[57] (English 2006). However there is a huge degree of blurring between many of the terms, and their usage seems to reflect political trends rather than an accurate depiction of the level of state/private involvement. Wettenhall captures this in describing the terms privatisation and corporatisation as "slogan-names" (2003).

These changes have had a profound impact on the nature and role of the public service in Australia. For one thing there is a conflict of interest in the state's role as a regulator and its requirement to facilitate private sector involvement in public services (as seen in the requirements of competitive neutrality). As Miraftab notes "… the government both enables and regulates the market" (2004, p. 94).

In the case studies that follow I mobilise the concepts introduced above to throw light onto the nature of the state as illuminated by the stimulus "stress test". However, the neoliberalisation of the Australian welfare state is an area that deserves much greater attention than has thus far been accorded it. Indeed much

[57] Edwards uses the example of publicly owned immigration detention centres, which are operated and run by private companies (English 2006).

of the existing literature tracing the marketisation of the welfare state is uncritical and comes in the form of guides to furthering the process. A systematic critical account of these changes in the Australian context would be a valuable addition to our understanding of the state. It may be that this neglect comes from the idealist misdiagnosis of neoliberalism that I criticised in Chapter One. Arguably the notion that neoliberalism strove to eliminate or minimise the state has blinded scholars to the nature of the transformation discussed above. This illustrates one of the problems encountered by those who define neoliberalism by its adherence to the ideologies espoused by governments and neoliberal ideologues. A more flexible conception of neoliberal policy, on the other hand, allows us to look more closely at the nature of the changes occurring at the level of the state.

Many times in the chapters that follow we find that the historic erosion of public service capacity resulting from outsourcing dictates the form of Rudd's stimulus programs. In this way the neoliberal policy choices of previous governments impose themselves on the governments and public servants of today, weighing "like a nightmare on the brains of the living" (Marx 1907). This must be kept in mind when evaluating how Rudd and his colleagues constructed the stimulus packages.

4.3 "Building a fairer and more resilient order for the long term"?

As we saw in the previous chapter, Rudd seized on the GFC to call for a renewed social democracy in the face of what he believed was the end of neoliberalism:

> The challenge for social democrats today is to recast the role of the state and its associated political economy of social democracy as a comprehensive philosophical framework for the future - tempered both for times of crisis and for times of prosperity" (Rudd 2009a, p. 25).

> I believe that social democrats can chart an effective course that will see us through this crisis, and one that is also capable of building a fairer and more resilient order for the long term. This can only be achieved through the creative agency of government... Government, properly constituted and properly directed, is for the common good, embracing both individual freedom and fairness, a project designed for the many, not just the few" (Rudd 2009a, p. 29).

As we have seen, the neoliberal transformation of the Australian state was a process that continued for over thirty years before the election of the Rudd government in 2007. It would be unreasonable to suggest that Rudd could have entirely reversed these trends through his stimulus packages. After all, the aim of the stimulus spending was to inject funds into the economy immediately, and as Treasurer Wayne Swan has revealed, Rudd put his cabinet on a "war footing" in order to construct the stimulus package rapidly (Swan 2011b).

However, even accepting the nature of the state that Rudd inherited and the urgency of the stimulus programs, it is reasonable to suggest that Rudd's calls for a fairer, more social democratic order would be in some ways embodied in the design of his own economic response to the crisis. However, the chapters that follow conclude overwhelmingly that Labor's programs deepened the state's dependence on the private sector rather than rolling it back in any way.

As we will see, the specially designed infrastructure programs were delivered with a greater level of private sector involvement than business-as-usual state operations. Given the enormity of the stimulus spending, Rudd's programs therefore provided a not insignificant entrenchment of outsourcing. For instance Linda English assessed the total number and cost of PPPs in Australia (at federal and state levels) as of December 2006 and calculated their combined value at $35,669 million (English 2006, p. 257). Rudd's infrastructure programs deployed over $20 billion into projects that were overwhelmingly managed and built in the private sector. In other words, the size of Rudd's stimulus program requires that even given the qualifications above, we must account fully for the programs' roles in the ongoing process of neoliberalisation.

Rudd makes no distinction between direct government provision and outsourcing. This is clear in his *Monthly* essay. Several times when he refers to government service provision Rudd describes the role of the state using the identical formulation "… the funder or provider of public goods…" (Rudd 2009a, pp. 21, 5). On page 25 Rudd argues:

> Social-democratic governments face the continuing challenge of harnessing the power of the market to increase innovation, investment and productivity growth – while combining this with an effective regulatory framework which manages risk, corrects market failures, *funds and provides public goods*, and pursues social equity (my emphasis, Rudd 2009a, p. 25).

This formulation indicates that Rudd's conception of government service delivery is blind to the question of whether public servants are involved in delivery. The role of the government in funding services, rather than in delivering them, is prioritised in all formulations. This is constituent with Rudd's approach to government services prior to the crisis. Cahill notes that Rudd consistently indicated a "…commitment to 'competitive neutrality'… one of the principles underpinning National Competition Policy in Australia" (Cahill 2009b, p. 15). Johnson also points to Rudd's prominence in competition reform, arguing that his approach to competition policy "significantly extended the Keating government's…" (Johnson 2011, p. 566).

Rudd's vision of the government's role in the provision of social services as limited to that of a fund-assigner, a contract-signer for services delivered by private sector firms, is characteristic of the neoliberal paradigm in which government becomes a technocratic administrator directing tax-funds towards certain politically determined social ends. Miraftab argues that this shift in the role of the state "from doing to ensuring" (Miraftab 2004), is associated with governments having abandoned a "…redistributive political role in favour of a technical managerial role" (Miraftab 2004, p. 93).

No longer does the state contain institutions and employees that meaningfully interact with the community in the course of directly providing social services. This is one of the ways that neoliberalism has de-democratised the welfare state. Marketisation of the welfare state limits the avenues for democratic control that have historically, in the context of broader social struggles, been exercised by public servants and by campaigners. Increasingly the community's interaction with social service providers is an interaction with a private, often for-profit, organisation rather than a government employee. This is a central way that market prerogatives are imposed onto community expectations. When the face of the state is a private company that has its own corporate operating norms, it becomes very difficult for the public to impose demands about how public services should be run. In this way the role of the state as subject to democratic control is hidden behind a corporate façade over which the community recognises it holds no sway.

The cash state

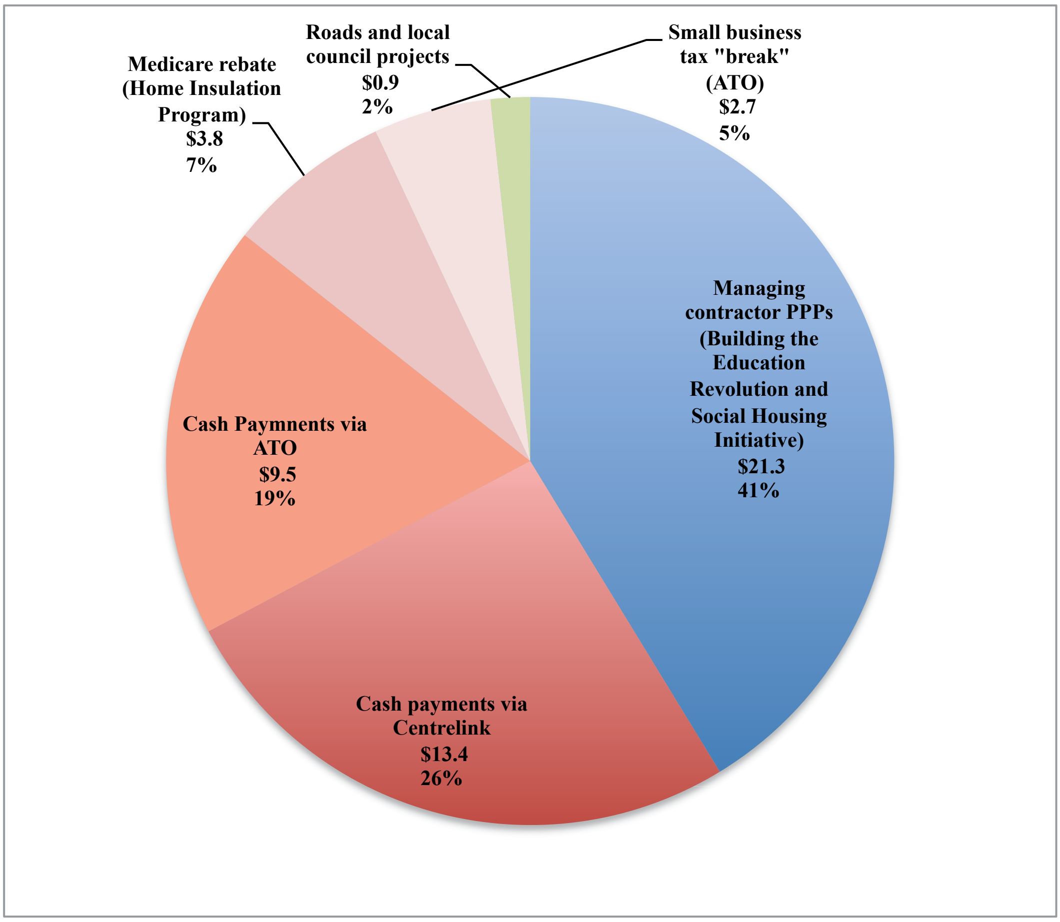
On top of the extensive reliance on the private sector to deliver the stimulus programs, the chapters that follow indicate another, perhaps more important result of the neoliberalisation of the state. The overall balance of Rudd's stimulus spend is in fact dominated by the use of cash payments and rebates.

As Figure 4.3 indicates, \$13.4 billion of the stimulus funding was delivered through the social security system by Centrelink (including pension bonuses, family bonuses and a range of others). On top of that, \$9.5 billion was deployed through the Australian Taxation Office (ATO) in the form of 'taxpayer bonuses' (the memorable \$900 payments mentioned above) and a further \$1.5 billion in the First Home Owners Boost. Another \$2.7 billion was granted as business tax breaks (not strictly 'delivered', but administered by the ATO and arguably considered as a cash stimulus measure). Lastly, the Home Insulation Program saw

$3.8 billion paid as a cash rebate to insulation firms. As we will see in Chapter Seven, the design of the Home Insulation Program centred on the notion that there was no financial or legal relationship between the federal government and the insulation firms that provided the program. The Medicare system was used to deploy rebates to insulation firms rapidly – another cash injection.

Even without the business tax breaks, the combined worth of these cash injections (at $26.7 billion) is greater than the combined costs of the $21.3 billion spent on infrastructure programs including the Building the Education Revolution and the Social Housing Initiative ($22.2 billion if we include the ‘black spots, boom gates and community infrastructure’ programs), as can be seen in Figure 4.3. Further, the cash deployments appear to have worked more smoothly than the programs that involved infrastructure. That is, the capacity of the ATO, Medicare and Centrelink to deliver these funds appears sound, and overwhelmingly escaped the scandals that the building programs attracted.

Figure 4.3 Stimulus spending (ESS and NBJP) by delivery model



(Source: Senate 2009a, p. 6)

Given that the stimulus programs necessarily utilised existing state capacity, the role of direct payments and rebates may be a more central feature of the neoliberalised state than is often realised. Certainly the experience from Rudd's stimulus spending suggests that deployment of cash is a well-developed and prominent method of neoliberal governance. After all, cash payments surely epitomise the dominance of economic engineering (steering) over service provision, even if it is outsourced service delivery. An emblematic case of this shift is discussed in Chapter Eight: the transition from the provision of public housing to the payment of Commonwealth Rent Assistance. Rather than directly provide social housing, the Hawke government and those that followed used the social housing budget to make payments that low-income renters would then deploy in the private rental market.

The preponderance of cash payments in the stimulus packages raises important questions about the trajectory of the neoliberal state. In the previous chapter I introduced the mantra of "timely, temporary and targeted".[58] Cash payments are after all the 'timely, temporary and targeted' policy par excellence. However even if we accept that this rationale flowed from the government's stimulus goals, nevertheless there are important implications arising from designing programs that are strictly temporary. It is necessary to ask what's left of the state after these timely and temporary programs are delivered? One concern is that cash payments, once deployed, are politically incontestable. They leave no residue in terms of future state capacity. Once the payments are released their impact becomes strictly the terrain of the market, and no longer the terrain of the state, and therefore of politics.

In the chapters that follow I explore themes of outsourcing and the changing nature of public works. I look for evidence of increasing or decreasing marketisation of the welfare state as a result of Rudd's fiscal interventions. As I have argued, this assessment cannot be made accurately without grasping the changes that, in the preceding decades, neoliberalism had already made in the agencies and departments that administered the stimulus measures. Therefore each chapter includes a brief history of the state itself in the area of each stimulus measure. As we will see, many of these histories overlap.

What emerges is a snap-shot of the state as it existed at the time of the GFC, the history of why it looked the way it did, and an account of how Rudd's stimulus spending influenced its structure. Themes such as the shift from direct provision to outsourced provision, to cash provision, emerge in several chapters. Rudd's stimulus measures throw new light onto the trajectory of the state itself. Of course

[58] Rudd and many of his senior public servants and advisors consistently used this phrase to signify that fiscal stimulus be deployed and withdrawn in such a way as to play a genuinely counter-cyclical economic role (and not to miss the opportunity to really save jobs in a recession, only to add to inflation once growth picks up)

they also provide a crucial account of the substance of Rudd’s vision for social democracy.

CHAPTER FIVE

Cash Payments

> The Australian economy was doing fine in September [2008], but it was very clear that this enormous shock was coming. Monetary policy was eased in the first week of October by one per cent and the government made decisions on 12 and 14 October to both guarantee the wholesale borrowings of our banks and put in a fiscal package of about one per cent of GDP – roughly $8½ billion of which was cash payments, which went out in early December... (Ken Henry, Senate 2009c, p. E 14).

> The global financial crisis, as I've said before, is the economic equivalent of a rolling national security crisis… And that's why the Government has decided to act decisively and early on the question of this Economic Security Strategy for the future. An Economic Security Strategy to help underpin positive economic growth into the future and to provide practical support for households. Decisive action, responsible action, early action, all in Australia's interests (Rudd, Rudd & Swan 2008).

Between October 2008 and June 2009 the government paid over $24 billion in cash bonuses to individuals and families in order to stimulate spending and maintain confidence in the Australian economy. The Centrelink (social security) system was used to administer welfare bonuses to pensioners, Family Payment' and Youth Allowance recipients, and the Australian Taxation Office (ATO) was used to deliver payments to tax payers.

In October 2008 Rudd deployed around $8.7 billion in cash payments to pensioners and families eligible for Family Tax Benefit, alongside an increase in the First Home Owners Grant worth $1.5 billion. In February 2009 the government announced that a further $12.7 billion in cash payments would go to tax payers and some welfare recipients, again largely through the Family Tax Benefit system, as part of the $42 billion Nation Building Jobs Plan. This "cash splash", as it was derisively called by its detractors, was as historically novel as it was enormous. The $900 taxpayer bonuses became the most recognisable and memorable element of all of Rudd's stimulus measures.

The choice of cash payments as a form of fiscal stimulus and the methods of deployment offer a range of insights into the design of the stimulus program, and therefore of the politics of the government itself. This chapter will briefly explain the structure of payments, and then move on to unravel the political debates that surrounded them. The chapter then examines the arguments that Rudd Labor used to explain and justify the payments in the face of criticism from the Liberal opposition and neoclassical economists. Next the chapter examines who received payments as a result part of the "cash splash". While Rudd and Treasurer Swan tended to depict the recipients of the cash payments as low and middle income people, the chapter documents the way in which many of Australia's poorest people, including unemployed Newstart recipients and self-funded retirees, missed out altogether. At the same time payments deployed through the family tax benefit system without any means testing saw multiple payments and significant funds going to high income families.

The chapter also examines the First Homeowners Boost, and discusses the politics of deploying funds into a housing sector that many claim is rife with inequality and inflated prices, themselves partly resulting from government policies such as the first homeowners grant. In conclusion the chapter asks what cash payments say about the nature of the state itself and argues that the enormity of Rudd's cash payments raise important questions about the changing nature of the state that 'steers not rows'.

5.1 Cash for Christmas scheme: October – December 2008

The Economic Security Strategy (ESS) announced on October 14th 2008 was worth $10.4 billion. The ESS was introduced into parliament on 7 November and enacted on 1 December 2008. The majority of payments were delivered between 8th and 19th December (Ombudsman 2009, p. 3).

$4.8 billion of the ESS was a one-off payment of $1,400 for single pensioners and $2,1000 for couples. This went to:

- Age Pensioners;
- Disability Support Pensioners;
- Carer Payment recipients;
- Wife and Widow B Pensioners; Partner, Widow and Bereavement Allowees;
- Veterans' Affairs Service Pensioners;
- Veterans' Income Support Supplement recipients;
- Veterans' Affairs Gold Card holders eligible for Seniors Concession Allowance;
- Those of age pension age who receive Parenting Payment, Special Benefit, or Austudy;
- Eligible Self Funded Retirees holding a Commonwealth Senior Health Card.

On top of the pension bonus, $3.9 billion worth of payments were delivered to 7.7 million people who were eligible for Family Tax Benefits A and B. One thousand dollars was paid to every family in this category with dependent children.

Lastly the government announced $1.5 billion in a First Home Owners Grant Boost. This doubled the grant to first home buyers from $7000 per recipient to $14,000. For newly constructed housing the grant was tripled, going from $7000 to $21,000.

5.2 Nation Building Jobs Plan – February 2009

As part of the Nation Building Jobs Plan (NBJP) cash payments were made to individuals through the Household stimulus package bill 2009. There were several categories of stimulus payments to individuals and families. The most prominent were the $900 tax-payer bonuses that went to 8.7 million tax payers and cost the government $8 billion.

This $900 payment (revised down from $950 by a deal with the Greens[59]) was made to all tax payers who had earned under $80,000 in the previous financial year. Those earning $80,000 - $90,000 were eligible for a $600 payment, and those earning $90,000 - $100,000 received $250. Recipients had to file a valid tax return, and if they fulfilled the threshold then the ATO deposited the money in their nominated bank account.

As well as tax payers, certain categories of welfare recipients also received $900 payments:
A "Training and learning bonus" of $900 was paid to people receiving:

- Youth Allowance;
- Austudy;
- Sickness Allowance;
- Special Benefit;
- Family Tax Benefit A (21 to 24 year olds).

A "Farmers Hardship Bonus" of $900 went to people receiving:

- Exceptional Circumstances Relief Payment;
- Farm Help Income Support;
- Transitional Income Support;
- Interim Income Support.

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[59] With this reduction in cash handouts $340million was diverted into for "make work schemes, heritage schemes and so on" (Brown, in Senate 2009d, p. E 39).

An "Education Entry Supplement" of $900 was paid to Youth Allowance recipients who were not full-time students.

And the "Back to School Bonus" of $900 was paid to for each child between 4 and 18 who qualified for Family Tax Benefit A, this was $900 per child on top of the $1,000 paid to Family Tax Benefit recipients the year before. The Back to School bonus also saw $900 go to each under 19 year old who received Disability Support Pension or Carer Payment.

5.3 Cash payments and the crisis

On September 15th 2008 the ABC reported:

> One of the world's biggest investment banks, Lehman Brothers, overwhelmed by debts linked to the global credit crisis, has announced it is filing for Chapter 11 bankruptcy in the United States. At the same time, another distressed Wall Street bank, Merrill Lynch, has been sold in a fire sale to Bank of America, as fears spread of a systemic meltdown of the global financial system. The Australian share market has fallen sharply as a result of the financial turmoil (ABC 2008).

Exactly a month later on October 15th 2008 Rudd addressed the National Press Club in Canberra to launch his first economic stimulus package. Rudd pledged "…to do everything possible to keep our economy growing. To do everything possible to create new Australian jobs. To do everything possible to build new Australian homes. To do everything possible to help those in greatest need. To do everything possible to prepare for the future" (Rudd 2008a).

Speed was the essential justification for the cash payments. Like an intravenous glucose drip, these payments were designed to deliver liquid energy into the entire economy overnight. Cash payments were the most immediate way the government could stimulate spending in a uniform way across the nation. The immediacy and the geographic spread of the funds were guaranteed by the pre-existing systems operated by Centrelink and the ATO.

There is no precedent in the history of economic downturns in Australia for the deployment of cash payments on the scale of Rudd Labor's stimulus payments. During the 1992 recession Keating paid Family Allowance recipients between $125-$250. In total the payments cost the government $317 million (Keating 1992b, p. 40). But with Rudd Labor deploying over $24 billion in various cash payments, the scale is so radically different as to be incomparable.

A strong element of the government's thinking rested on the idea that huge and decisive action by the government could restore confidence in the Australian economy and that this in itself would ensure that consumer spending and business investment would continue regardless of the catastrophe emerging in world markets. As I will discuss below, the speed of the Government's fiscal injection won the support of large sections of the business community, as can be seen in this comment from the Macquarie Bank's Rory Robertson:

> Even the people who argue that somehow the cash splash in Australia did not actually prompt extra spending should recognise that in fact confidence is everything. Times were genuinely bleak (Robertson, Senate 2009e, p. E 50).

By the announcement of the Nation Building Jobs Plan in February 2009, cash payments were being conceived as merely the first phase in a range of initiatives that involved funding both 'shovel-ready' infrastructure projects and larger projects requiring more time for planning. Once considered as part of a larger fiscal stimulus package the meaning of the cash payments was revised and they were now understood as only the first element of a time-sensitive combination of stimulus measures. The government then argued that while infrastructure projects had a greater impact on growth (or a higher Keynesian 'multiplier' that would continue to stimulate activity after the initial spend), cash payments were crucial to maintain demand while the other stimulus initiatives came online.

In his presentation to the Senate Economics Committee in September 2009 Dr Andrew Leigh (an academic economist and subsequently the Labor Member for Fraser in the ACT) concurred with the rationale put by the government:

> Certainly the standard wisdom on fiscal stimuluses is that you get a smaller multiplier from household handouts but you can do them quickly. You want a mix of quick, less-effective household handouts and slower but possibly higher multipliers through infrastructure spending (Leigh in Senate 2009d, p. E 30).

While the later stimulus packages aimed to both stimulate growth and invest in infrastructure, the ESS was more directed solely at holding up economic activity. However at the request of then Education Minister Julia Gillard, the ESS included $187 million towards the existing "productivity training places" scheme, taking it from 57,000 – 113,000 places (Rudd & Swan 2008).

Overwhelming the ESS's claim to "prepare for the future" was the hope that it would avoid a huge downturn in the economy which would create hundreds of thousands of unemployed who would then take decades to get back into the workforce. In Rudd's dramatic speech launching the ESS in October 2008, maintaining economic growth was the first of five pledges that Rudd made in response to the unfolding crisis. This was fitting, because as we can see, maintaining private sector activity was the overwhelming concern in the Rudd government's cash payment policy.

As we will see, Rudd designed the cash payment stimulus to ensure that two key sectors of the economy, retail and housing, would be protected from the effects of the global crisis for as long as possible and to the greatest possible extent. This approach won a great degree of support within the business community and the acclaim of organisations central in the imposition of neoliberal policy globally including the IMF and the OECD. However, despite the blessing of the IMF and several of Australia's peak business bodies, the Liberal opposition and a group of neoclassical economists waged a campaign to argue that the cash payments were ineffective or even detrimental to the economy. This episode of partisan debates is useful because it is where Labor's understanding and justification of their cash stimulus measures becomes clearest.

In October 2008 then Liberal opposition leader Malcolm Turnbull was briefed by the government on Treasury's understanding of the unfolding global crisis. Turnbull emerged from the briefing offering Liberal Party support for the government's ESS package in parliament. However the Liberals argued that instead of cash hand-outs, the government should have used tax-cuts – the option employed by the Bush Administration in the US.

The Liberals and the neoclassical economists represented by the Institute of Public Affairs (IPA) saw the GFC as an opportunity for implementing an agenda of further removal of business taxes. Those amongst them who acknowledged the need for stimulus argued that tax-cuts would both stimulate the economy effectively and lead to greater profitability for business in the longer term.

Dr Steven Kates, a neoclassical economist who gave evidence to the Senate Inquiry into the stimulus in 2009, argued that tax-cuts were preferable to cash payments, saying "…the kinds of actions that really do work are actions that go to profitability… finding ways to reduce payroll taxes and other kinds of taxes related to business…" (Kates, Senate 2009d, p. E6).

Former Liberal Treasurer Peter Costello argued that the Liberals were not opposed to 'tax bonuses' under certain circumstances. Costello pointed to pension increases and tax cuts for workers that the Howard government granted as compensation for the introduction of the GST. However for Costello these payments were justifiable because they paved the way for a major tax-reform that would last 20 or more years.[60] Costello therefore condemned Rudd's cash

[60] John Quiggin has shown that the pension increases would only compensate pensioners initially and that the GST would be a highly regressive tax that particularly penalized people on fixed government pensions and payments (Quiggin 1999).

payment policy on the grounds that the payments were conceived as ends in themselves and would not lead to greater economic restructuring.

Other neoclassical economists argued not just in favour of tax-cuts as stimulus, but put the more extreme position that any attempt by the government to stimulate the economy would fail, and that the market should be left to sort its own problems out. Griffith University's Professor Tony Makin used a 2009 Senate Inquiry into the stimulus package to direct a question to Treasury about the stimulus:

> …why was [the stimulus package] necessary in the light of the economic theories that suggest it does not work? Secondly, why was it constructed as it was without an emphasis on the private sector or the supply side of the economy? (Makin in Senate 2009d, p. E 81).

The Labor government heartily defended the cash payment policy at the time and subsequently. What is interesting for our purposes is the substance of the argument the government mounts for cash payments over tax-cuts. Rudd and his ministers appear most comfortable following the advice of the IMF and OECD:

> … the IMF reject tax cuts because the tax cuts don't necessarily bring the immediate stimulus that is required. Tax cuts are basically an amount of money which is spread over the whole year. They don't necessarily deliver the most direct stimulus in these circumstances (Swan, Kelly 2009).

Andrew Leigh also argued against tax-cuts purely on the basis of their efficacy as stimulus. In the 2009 Senate Inquiry hearings Leigh refers to a Bookings Institute paper by Doug Elmendorf and Jason Furman when he says: "My read is that is that the multipliers are highest for infrastructure, next highest for consumer handouts and lowest for business tax breaks. The impact of business tax breaks on the economy seems to be fairly low" (Leigh in Senate 2009d, p. E 28).

Swan and his supporters rejected tax-cuts as economic stimulus solely on the basis of the ability of cash payments to deliver timely support to the economy. The Labor government assiduously refused to counter their opponent's argument that business tax-cuts assist profitability in the longer-term. This is no surprise given that Labor's controversial 2010 Minerals Resource Rent Tax was designed to fund a 1 per cent reduction in company tax-rates. Given Rudd's desire to cut company taxes, it is unsurprising that he was at pains to avoid a progressive or class-based argument for rejecting the tax-cuts proposed by the Liberals. Instead he promoted his government's cash payment policy in technocratic and nationalist terms. In so doing the government side-stepped the political debate inherent in the rejection of tax-cuts over cash payments simply asserting that payments were the best way to fix the problems created by the crisis, and therefore cash payments in the interests of all Australians. Or as Treasurer Wayne Swan put it:

> What I'm interested in is the national interest. And this Government will act swiftly and decisively in the national interest and we will put in place, if required, a range of policy responses which are consistent with the IMF's analysis (Swan quoted in Kelly 2009).

By the time the government prepared for its second round of stimulus cash payments in January 2009, Wayne Swan pointed to data from Woolworths purporting to show that the Economic Security Strategy payments of October 2008 had "had a most direct impact in terms of boosting domestic demand, domestic growth, and of course, supporting jobs" (Swan quoted in Kelly 2009). This assessment was supported by the Reserve Bank Governor Glen Stevens who said "the payments to households… clearly have done something to hold up retail demand" (Stevens, Senate 2009e, p. E 12).

5.4 To do everything possible to help those in greatest need"?

The more closely we examine the design of the cash payments in the ESS and as part of the February 2009 NBJP, the less evidence we find that the packages, as Rudd had sometimes claimed, were designed to help shield the poorest in the community from the effects of the crisis. Even the bonuses for pensioners were envisaged by the government as retail stimulus rather than as part of a broader project for addressing poverty or social inequality.

Ken Henry's advice to Rudd and his ministers in designing the ESS was encapsulated in a phrase that Rudd would use again and again: "Go hard. Go early. Go households". Taylor and Uren report Henry's advice to Rudd's ministers:

> …if they wanted to inject cash straight into the economy, they had to spend immediately, they had to spend a lot and they had to get the money into the pockets of people who would take it straight to the shops… Pensioners were at the top of the list. The government had been under pressure to increase the pension and had promised it would in the next budget. A cash handout to pensioners was a down payment in that promise and bought back some political support (Taylor & Uren 2010, pp. 77 - 8).

Looking at the over $24 billion that the Rudd Government bestowed in cash payments we can see that not only did many of the poorest in the community (such as those on unemployment benefits) miss out entirely, but a significant number of families with incomes in the top 20 per cent received thousands of dollars through family payments and first home owner grants. What's more, when low income people such as pensioners received benefits, it appears they were chosen not because of their need, but rather because, in Treasury parlance

"… these are the people who are most likely to be liquidity constrained…" (Gruen 2009) and hence would immediately spend their stimulus funds.

Pensions

The pension bonuses announced in the ESS in time for Christmas 2008 were described by the government as "… a $4.8 billion immediate down payment in long term pension reform" (Rudd & Swan 2008). Before the onset of the GFC in May 2008 the government had commissioned a review of pensions (as part of the Henry Tax Review) headed by the Secretary of *FaHCSIA* (the federal department of Families, Housing, Community Services and Indigenous Affairs) Dr Jeff Harmer. While the final report wasn't completed until February 2009 the government used the ESS to announce its intention to increase pension payments. When the final Review was released, the government's response was therefore "prompt and decisive" (Saunders & Deeming 2011, p. 384). Measures implemented in the May 2009 budget included a 10.6 per cent increase in the single pension of $32 a week (Saunders & Deeming 2011, p. 384). However at the same time as announcing the increase the government prepared for future budget savings by announcing that the pension eligibility age would be lifted from 65 to 67 (being phased in between 2017 and 2023).

Cash payments to pensioners allowed the government to combine a reform it had already decided to implement with the stimulus effect of cash payments to those on low incomes, which suggests the highest likelihood that recipients would take the stimulus "straight to the shops". While it is gratifying to see pensioners supported to increase their spending, it becomes quite clear that the government was not undertaking a systematic assessment of how to protect the poorest in the community. This can be seen in the fact that they provided no bonuses for those on unemployment benefits (Newstart recipients), nor to poor self-funded retirees, some of whose incomes fell even below the level of the pension. Both groups missed out on the payments through the welfare system and then again on the bonuses for tax payers.

Advocates of raising unemployment benefits seized on the increase in the pension as a stimulus measure to argue that exactly the same thing could be done with Newstart:

> We have suggested that increasing the rate for the unemployed to that of the age pension would inject a substantial amount of money into the economy, it would do so in a way that helps the regions that are most affected and it is equitable and a good policy in the long run (Denniss in Senate 2009d, p. E 63).

However these arguments appear to have fallen on deaf ears. Others (Bryson 1994) have written of the pervasive characterisation of those on old-age and carers pensions as the 'deserving poor' in comparison to Newstart recipients who are often portrayed as 'bludgers'. It could be that this imagery came into the government's decision to exclude the unemployed from the cash bonuses. Whatever the government's rationale, the exclusion of the unemployed clearly reveals the limitations of Rudd's pledge to protect many of the most needy in the face of the crisis.

In a Senate committee hearing into the stimulus package Greens Senator Bob Brown asked Treasury Secretary Ken Henry if he saw any merit in extending the $30 a week increase to the unemployed. Henry's response is extremely revealing of the government's vision of the cash stimulus:

> The question that you are raising is not really to do with the merits or otherwise of the fiscal stimulus. It is very true that the increase in the age pension could be expected to have a stimulatory impact on the economy – that is true – but as you are aware Senator, the age pension was increased not principally for that reason (Henry in Senate 2009c, p. E 11).

Henry's comment suggests that the Rudd government's commitment to increase the pension prior to their fiscal challenge was the overwhelming reason that pensioners were included as recipients of cash payments in the Economic Security Strategy. This contrasts with the assumption that dominated that public debate, and which was alluded to by Rudd ministers – that the spending of pensioners was boosted as a way to protect the poorest in the community from the impact of the economic slowdown.

Family Tax Benefits

The political palatability of different categories of welfare recipients appears to have informed the government's rationale in where to direct cash payments. In particular, payments to families were deemed above political contestation. Indeed the Rudd government used the family tax benefit system to deploy numerous, overlapping cash payments.

The family tax benefit system operating in 2008 and 2009 was introduced by the Howard government.[61] In calculating the eligibility and amount of Family Tax Benefit A to be paid to a family Centrelink used a formula determined by the number of children in various age brackets and family income. Families with a taxable income over $44,165 (in the 09-10 system) would have their payments reduced by 20 cents in the dollar, and those earning over $94,316 would have them reduced by 30 cents in the dollar. In other words the payment would normally taper off as family income increased. However families on incomes of up to $163,000 (in the 2011-12 system) were eligible for some payments and were therefore on the FTB A system. When Rudd mobilised the family tax benefit system to deploy stimulus there was no tapering-off or means testing. Instead every family registered received the same flat payment. As a result families on combined incomes of $163,000 received at least one payment of $1000, exactly the same as those on and below the median annual household income of $37,180 (ABS 2009).

[61] However universal family allowance payments were introduced for the first time under Fraser in 1976 (Saunders & Deeming 2011, p. 380).

Family Tax Benefit B was designed to assist single-parent families, or those whose second partner earned less than $24,912 per year (or $19,382 where the youngest child was over 5). All families where the primary earner made under $150,000 p.a. were eligible and received the same level of payment. Therefore under the ESS families that earned up to $174,912 received multiple cash bonuses. As I indicated in the charts at the start of this chapter, the Family Tax Benefit systems were used several times to distribute rounds cash payments. In the October 2008 ESS FTB A and B recipients received $3.9 billion worth of $1000 payments. In the February 2009 NBJP FTB A recipient families with dependent children between 21-24 years old received a $900 "Training and learning bonus" per child. FTB A recipient families with children between 4-18 years received a $900 "Back to School Bonus" per child.

With many variables about the number and age of children, the earning status of each parent, further research would be needed to profile exactly which kinds of families received more or less from the various family payment stimulus bonuses. Consider also that some families included two parents who each additionally received the $900 taxpayer bonus.

Some insights come out of the work of Vu and Tanton who used ABS data-based modelling (The University of Canberra's STINMOD model) to look at distribution of payments across income, family type and region (Ngu Vu & Tanton 2010). They found that, including the family payments and the taxpayer bonuses, payments were made to 7.3 million families out of 11 million (or 65.7 per cent of the total). The average resulting gain per family was $30 per week (Ngu Vu & Tanton 2010, p. 134). Interestingly the modelling found that while 94.4 per cent of people in the fourth quintile, gained from the package, "not many families on the lowest income quintile benefited" (Ngu Vu & Tanton 2010, p. 134). Echoing the point about the exclusion of Newstart recipients made above, Vu and Tanton write of the FTB B modelling: "… it does seem odd that not many families in the bottom income quintile received this benefit. This may be due to the fact that many families in this low income quintile were single low income people…" (Ngu Vu & Tanton 2010, p. 137).

In the aftermath of the payments the media reported cases of extremely wealthy people receiving cash bonuses, presumably because of their ability to use trust–funds and the like to reduce their taxable incomes. *The Courier-Mail* published accountants' reports of clients with $5 million incomes receiving multiple tax-bonuses[62], where people living on a mere $13,000 per annum were ineligible (Lewis 2009). The number of millionaires who received cash bonuses would have been small, however Andrew Leigh's research included a phone survey that found that fifty per cent of childless households with incomes over $150,000 reported receiving a cash payment (Leigh 2009, p. 7). In other words people well into the top 10 per cent and probably into the top 5 per cent of income earners were on the receiving end of bonus payments.

Government ministers were happy to recognise the benefits of their stimulus for higher income earners, as Swan did in announcing the family payments as part of the ESS:

> Well Family Tax Benefit A runs right up the scale. So this is a very inclusive package and it is for Family Tax Benefit A. It is a very, very strong package and I can't give you the exact percentage of people that are eligible for that but it is a very high percentage of all families… But make no mistake, this goes to a lot of families out there, a lot of families. And it, as you correctly point out, is a significant boost (Swan in Rudd & Swan 2008).

These statements, and the preliminary calculations above seem to contradict comments Swan made elsewhere that "the stimulus measures have gone overwhelmingly to low and middle-income families, singles and pensioners" (quoted in Lewis 2009). Similarly Rudd had described the ESS cash payments as

[62] It is worth noting that there were a few scandals surrounding the cash stimulus, such as this report of millionaires receiving payments. For instance 80,000 recipients of the tax-payer bonuses were later realised to be overseas at the time of payment (according to FaHCSIA, cited in Ombudsman 2009, p. 14). However in comparison to the infrastructure programs that I discuss in following chapters, it is clear that negative publicity such as this was far lower in relation to cash payments and rebates. As I argued in Chapter Four, this may suggest that parts of the state that deploy payments are better developed than those that oversee construction programs.

"a $3.9 billion payment in support for low and middle income families" (Rudd & Swan 2008).

First Homeowners

The stability and growth of the housing sector in recent decades has been central to the success of the Australian economy. As well as engaging a large part of the construction industry, two-thirds of Australians own outright (35 per cent) or are paying a mortgage on their own home (34.7 per cent) (Dungey, Wells & Thompson 2011, p. 468). Protecting the value of these investments was seen by Rudd as crucial to preventing the dramatic downturn witnessed in the US as a result of the sub-prime mortgage crash. Further, Rudd worried that a dramatic slow-down in the housing market would represent a blow to the electorate's sense of economic security.[63] Lastly the government was concerned that a collapse in construction demand might dramatically increase unemployment in the heart of Australia's non-mining economy.

These factors – maintaining employment in the construction industry and house values – underpinned Rudd's announcement that as part of the October 2008 ESS package the government would double the rate of the First Home Owners Grant (FHOG), and triple the grant for buyers of newly constructed homes. As we will see in the following chapters, by February 2009 the stimulus directed towards the construction industry would be enormously increased, however the tripling (to $21,000) of the FHOG represented the government's first measure assisting this sector. As Wayne Swan explained to a press conference:

> Our policy action here [the First Homeowners Boost], given the significance which private dwelling investment represents in the national accounts, is to ensure that we maintain activity in the sector. That is why

[63] It appears that Rudd's concerns were well placed, Morris reports that "A nation-wide survey of house sellers in 2009, conducted by the Real Estate Institute, found that 28 per cent gave the global financial crisis as their main reason for selling" (Morris 2010, p. 39).

these one off measures have been embraced (Swan in Rudd & Swan 2008).

Or as Rudd put it:

> This is designed to support activity in the housing sector. And the housing sector is critical in terms of the overall performance of the economy (Rudd in Rudd & Swan 2008).

But as well as being a significant source of employment and household investment for two-thirds of families across the income spectrum, the Australian housing sector has also long been rife with inequality. As Pope and Rowland (2008) note "In 2003-04 the wealthiest 20 per cent of Australian households owned 59 per cent of all household wealth at an average net worth of $1.4 million". Despite the fact that housing wealth is concentrated so unevenly, Australian governments since Hawke (not least the Howard government) have been prepared to subsidise generously a universal aspiration to home ownership. Hawke pioneered a payment to first homeowners on coming to power in 1983. As Ken Henry notes, the First Home Owners Grant was re-introduced by the Howard Government in 2000 both as a form of economic stimulus and as compensation for the introduction of the Goods and Services Tax[64] (Dungey, Wells & Thompson 2011, p. 469):

> [T]his is not the first occasion in the last 10 years on which fiscal policy has been adjusted in order to support aggregate demand. Senators might recall that in late 2000 there was an adjustment to fiscal policy settings, with a doubling, as I recall, of the first home owners grant precisely for that purpose. At that time, the economy contracted for one quarter and

[64] Interestingly the FHOG was also conceived initially as compensation for the introduction of the GST – just as the payments to pensioners discussed above: "To offset the introduction of the GST in 2000Q3, the Commonwealth Government negotiated with states and territories a package of grant assistance to FHB [First Home Buyers], the FHOG [First Home Owners Grant], in the form of a cash grant" (Dungey, Wells & Thompson 2011, p. 470).

> the policy response was an expansionary fiscal policy (Ken Henry, Senate 2009c).

As Dungey, Wells and Thompson (2011) point out, the established $7,000 FHOG only increases the number of households that prefer to buy rather than rent by 1.3 per cent. In other words overwhelmingly recipients of the grant can afford to buy their own home and are therefore not in the lower income brackets. If anything the grant may bring forward the timing of the housing purchase.

There are also long-running concerns that home-buyer grants may drive the price of housing up, in other words the grant effectively goes to the seller through increased prices and therefore does nothing to make home-ownership more affordable. Dungey, Wells and Thompson point to evidence "that the benefits [of the FHOG] are at least partly captured by the supply side of the market" (Dungey, Wells & Thompson 2011, p. 476) (see also Pope & Rowland 2008, p. 379).

Economists such as Steve Keen argue that Australia's first homeowner grants have created dangerous bubbles in the domestic housing market (Keen 2013). According to Wilkinson, Howard's reinstatement and doubling of the FHOG in 2000 combined with general economic conditions at the time helped to create a property boom. In fact the nominal price for a median house had already increased by 190 per cent between 1997 and 2000 even before Howard's reintroduction of the FHOG (Wilkinson 2005, p. 29). Wilkinson argues that such housing booms underpin the chronic unaffordability of Australian housing, noting that "Between 1980 and 2002, the basic wage (after tax) has risen 300% but the median house price has risen 600%" (Wilkinson 2005, p. 32).

As a result of the doubling and tripling of the grant as part of the ESS there was a rush of activity by first-time buyers. Ken Henry argued that the ESS had created "…historically quite exceptional levels of loans to first home buyers…" (Henry, 2009c, p. E26), moving from the long-run average of 9,000 a month to

18,000-18,500.[65] And Morris notes that "By the end of September 2009, 190,000 buyers had taken advantage of the [FHOB] grant" (Morris 2010, p. 48). However Dungey argues that of these buyers only 2.3 per cent would have otherwise remained in the rental market were it not for the FHOB (Dungey, Wells & Thompson 2011, p. 476).

There is something ironic in a policy that increases the FHOG as a response to a crisis that originated in a housing market boom -- itself a product of government support for ultimately unaffordable mortgage debt. Morriss notes that critics of Rudd's boost "…argue that it created a housing bubble for lower house prices, while many of the households who took advantage of the boost could be in a precarious situation if interest rates continue to increase…" (Morris 2010, p. 49). Glen Milne in *The Australian* concurred that the increase in the first homebuyer incentives could lead to rising rates of default and repossession (Milne 2009).

Like the cash bonuses, the increases in the FHOG won the support of the business community. As the Australian Chamber of Commerce and Industry was happy to report to the 2009 Senate Inquiry:

> The first home owners boost has assisted construction… assisting a number of members in the non-housing construction sector, including sectors like electrical services and plumbing, who are amongst our membership (Greg Evans, Australian Chamber of Commerce and Industry, Senate 2009e, p. E 54).

Whatever its effectiveness as economic stimulus, the increase in the FHOG raises serious equity issues. The ESS saw 97.7 per cent of homebuyers who could otherwise afford to buy a newly constructed home receive ten-times ($21,000) the bonus paid to a couple living on a pension, who collectively received $2,100. As Morris argues:

[65] Just as when Howard announced the FHOG in 2000, the increase through the ESS can be clearly seen in a short-term spike in the number of house purchases. Figure 3 p.471 in Dungey et al clearly shows where FHOG was increased under Howard in 2000, and another dramatic increase can be seen in 08-09 with Rudd's ESS.

> From a right to housing perspective, the FHOB was oriented towards households who are in the work-force and earning a reasonable income. It is unlikely many households in the bottom deciles would have been able to take advantage of the FHOB (Morris 2010, p. 49).

5.5 Conclusions

I have illustrated the way in which, contrary to many of Rudd's statements, what benefits did flow to low-income families and pensioners from the cash payments policy were incidental. As we have seen, the cash payments were not distributed in such a way that the lowest income households received the great bulk of assistance. In fact many of the poorest missed out or received far less than the multiple payments made to middle and upper income families with children. We have also seen the ways in which the Rudd government relied on measures in the tax and welfare systems that were rife with existing inequities. By turbo-charging measures like the First Home Owners Grant and the family tax benefit system to deploy its stimulus the Rudd government accentuated the untargeted nature of these payments and allowed families earning twice or three times the median household income to receive numerous payments. At the same time we have seen that the cash payments missed those, such as the unemployed and poor self-funded retirees, who, living below the poverty line, are genuinely needy.

We have also discussed the warm welcome that the stimulus payments received from the international institutions who were some of the leading global advocates and enforcers of neoliberal policy, such as the IMF. On the domestic level this support was matched by the business community. These supporters of the generous cash stimulus, most of whom strongly advocated fiscal conservatism until the onset of the economic crisis, give us a good indication that Rudd's package was supported by the economic mainstream – even as mainstream consensus shifted rapidly to support huge fiscal spending in response to the GFC.

On top of this examination of the politics of who received what under Rudd cash stimulus spending, there is a further question about the nature of cash deployments as a form of statecraft itself. Support for universal cash benefits has long been part of the social democratic tradition in Australia. In fact it is interesting to note the pride that the post-war Chifley Labor government took in the expansion of benefit payments to new categories of recipients. This is how Chifley explained his record in his pitch for re-election in 1949:

> When Labor took office in October 1941, the only Commonwealth social service benefits were age and invalid pensions, maternity allowances and child endowment. The Labor Government has greatly liberalised and extended the scope of these benefits and has introduced many new benefits covering fields not previously provided for. New social service benefits provided since 1941 in the form of cash payments are - allowances for the wives and unendowed children of invalid pensioners; funeral benefits in respect of age and invalid pensioners; pensions for widows, deserted wives, divorcees and women whose husbands are in a mental hospital or in prison; unemployment benefits, sickness benefits and special benefits in these fields (Chifley 1949).

However it is worth remembering that for the Chifley government, and others during the post-war boom, such payments were only one small aspect of a social democratic vision for the state that expanded the provision of housing (which I touch on in Chapter Eight), education, and in the case of Chifley attempted to bring the commercial banking system under state control with nationalisation. On the other hand, as we will see in coming chapters, Rudd's cash payments are part of a state that has increasingly abstained from direct service provision.

In Chapter Four I discussed the neoliberal transition of the state from 'rowing to steering'. I also argued that cash payments are a form of steering par excellence.

With $24 billion cash payments delivered in the ESS and the NBJP Rudd grasped the levers available to him through the ATO and Centrelink and wielded them to great effect. This act of economic engineering was not directed to benefiting the welfare recipients and tax payers who received the payments, as much as it was geared to the needs of the retail and housing sectors of the economy. The enormity of Rudd's cash splash takes such 'steering' to a whole new level. In this way the cash stimulus policy embraced by Rudd Labor in the face of the GFC points us to the capacity and importance of such mechanisms for manipulating, and indeed supporting, markets. This is a point to which I will return in the chapters that follow.

It is also important to consider the legacy of the cash payments deployed by Rudd in this period. There is a good argument that they successfully held up industries that would otherwise have shed hundreds of thousands of workers. However as we discussed in Chapter Three, this was not done in a way that directly ensured the maximum employment outcomes, but rather indirectly, through a general stimulus of aggregate demand targeted at the housing and retail sectors.

Further there is a real question as to whether cash handouts contribute to an erosion of democratic space, and further narrow the state itself. This can be seen if we look at the other potential uses of such substantial sums of tax revenue. Greens Senator Scott Ludlam poses this counter-factual in highly critical comments he made about Rudd's First Homeowners Boost:

> The government response [to the GFC] has been a demand stimulus, a handout to inflate the price of housing in the form of the $7,000 first home owners grant that has cost the country $13 billion to date. It is inflationary, regressive and despised by countless economists, except unfortunately those in Treasury, who refuse to do any modeling on the impact of just handing over money which then passes straight through to an increase in house prices. What could have been done with $13 billion in genuine housing affordability initiatives or in help for people to get

> into their first home? For the same amount, we could have seen 43,000 actual houses built or 1.3 million National Rental Affordability Scheme incentives to increase supply rather than inflate prices as people bid up house prices without doing anything to increase supply (Senate 2011).

In other words Ludlam asks what could have been realised with the funds that went into the FHOB if they were instead used to expand services such as public housing. This illustrates the political choice of cash payments over investing in goods and services that expand the scope of the state. Further, if these funds had been invested into, for example, public housing, there would have been a whole series of political issues arising about who should be able to access the housing, contests over how to construct and run the service and so on. This is in stark contrast with cash payments. Once they were released, the payments were removed from democratic contestation and became a matter for private citizens, and very quickly simply the movements of the market. In this way by allocating such a large proportion of Australia's stimulus efforts to cash payments Rudd can be seen to have further narrowed the scope of the state itself.

CHAPTER 6

Building the Education Revolution

Building the Education Revolution (BER) was a $16.2 billion program[66] – the largest, most ambitious, and perhaps the most visible part of the stimulus package. The BER saw the construction of 23,675 school buildings – libraries, halls, covered outdoor learning areas and classrooms. Almost half (10,492) were constructed as part of Primary Schools for the 21st Century (P21), a subset of the BER.

The BER, as an historic public infrastructure investment directed to the school system, is a very different kind of stimulus response from the cash payments discussed in the previous chapter. As a public works infrastructure program the BER appears to sit comfortably within Rudd's vision of a response to the GFC which extends the scope of the social democratic state. However I will argue that the extent of outsourcing within the BER – itself a result of the historic neoliberalisation of public works in Australia – fundamentally contradicts the notion that the BER extended the state in a way that the cash payments did not.

It is important to note the way in which Rudd, even before the onset of the GFC, envisioned the expansion of infrastructure as a central plank of his government's moves to increase economic productivity. This contrasts with the vision of infrastructure within post-war social democracy, which viewed public works as a way for governments to enlarge the public wealth and lift living standards. In Rudd's view, infrastructure was conceived of as exactly the kind of "public good" that is essential to the smooth development of markets, and yet which markets fail to provide – hence the role for the state. This can be seen clearly in an address Rudd gave to the Australian Industry Group on September 1st 2008, prior to the onset of the GFC:

[66] $14.7 billion was budgeted, but this was based on the prediction that only 90 per cent of Primary Schools would submit projects to the P21 program. In fact 100 per cent of schools submitted, and so $750 million was diverted from the Social Housing Initiative to go to the BER.

> The Government is committed to implementing the single largest infrastructure program in the history of the Commonwealth… Infrastructure policy is a national priority for this Government because infrastructure constraints have been holding back our economy for too long. Infrastructure constraints are a drag on economic growth, they hold back productivity… According to CEDA [*Committee for Economic Development of Australia]*, if we can remove infrastructure bottlenecks we can lift our economic performance. We could potentially raise Australia's GDP by 0.8 percent per year. We could increase exports by 1.8 per cent, increase business investment by 1.2 per cent, and lower the consumer price index by 3.2 per cent (Rudd 2008b).

The Commonwealth Coordinator General (a position created by Rudd to oversee the roll-out of the Nation Building Jobs Plan) argued that infrastructure programs such as the BER would "position Australia to take full advantage of the global economic recovery when it arrives" (Coordinator-General 2009, p. 21). This suggests that the BER itself was viewed as a productivity enhancing infrastructure investment.

The BER was second only to the Homeowners Insulation Program in being dogged by claims of "rorts" and scandalous waste. It was targeted for attack by the Liberal opposition and sections of the press. There was even significant discontent from what might be considered natural allies of such a program, the education sector unions for example. The Liberal Opposition framed its critique of the BER projects in terms of Labor's incompetence, as proof of so-called "government bungling" and "bureaucratic waste". However, as we shall see, the value for money problems that dominated the BER actually emanated from another source altogether – namely the pro-market biases of the public servants responsible for the program. In what follows, I pay particular attention to the NSW BER program – which was found to provide a particularly salient example of poor value for money. I argue that the limitations of the BER in NSW were created by a combination of the historic erosion of public works capacity, combined with a design that placed undue faith in market processes and private construction conglomerates.

This Chapter examines the political implications of the delivery method that dominated the BER – a highly out-sourced form of contracting called a managing-contractor model. Revealingly, BER projects built on this model were precisely those that dominated the complaints about waste. They were also those administered in public schools by the Victorian and NSW education departments. To understand the context in which the BER spending occurs historically, this chapter charts the historical transformation of public works capacity under neoliberalism. This history is essential for understanding the politics of the public/private balance within the BER. As we shall see, this history became a part of the BER debate itself with the extraordinary findings of the government's Building the Education Revolution Implementation Taskforce (BERIT).

6.1 Education Revolution?

BER comes under the heading "Education" in the stimulus package. However it is clear from BER policy documents that it was not education itself that the BER was primarily designed to stimulate, but rather the construction industry (Hawke 2010, p. vi) (Auditor-General 2010, p. 27). The Commonwealth Audit of the Primary Schools for the 21st Century Program describes the program's objectives as "… first, to provide economic stimulus through the rapid construction and refurbishment of school infrastructure and, second, to build learning environments to help children, families and communities participate in activities that will support achievement, develop learning potential and bring communities together" (Auditor-General 2010, p. 12).

As we will see in what follows, many representatives of the education sector saw a tension between the goals of rapid construction sector stimulus and the educational value of the BER, in which the supposed educational outcomes of the BER failed to materialise. In a stark example, the Deputy Chairperson of the

NSW Public School Principals Forum told the NSW Legislative Council Inquiry:

> …there are three conflicting priorities or goals. The Federal Government clearly had in mind it wanted to stimulate the economy and it was much needed, and no-one would argue with that. However, I would say that if it did not have its eye on the quality of construction et cetera as to where their money was directed, it might as well have put the money in buckets out on the Hume Highway with signs on it 'Help Yourself under the condition' the proviso 'that you spend it in Australia and you spend it within the next six months.' It would have had the same impact as stimulating the economy. However, I would think that those of us in the electorate, Mr and Mrs voter, would expect that, yes, the money should be spent, should be injected into the economy, but spent wisely so that we have quality infrastructure long after the GFC has been and gone (New South Wales 2010b, p. 55).

Construction on school grounds was deemed particularly 'shovel ready' because governments do not require planning approval to access or build on school property (Auditor-General 2010, p. 12). Secondly, schools are geographically spread in every community, and therefore the stimulus effect is also spread evenly across the nation (Auditor-General 2010, p. 12). Lastly a high proportion of building materials involved in school construction are manufactured in Australia, ensuring that the stimulus effects would flow into the domestic manufacturing sector (Auditor-General 2010, p. 12).

As the NSW Infrastructure Coordinator-General[67] Bob Leece notes:

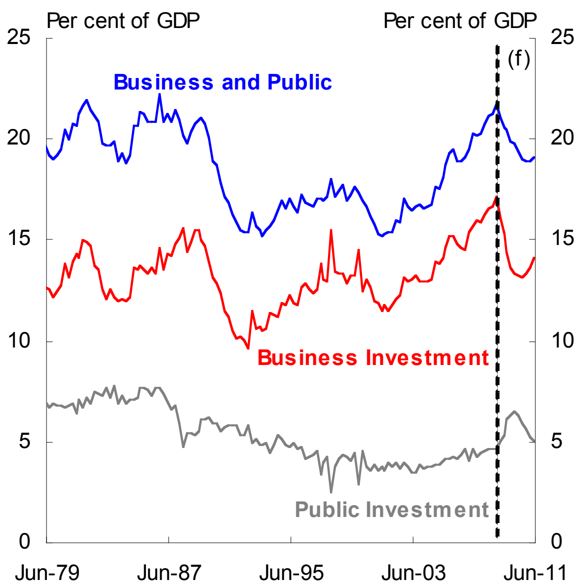
> Maintenance and school construction were chosen [as a focus for the government's stimulus spending] primarily because these initiatives would ensure that every Australian community benefited from the spending. The aim was to be 'shovel ready' within months or even weeks, so that economic stimulus could happen immediately (Leece 2011, p. 8).

[67] The position of Infrastructure Coordintor-General NSW was created specially to oversee the administration of the state's considerable Nation Building Jobs Plan stimulus programs.

By early 2009 the government was aware of a severe slow-down in the construction industry (Hawke 2010, p. 15), see also (2010b, p. ECA 33). The first Progress Report released by the Commonwealth Coordinator General into the stimulus spending in June 2009 notes that as a result of the GFC, employment in the construction sector had fallen for 17 months in a row by a total of 12 per cent (Coordinator-General 2009, p. 20).

This report also shows that in June 2009, public sector non-residential building approvals were increased by a record-breaking $1.7 billion (2009, p. 20). Figure 6.1 illustrates this spike in public investment. Figure 6.2 clearly depicts the increase in public non-residential building approvals – primarily the BER - which actually leaps over the steeply falling level of private approvals in early 2009.

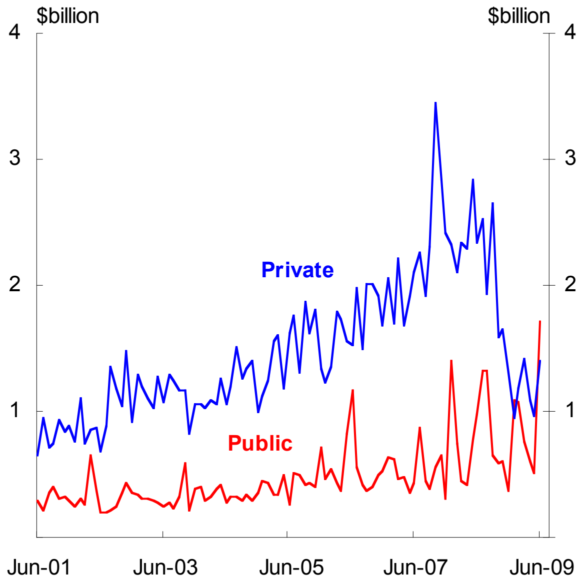
Figure 6.1 Total economic investment June 1979 – June 2011



Note: Public investment (grey) increasing as business and public investment fall in the aftermath of the October 2008 "Lehman Brothers moment".

(Coordinator-General 2009, p. 26)

Figure 6.2 Non-residential building approvals ($ AUD Billions) June 2001 – June 2009



Note: Public building approvals (red) rise above the sharply falling private approvals over the course of 2009.

(Coordinator-General 2009, p. 26)

These figures graphically illustrate the way in which the BER successfully played the role assigned by its architects such as Treasury Secretary Ken Henry. As we discussed in Chapter Three, Henry and other Treasury officials conceived the stimulus as providing "…government demand – public sector demand – increasing to some extent to come in behind that retreating private sector demand" (Ken Henry, Senate 2009c).

Without ignoring the welcome reception the BER received in many school communities, it is clear that in the eyes of many educators the program fell well short of an education revolution. In fact the BER produced a consistent sense of dismay from those school communities most keenly aware of the need for investment in their schools. For instance a representative from the NSW Teachers Federation told the NSW Legislative Council inquiry into the BER that "The sticking point for many principals is that if we had been given the management of those vast sums of money, we would have achieved what the Government wanted—an education revolution. At the moment we have a building replacement program" (2010b, p. 49). This was a far from isolated response. The NSW Inquiry report notes:

> Evidence submitted to the Committee has painted a general picture of disappointment from inquiry participants. The Federation of Parents and Citizens' Associations of New South Wales stated that schools have expressed that 'the intentions of the BER program are ostensibly good, but the implementation has not resulted in satisfactory outcomes… For example, Ms June Coleman, President, Nashdale Public School P&C Association, said: 'It is highly unlikely that the level of infrastructural spending within the education system will be seen in our lifetime again. With no amendment or adjustment to the current policies and procedures of our school the only legacy of the BER will be the biggest waste of money this country has ever seen…The John Purchase Public School P&C Association commented: 'It is a great shame that the long overdue opportunity to significantly upgrade and expand public education infrastructure has been missed. With a little more forethought, planning and consultation the BER could have been remembered in a much more positive light' (New South Wales 2010a, p. 9).

Rather than revolutionise Australia's school system, the design of Building the Education Revolution arguably allowed the government to side step its most contentious issue - school funding. By offering one building, multi-purpose hall, science lab or library to each school the government conveyed its intention to quarantine the stimulus spending, and keep at bay community expectations of a broader transformation of the system. Providing such a clearly delimited program allowed the federal government to head off calls for increased salaries for teachers, a reduction in student/staff ratios, or indeed redressing the inequities between the public and private systems.

The design of the BER around a single federally funded building embodied the "timely, targeted, temporary" (Auditor-General 2010, p. 33) logic that runs through the Nation Building Jobs Plan. As The NSW Infrastructure Coordinator General Bob Leece points out, the temporary increase in Commonwealth funds was enshrined in the BER agreement between the Federal government and the states:

> The National Partnership Agreement which was signed by NSW in early March 2009, made it clear that the Commonwealth's contribution was temporary – it would only contribute capital costs. States and systems would be liable for ongoing costs (Leece 2011, p. 8).

Further, the BER was not redistributive or progressive, with all schools receiving uniform levels of support. In other words poorer schools received nothing over what was granted to the wealthiest elite private schools. In reference to the $2.5 million that the BER bestowed on The King's School in Sydney to build an additional library, then Federal President of the Australian Education Union Angelo Gavrielatos described the BER as a "missed opportunity to better target… demonstrable need" (Senate 2010c, p. 26).

In fact, some public education representatives suggested to the Senate Inquiry that because private schools were often able to maximise the impact of their BER funding (for reasons we will discuss below), the final outcome of the program may be a further shift of students away from public schools. As Brian Chudleigh, the Deputy Chairperson, Public School Principals Forum asked:

> Are we going to be losing enrolments because people may prefer… St Paul's as opposed to Appin primary school because it looks better, it appears better, it must be better because it appears to be so. The long-term ramifications could be that we see again this present construction program [the BER] undermining the status of public education in view of the community because it will be seen as a lesser option (2010b, p. 57).

Certainly this equity-blind aspect of the BER's design illustrates that the government's concern with providing a nationally consistent stimulus to the construction industry overshadowed the challenge of remedying inequities in school funding. This contrasts with Rudd's rhetorical commitment to a social democratic response to the crisis that would result in a "…fairer and more resilient order for the long term" (Rudd 2009a).

6.2 The politics of delivering the BER

While the BER was funded and coordinated by the federal Department of Education, Employment and Workplace Relations (DEEWR), its management was rapidly devolved to state and territory education departments (Auditor-General 2010, p. 12). The state and territory education departments then handed responsibility for 31 per cent of the program to 14 independent and Catholic school Block Grant Authorities (BGAs as the BER termed them) (Auditor-General 2010, p. 12). For the public schools, which were slated to attract nearly 70 per cent of the total project funding, the state and territory education departments then decided how to administer the BER. For this reason the results of the BER reflected the range of practices enacted by the public and private school systems in each state and territory. As we will see, these differences resulted in a large variation in the quality and value of the buildings provided by the BER.

The private school Block Grant Authorities tended to rely on business as usual works plans (New South Wales 2010a, p. 4). Many of the wealthier schools had existing master plans for new buildings, and an existing relationship with local architects and builders. These schools seemed to have implemented the BER with minimal problems and attained high levels of satisfaction, quality and value from their BER funds. The Building the Education Revolution Implementation Taskforce noted that "In non-government schools the building work observed by the Taskforce has been consistently good or high quality" (BERIT 2011, p. 11). The Senate inquiry into P21 found that "the evidence suggests that better outcomes have been achieved in the non-government schools as a result of direct funding and local management of projects” (Senate 2010c, p. 29). The smaller number of BER projects administered by each BGA also encouraged these authorities to devolve a high level of decision making to school principals.

In the public system the experience was far more varied. While all education departments overwhelmingly out-sourced the BER to private sector construction conglomerates, in Queensland and Western Australia public servants played a role in the design and project management (BERIT 2010, p. 44). On the other hand the most populous states, Victoria and NSW, entirely outsourced the BER.

As the program expanded it was increasingly plagued by reports of “rorting” and waste. As Althaus notes: “Despite providing many tangible benefits, BER was constructed as a failure and program assessment was linked specifically with government (in)competence” (Althaus 2011, p. 423). As the largest single program in the NBJP the BER was targeted by the Liberal opposition as an example of the wastefulness of Rudd Labor (Senate 2010c). The Liberals initiated an inquiry into the largest component of the BER, the Primary Schools for the 21st Century (P21) program, in the Senate Standing Committee on Education Employment and Workplace Relations references committee. This inquiry was seen by many as an attempt to discredit the BER program, if not to halt its implementation.[68]

However, as we saw above, even those such as the public education unions who were sympathetic to many of the aims of the program were deeply disappointed with the way the BER was implemented. The NSW Teachers Federation described the lack of value for money and the duplication of design fees as “rorts” (Senate 2010c, p. 45). They pointed to examples of managing contractors charging management fees of 20 and up to 30 per cent, meaning that of $16 billion allocated under the BER only $10 billion would be realised in “actual value” (Senate 2010c, p. 46).

[68] While the Australian Education Union was highly critical of aspects of the BER’s design, they supported the program overall and expressed concern that the Senate inquiry was an attempt to “roll back” the program (Senate 2010c, p. 87)

6.3 Value for money – the work of BERIT

On April 12th 2010, in response to the growing criticisms of the program, the Federal Government announced the formation of a body – the Building the Education Revolution Implementation Taskforce (BERIT) - to investigate complaints about the BER. The central contribution of BERIT was the creation of the Building the Education Revolution Cost Analysis Model (BER-CAM). Through investigating complaints into BER projects across the country, BERIT created a database of the comparative cost and quality achieved in the 22 educational authorities administering the BER nation-wide (BERIT 2011, p. 40). The BERIT final report claims that the result of this cost analysis model was to provide:

> …statistically valid comparative data on the detailed costs of over 3,700 P21 projects (approximately 35 per cent of all P21 projects)… across all product types (classrooms, libraries, halls, canteens, early learning centres, covered outdoor learning areas and refurbishments). [This allowed the] Taskforce to compare the costs of projects in the non-government and government sectors, and to assess the difference in the cost of delivery between states and territories. It allows reporting by education authority, managing organisation, product, component cost, project time and several other variables. It uses a multilayered design concept that breaks total project costs into 21 cost elements grouped into four categories: overheads (including fees), building costs, external works (including services) and unique project costs (BERIT 2011, p. 40).

The implications of BERIT's collection of such a multiplicity of data on national, contemporaneous public works constructions are profound. For one thing, the BER-CAM throws light on the problem that has consistently bedevilled attempts to assess the value for money claims in outsourced works projects, namely the Public Sector Comparator. This is the tool developed to assess value for money in out-sourced works projects, and to compare outsourcing arrangements to in-house delivery (English 2006; Quiggin 2004). The Public Sector Comparator has been the prevailing way that governments have assessed whether the state is realising value for money in outsourcing its works programs, yet it has been widely criticised as ineffective. It has been described by Quiggin (2004, p. 57) for example as “pseudo-scientific mumbo-jumbo” and a form of “magical divination”, and “virtually worthless in *ex ante* analyses of value for money”. Quiggin argues that not only do both government departments and private contractors have an interest in rejecting the publicly provided alternative to out-sourcing in cases where the private sector is financing the project, but the comparison with public provision relies on “… subjective judgments of school and hospital managers… [In] the absence of serious operational problems, managers are unlikely to give negative views about value for money… (Quiggin 2004, p. 57).

Unlike the Public Sector Comparator, the BERIT cost-analysis model provides a range of instructive counter-factuals that have never previously been available, and provides them in objective metrics that allow rigorous comparisons. Even more interesting then that the conclusions of BERIT’s modelling contradict the notion that greater levels of out-sourcing necessarily provide better value for money. Sadly from the point of view of this “natural experiment”, none of the 22 educational authorities ran their BER programs completely in-house (for reasons we will discuss below). At most BER-CAM provides a comparison between authorities that played a role in the project-management and planning, and those whose programs were managed by private consortia. BER-CAM shows that the greater the level of externalised provision in the BER, the worse the results and the more expensive the program (BERIT 2011, p. 12).

The BERIT final report provides a comprehensive table charting the “attributes of an informed buyer” of public works (BERIT 2011, p. 60). They stress the need for state agencies to retain a level of in-house technical and industry expertise and experience in order that governments are capable of managing private contracts effectively. BERIT suggest that so degraded are these in-house skills in the public sector that governments are unable to effectively oversee contractors in such a way as to provide value for money for the government, and ensure the quality of work provided.

BERIT argue that out of all the state and territory governments, only the Queensland government contains the full attributes needed to properly manage the private contractors engaged to deliver the BER:

> The large eastern states all employed private sector managing organisations to deliver the BER program. Critical to their performance, in the view of the Taskforce, was the pre-BER in house public works capacity within each state and the resulting ability to effectively manage the managing organisations… The only state government that can claim to have all the attributes of an informed buyer of capital works projects is the Queensland Government (BERIT 2011, p. 53).

Further the BERIT conclude that the progressive out-sourcing of public works historically creates a "false economy" where the state leaves itself open to a future of paying excessive fees to private contractors as a result of earlier perceived savings from out-sourcing these skills:

> This progressive diminution of public works capacity… represents a false economy (i.e. governments may pay higher fees when this capacity is absent and must be outsourced) (BERIT 2011, p. 47).

> Contracting out of project management and contract supervision roles has accelerated this loss of institutional memory with the result that the state governments have very limited or no reliable historical information on benchmark project costs and performance or the longer term life cycle issues associated with capital works maintenance. The loss of institutional memory has also locked governments into paying increasingly expensive consulting fees to project managers from the private sector and results in consulting project managers – rather than internal staff – learning from doing (BERIT 2011, p. 57).

The implications of BERIT's findings go beyond the value lost to the state when project management is out-sourced. Because none of the states or territories retains the capacity to deliver school infrastructure in-house in toto, the BERIT was not able to compare the value and quality of in-house delivery across the life of the BER structures. However it seems likely that similar 'false economies' exist at the level of design and construction as exist at the project-management level. Further, BERIT's findings touch on the vicious cycle created by out-sourcing. Government departments effectively gift the institutional memory of their projects to corporations and then must continually buy back this expertise at increasingly expensive rates.

6.4 Public Works

> The Taskforce found the impact of the availability of public works capacity to have such significance and correlation to the success of the BER roll out that it decided to investigate public works capacity across Australia (BERIT 2011, p. 53).

Not satisfied to have uncovered the connection between quality and public works capacity in the BER, BERIT went on to investigate the process whereby in-house public works capacity was historically diminished. Their account correlates exactly to the move from 'rowing to steering' discussed in previous chapters. BERIT note that:

> Up until the early 1980s each state and the Commonwealth government had a public works department which had responsibility for the procurement and delivery of public works projects. Each state and the Commonwealth had strong technical and project management capability and a significant construction workforce. The design of public works was done almost exclusively in-house and most of the construction was also done in-house… (BERIT 2011, p. 54).

In other words had the BER been enacted prior to the 1980s it would have been delivered in 'business as usual' processes that involved genuinely public provision. At all levels from managers to architects to construction workers, the people responsible for delivery would have been public servants. However, as we have discussed elsewhere, with the advent of neoliberalism such state functions were progressively out-sourced to the private sector, as BERIT notes:

> "Progressively from 1980 this situation changed with an increasing proportion of construction contracts and design being outsourced. This trend accelerated in the 1990s. Internal staff numbers in public works departments were significantly reduced and the public works day labour workforce was severely reduced... (BERIT 2011, p. 54).

BERIT provide a useful quantification of the out-sourcing of public works capacity. The Taskforce used Australian Bureau of Statistics data to quantify the erosion of the categories of public servants who were historically responsible for public works such as school building:

> Across the country the number of state government employees stating their occupation as 'civil engineer' has practically halved over the last 30 years, from 4,480 in 1976 to 2,547 in 2006. The same trend has occurred for architects. This has diminished state governments' in-house capability. In addition, there has been a marked de-professionalisation with a reduced focus on specialist skills (engineers and architects) relative to generalists... (BERIT 2011, p. 11).

BERIT is also explicit about the policy reforms that guided these changes. *Appendix 10: Public works and policy reform* (BERIT 2011, p. 240) provides a thorough list of all the legislative and policy changes responsible for the move from public to private provision of capital works – in every state and territory as well as at the level of the federal government. The Taskforce Report links the fate of public works departments to the National Competition Policy (BERIT 2011, p. 55). This dictated that government departments allow the private sector access to government procurement through a policy of "competitive neutrality":

> In the late 1980s National Competition Policy dictated that all levels of government were required to expose their procurement activities to competition. Government agencies were required to implement ‘competitive neutrality’ so as to ensure that the private sector had access to government procurement opportunities. In effect, this necessitated the commercialisation or corporatisation of state public works units responsible for providing project services. These government ‘business units’ were then required to compete with the private sector for government works contracts (BERIT 2011, p. 55).
>
> In 1993 The National Competition Review Committee presented their report (the Hilmer report) which recommended the application of competitive neutrality principles to government monopolies. In 1996 the Industry Commission report ‘Competitive Tendering and Contracting by Public Sector Agencies’, recognised various risks of private involvement in provision of public services, but suggested that further contracting out would enhance accountability and quality (BERIT 2011, p. 240).

In what is a thorough and useful piece of research, BERIT connect their BER-CAM findings with the degree to which each state and territory government historically embraced out-sourcing. As we know from BER-CAM, many of the worst quality and most costly BER projects were overseen by the Victorian education department. BERIT explains this with reference to the fact that Victoria’s Liberal government under Jeff Kennett, went furthest of all the states in downsizing its public works capacity. This was guided by neoliberal rhetoric that can be seen in a1996 submission by the Victorian Government that argued “…the Government should only directly provide those services for which markets do not exist or cannot be created” (Quoted in BERIT 2011, p. 56).

6.5 'Steering' through contracts

As we have seen, BERIT's analysis of the weakness of the NSW and Victorian education departments centres on the lack of in-house capacity to effectively manage the contracts of the building consortiums they had employed to implement the BER. BERIT suggests that there are inherent difficulties in creating contracts that effectively capture the complex and competing goals of public works programs:

> The goals and requirements of government in public works are not always easily captured in contractual form. Government public works projects often encapsulate a complex set of goals and requirements, covering environmental issues, community and other stakeholder consultation, equity, industry development, economic strategies, safety, probity, and broad public interest considerations. The difficulties of converting these aims into a well-defined contract can sometimes lead to costs that negate the benefits of using external suppliers (BERIT 2011, p. 53).

BERIT's insights are particularly key given the prevalence of contracting. Contracts have become central to all senses in which governments 'steer' public provision. Yet BERIT's findings point to many of the unforeseen problems with state provision being embodied in legal contracts. These findings echo the academic literature which suggests that capturing the many public interests (such as those mentioned by BERIT in the quote above) in a contract can be extremely difficult:

> Thus, a private legal form such as a contract can be used as a tool to achieve both managerial and policy objectives…This is not to say that such adaptations are successful. Contracts provide flexibility, but private contract law does not easily accommodate and may undermine the public interest safeguards developed by public or administrative law (Picciotto 2011, p. 90).

As we will see in the chapters that follow, the stimulus measures produced several key examples where a dissonance appeared between the contract produced by the government and the public interest. In particular BERIT finds that it is the diminution of public service capacity – creating an inequality between the government 'buyer' and the contracting 'seller' – that underlies the failed BER projects. These examples seem to confirm Wettenhall's argument that more attention needs to be given to "… the little-understood changing role of public servants in awarding and servicing contracts, lack of accountability, lack of appropriate management capacity…" (Wettenhall 2003, p. 85). Elsewhere, in comments seemingly prophetic in light of the BER experience, Wettenhall says:

> The recent weakening of the public sector in Australia as in some other Anglo-Saxon countries has made it increasingly difficult for it to hold its own in any such [Public Private Partnership] relationship (Wettenhall 2003, p. 99).

The BER was a major public works program – possibly the largest single public works program in Australia's history (Leece 2011). According to the Auditor-General, Rudd had described the BER as a "feat of national planning that we haven't seen since the 1940s" (Auditor-General 2010, p. 14). In this sense the BER represents a considerable expansion of the state. However as we have seen, overwhelmingly the BER was designed, constructed and project-managed by private companies. So while the funds were entirely provided by the Commonwealth government, and the resulting infrastructure in 70 per cent of schools (i.e. public schools) represent a significant enlargement of state's infrastructure stock, the BER does not represent the expansion of the state in a straight-forward manner. Rather the program exposes the problematic blurring of the boundaries of the state and the market as a result of the neoliberalisation described above.

BERIT captures this ambiguity in its attempts to chart the public works capacity of different governments:

> ‘Public works capacity’ once referred to the presence, in the public sector, of the full range of skills, labour and resources required to build and maintain public works. Now, it is less easily defined. If the private sector can be contracted to undertake building works on behalf of governments, what ‘capacity’ – other than the funds to purchase or lease the required infrastructure – does a government need in this regard, if any? (BERIT 2011, p. 53).

Here, BERIT touches on a theme to which I return many times. The BER was treated in the public debate as a straight-forward government public works program – almost the quintessential example of government provision to the community. Yet as a result of the neoliberalisation of the state, the reality of the program was very different. In the quote above BERIT are in effect asking what role – other than funder of private companies – does the state have in public provision? In earlier chapters I investigated the extensive use of cash payments as a form of neoliberal economic engineering in contrast to government provision. In light of this, the sense in which the BER – an ostensible public works program - can also be understood as economic engineering rather than direct service delivery is especially poignant.

6.6 Case study – NSW Managing Contractors

> [T]hroughout 2010, the average cash injection into the [NSW] economy from [the Building the Education Revolution] program was an extraordinary $300 million a month. No other single infrastructure program has ever matched this sort of economic activity. Furthermore, other large projects were single sites with massive investments whereas we achieved all of this on thousands of sites across the state (Leece 2011, p. 6).

As we have seen, BER-CAM found that the highest costs incurred in the BER were paid by the NSW education department and resulted from the fees paid to the managing contractors[69]:

> NSW elected to engage seven managing contractors across nine NSW regions. Managing contractors are responsible to arrange for the scoping, budget and quality delivery of projects through the engagement of their own design and sub-contractors to perform the projects… NSW has paid relatively high fees… to managing contractors in order to transfer considerable performance and commercial risk away from the NSW Government (BERIT 2011, p. 63).

We will touch on the issue of risk management below. BERIT found that the fees paid to managing contractors in the NSW BER explain the low value for money in that state, which is echoed in the first finding of the inquiry mounted by the NSW Legislative Council namely: "That managing contractors have charged unacceptably high management and design fees for BER projects in NSW public schools" (New South Wales 2010a). Further, BERIT found that the NSW education department lacked sufficient in-house public works skills to act as an informed buyer in its dealings with its managing contractors.

Yet the view from the senior administrators of the NSW BER, even when faced with these criticisms, was that the program was a complete success. As the NSW Legislative Council Inquiry found, not only did the view of these senior public servants fly in the face of the quantitative assessment of BER-CAM, but it also fundamentally contradicted the experience of the public school representatives:

> The majority of inquiry participants [in the NSW Legislative Council Inquiry] strongly argued that value for money was not achieved at public schools. This was supported by the Public Schools Principals Forum survey, which… found that more than 50 per cent of its NSW public school

[69] The companies the NSW government contracted with were: Bovis Lend Lease (a. Hunter and Central Coast, b. Northern Sydney); Richard Crookes (Illawarra/South East), Reed Construction (a. New Engalnd and b. North Coast), Hansen Yuncken (South Western Sydney), Abigroup (Sydney region), Laing O'Rourke (a. Western NSW Region, b. Riverina) and Brookfield Multiplex (Western Sydney)

> respondents did not believe their school was receiving value for money… In contrast, departmental witnesses such as Mr Leece labelled the BER Program as ‘an extraordinary value for money exercise’. Mr Leece described the Program as an ‘outstanding success’ (New South Wales 2010a, p. 32).

The central architect and defender of the extensive use made of managing contractors by the NSW education department in its delivery of the BER was Robert Leece – NSW Infrastructure Coordinator General and Chair of the NSW Nation Building and Jobs Plan Taskforce (2009-2011).[70] According to Crikey’s Alex Mitchell, Leece was parachuted into this role at the heart of the NSW stimulus program on the “… direct instructions of the Rudd Government which was concerned that billions of dollars in emergency federal funding would be lost through incompetence, inefficiency and cronyism unless there was a strong independent grip on Canberra’s cash” (Mitchell 2009).

It is interesting to note Rudd’s role in promoting Leece for the role of coordinating the NSW stimulus program. Leece’s life work is in Public Private Partnerships and he made his name by playing a senior role in administering the 2000 Sydney Olympics. However the 2000 Games have been criticised as a “partnership” in which the private sector dominated, and as Wettenhall argues:

> The tensions which subsequently emerged make it abundantly clear that ‘sovereignty’ in the Games rested with the private partners, and that the government was beholden to them in many ways. For much of the preparation period, the NSW government was trapped into playing what was essentially a supportive role for the benefit of the private partners (Wettenhall 2003, p. 96).

It is interesting to look at the NSW government’s rationale for the use of managing contractors. Indeed the NSW Labor Government consistently celebrates

[70] On an annual salary of $422,000

the role of the private sector in the program, as can be seen in this early comment by then NSW Premier Nathan Rees:

> … the Commonwealth's [stimulus] package must be delivered in a partnership between the public and private sectors, in a way perhaps unseen since the massive Olympic capital program" (NSW Premier Nathan Rees address to the Committee for Economic Development of Australia Economic and Political Overview, 18th February 2009).

In March 2011 Leece released *Building Success* - a showcase of the achievements of the NSW stimulus roll-out (Leece 2011, p. 7). In *Building Success,* Leece touches on the erosion of public sector capacity for public works with the comment "We quickly recognised that the lack of available public sector staff made the usual model – public sector management and private sector delivery – unworkable" (Leece 2011, p. 17).

The Director General of the NSW education department, Michael Coutts-Trotter, offers the same endorsement of the private sector involvement in the BER, again seemingly accepting unquestioningly the irreversibility of the down-sized capacity of his own department:

> "[The BER] is 10 times larger than our existing major capital works program… These [managing contractor] firms come with systems, experience and quality. They are able to expand their operations rapidly. They have the systems and experience to do that. They can get high-quality work done very quickly, beyond the reach certainly of this Department using its ordinary arrangements.' (New South Wales 2010a, pp. 19-20).

In contrast with the approach taken by BERIT, Leece and Coutts-Trotter see no problem with the lack of public sector capacity to manage, let alone to deliver the BER. Where BERIT point to a catch-22 whereby a history of out-sourcing leaves public servants without the requisite institutional memory to act as informed buyers, these senior public servants appear to accept unquestioningly the superiority of private firms to deliver their program. Leece certainly endorses the complete out-sourcing of the BER to the likes of Bovis, Abigroup and LendLease:

> Given all the requirements, characteristics and circumstances in NSW, we knew that a Managing Contractor model would be the only way to achieve what was needed across the State…The Managing Contractors' role would be to act as a management extension of the Government, as well as a contractor. They were, in effect, a combination of a client project manager and a builder… For the BER P21 construction in primary schools program … a number of Managing Contractors were appointed to act as agents for the government and provide both management and construction resources. It is my view that the larger than usual involvement of the private sector allowed NSW to deliver a number of positive outcomes… **Private sector involvement also brought economic benefits to individual businesses, which was one of the main objectives of the NBESP** (my emphasis, Leece 2011, p. 17).

Here Leece acknowledges that the involvement of the private sector in the BER was "larger than usual", a situation he celebrates as useful to the project. Interestingly Leece then catagorises "economic benefits to individual businesses" as "one of the main objectives of the NBESP [Nation Building Economic Stimulus Package]". In most government documents, benefits to the private sector of the stimulus are referred to in terms of keeping businesses afloat in order to keep workers employed. But Leece here refers to the financial benefits of the major construction companies meeting the objectives of Rudd Labor's stimulus spending.

Leece is an important figure, acting as the most senior public servant overseeing the delivery of the NBJP in NSW. Leece is a representative of the state, and yet as becomes obvious in documents such as *Building Success*, his rather derisory view of the capacity of the public service contrasts with the obvious esteem he shows for the private sector. In comments which both stress the haste with which the stimulus was constructed, but also echo prevalent neoliberal depictions of government as bureaucratic and cumbersome in relation to the private sector, Leece says of the BER:

> We all knew we had to work outside the existing legislative constraints, procurement practices and bureaucratic structures, and yet still operate within the context of the existing government delivery framework, because there was no time to set up anything new (Leece 2011, p. 12).

This is a theme that we will see again in the following chapters. Not only do the public servants involved in planning and overseeing the stimulus program fail to redress the erosion of the public service (more on this below), but they appear steeped in a market-knows-best neoliberal ideology.

Picciotto notes that "… privatization is often justified in terms of shifting risk…" (Picciotto 2011, p. 89). This is certainly a central rationale for the extent of outsourcing seen in the BER. Here Leece justifies the use of the private sector as providing certainty and mitigating risk for the NSW Government:

> I stand by the decision to use Managing Contractors, have defended it vigorously, and would use the same model again. This was the only model that transferred risk from government, maximised certainty of delivery and better ensured the safety of workers and children (Leece 2011, p. 19).

The following excerpt from the report of the NSW Legislative Council's Inquiry into the BER illustrates how central this question of transferring risk away from the NSW government was to the use of managing contractors:

> The primary reason provided by the NSW Government for using a managing contractor model was the transfer of risks associated with time, quality and cost. Mr Leece claimed that the managing contractor model provided a significantly better risk transfer than other delivery models used in other jurisdictions. The DET [NSW Department of Education and

> Training] submission stated: 'The benefits of this model are clear: it allows the NSW Government the ability to transfer these risks to third parties while still retaining control and oversight of the program... However, it should be pointed out that the NSW Government paid a premium for this transfer of risk. Managing contractors were allowed to factor in an allowance at the beginning of the project for design and price risk. The transfer of risk did not come without an economic cost to the Department (New South Wales 2010a, p. 19).

The NSW Legislative Council Inquiry had been made aware of BERIT's damning findings regarding the lack of value for money obtained by the NSW BER (even though BERIT's interim report had not yet been published). Yet one of Leece's colleagues, Angus Dawson, the Program Director of the Building the Education Revolution Integrated Program Office (that the NSW education department set up to facilitate closer ties with the private sector during the NBJP (Leece 2011, p. 13) made the following statement to the NSW Legislative Inquiry into the BER:

> [It is] important to note, on the value for money test, everywhere through this program we test the market. We go to tender. We tendered to get the managing contractors, and at every stage through the process we go to tender and we get the market response to what we have specified for those people to do for us. I do not think there is a better test of what is the value in the market of what we are specifying… we have to test the market. That is in regulation in government. We have put it in our contracts with our managing contractors and the managing contractors have to test the market to provide those services. We are checking all the time but they are doing that... The market has told us how much that will cost through our managing contractors (2010b, pp. 24, 34).

In this statement Angus Dawson effectively argues that because the NSW government had held a competitive tendering process for all its BER contracts, therefore its program necessarily provided value for money. This assertion is based on circular logic that defines the true costs of the BER projects as the costs that the Department were quoted in the tender process. In the face of BERIT's proof that identical projects were constructed for less money in other states, the Department asserts that the market tender process provided NSW with value for money. This line of reasoning illustrates not only a lack of common sense, but also a high level of ideological commitment to the notion that the free market knows best, and certainly would be better at assessing the value of BER projects than governments.

6.7 Legacy – what's left?

I quoted above from BERIT's finding that progressive waves of contracting-out have diminished the capacity of the Australian public service and have led to a "... loss of institutional memory… and results in consulting project managers – rather than internal staff – learning from doing" (BERIT 2011). However, despite the profound impact that this had on the nature of the BER itself, it is clear that nothing was built into the design of the BER that would remedy, or even begin to remedy this trend and rebuild public sector capacity. There does not appear to have been any question of either level of government creating its own public works construction workforce in which the conditions for construction workers would have been directly set by the government. On the contrary, as we have seen, the most populous and highly funded BER projects were designed to increase the level of private sector involvement above the normal level.

Returning again to the central figure of Bob Leece, we find a complete lack of understanding of the problematic erosion of public works capacity. Leece asserts (without rationale) that he did not choose to set up a new agency within the government to administer the BER. Such an agency could potentially have allowed more public servants to gain experience through the BER and therefore go some way to remedying the erosion discussed by BERIT. Instead Leece created a temporary office the purpose of which was greater collaboration with the private sector:

> As I had no intention of setting up a special purpose agency to manage the

> implementation of the Act in lieu of the existing agencies, I created a special purpose office, staffed with a small number of industry and government experts (Leece 2011, p. 13).

Interestingly, the Building the Education Revolution Taskforce[71] Cost Analysis Model (BER-CAM) arguably itself represents a modest extension of the state. BERIT explain that "BER-CAM provides a benchmarking tool for all future education infrastructure expenditure, and supported by our value for money framework, should be used by governments in the future to monitor and assess value for money outcomes of federally funded capital expenditure programs" (BERIT 2011, p. 52). In August 2010, the Federal Government agreed to commit up to $3 million in funding to give effect to the BERIT recommendation that BER-CAM be "…housed long term with a custodian to ensure that it would be available to assist in future benchmarking of the cost of school building construction" (BERIT 2011, p. 52).

6.8 Conclusions

In the introduction to this chapter I suggested that the BER, injecting historic levels of funding into the education sector as a means to generate public works employment, appeared to justify Rudd's claims to a social democratic response to the GFC. Certainly on first glance, the BER appears to avoid the limitations of cash payments which are flushed through the economy without a trace and as an alternative to expanding the scope of the state. However as we have seen, a closer look at the delivery mechanisms involved in the BER throw all such appearances into question.

As we have seen, overwhelmingly the BER was administered and delivered by major private construction firms. When we examine this delivery mechanism it becomes clear that the distinction between the government deploying cash into the economy, and signing contracts with building consortia, is not as great as it might

[71] BERIT only operated from March 2010 – July 2011 on a total budget for of $13.2 million of which only 60 per cent was spent. (BERIT 2011, p. 13).

seem. As the Building the Education Revolution Implementation Taskforce suggest, outsourcing over a number of decades has profoundly altered the nature of government public works provision to the extent where it is not clear what role, apart from fund provision and contract signing, the government itself has.

Further, the uncertain boundaries between the government and the private sector are compounded by the pro-market ideological bias evident in the public servants who administered the BER. These ostensible representatives of the state manifestly believe that government is overly centralised and bureaucratic, and warmly welcome greater direction over 'their' program by the private sector. This is a concrete illustration of the way in which neoliberal ideology interacts with the material forces encouraging governments to outsource their functions to the point where any genuinely state-provided program seems literally inconceivable. This is a theme to which I will return in the next chapter.

This chapter has also introduced the way public scandals surrounding waste and rorting in such programs plays into the blurring between public and private provision. In the public, the problems with the BER were interpreted as the failings of the government – which in some ways they were. However what is left out of this picture is the true role of the private companies that were so instrumental to the nature of the BER. As we have seen, it was the management fees paid to these companies by state education departments, some worth as much as 30 per cent of the costs of the entire program, that resulted in the lack of value for money. Thanks to the work of the Building the Education Revolution Implementation Taskforce, we are able to quantify the costs to the government of this level of outsourcing.

Further, the analysis of the BERIT suggests that the cost-saving claims behind outsourcing, which are often justified by the use of the Public Sector Comparator, may in fact represent a false economy; this only worsens as each outsourced project accrues knowledge to the private sector, and makes the state increasingly dependent on outsourcing and increasingly unable to negotiate contracts as an informed buyer. We followed BERIT's insightful connection between performance by various state governments and the erosion of public works capacity, with the Taskforce providing a useful history of government policies that neoliberalised the state. These insights will be applied to the Homeowners Insulation Program and the Social Housing Initiative, which I discuss in the following chapters.

CHAPTER 7

The Home Insulation Program

The Homeowner Insulation Program (HIP) was to become the most controversial aspect of the stimulus program. By the time the HIP was permanently terminated on April 22nd 2010 it had claimed the lives of four young insulation installers and was responsible for over 120 house fires and another thousand potentially lethal electrified roofs. In its dramatic yearlong existence the HIP scandal also led to the demotion of celebrity Environment Minister Peter Garrett, and was pivotal in the rapidly declining popularity of the Prime Minister himself. The HIP even featured in the 2013 federal election campaign after Rudd was reinstated as Labor leader and Prime Minister in June 2013. The Abbott-led Liberal opposition seized on the findings of the Queensland Coroner into the deaths of three of the HIP workers to revitalise their case that the "pink batts" scheme epitomised the dysfunctional nature of Rudd Labor.

The HIP has become synonymous with disaster. It was the subject of the only censure motion passed against the Rudd government (Evans 2010). Rupert Murdoch's *The Australian* newspaper ran 67 articles on the HIP during its yearlong life. The word bungle is used 21 times in those articles, debacle 18 times variations on fail and failure 58 times. *The Australian's* editorial line was far from isolated. "A mess. A shambles. A disaster" (quoted in Tiffen 2010) — this characterisation of the HIP from veteran journalist Laurie Oakes summarises the virtually unchallenged treatment of the HIP in the media.

In parliament the HIP scandal was seized upon by the Liberal Opposition. In 2010 then newly appointed leader of the opposition Tony Abbott called the HIP "The most monumentally bungled government program in Australia's history" (Abbott, quoted in Uhlmann 2010), and went as far as to suggest that were Minister Garrett a NSW company director he "…would be charged with industrial manslaughter…" (quoted in Tiffen 2010). Liberal Senator Birmingham made the claim that the "…greatest threat to the safety of many Australian families over the last twelve months has been the home insulation program" (Birmingham quoted in Tiffen 2010). The Liberals argued that the experience of the HIP added weight to their case against Labor's proposed federal takeover of hospitals by showing the incapacity of federal bureaucrats to properly administer national programs (Watson 2010).

However it was not only Labor's opponents on the parliamentary right who characterised the HIP as an unmitigated disaster, with Greens Senator Bob Brown arguing of the HIP "… as a nation we are witnessing one of the grossest episodes of mishandling of the public money and the public trust in recent governance history" (Senator Brown (Greens) Senate 2010f, p. 842).

In 2013 Rudd issued an apology to the families of the workers killed in the program. Even in 2010 he had fronted the media to take responsibility for the failures of the HIP:

> Yeah. Look, I'm just saying to you loud and clear… this - there's no point sugar-coating it one bit - this program [the HIP] has produced real problems for people, both workers and the companies and for households (*Rudd disappointed in himself: ABC 7.30 Report* 2010).

But what actually went wrong in the HIP? For the Liberals the answer centred on the Labor government's excessive interventionism. For the Greens and many in the media the HIP had been ruined by government incompetence. For those in Rudd Labor there was no clear answer to this question, and government ministers appeared confused at the failure of the scheme despite following the expert advice they received on how to design it.

In contrast to all these readings of what went wrong, this chapter argues that the fault at the heart of the HIP was its delivery vehicle -- a rebate model designed explicitly to distance the Federal government from the financial and legal risks of the program. It was this model that created an insurmountable gulf between the government and the young, untrained and un-unionised HIP workforce, and damned Minister Garrett's retrospective attempts to impose safety regulations onto the scheme.

The rebate model that doomed the HIP was selected for two reasons. Firstly it was chosen on the basis that Garrett's Department, which had no prior experience in the home insulation industry (Coroner 2013, p. 11), was deemed not to have the capacity to deliver the program through a managing contractor model (such as that used extensively in the BER, as we saw in Chapter Six). Secondly the rebate rested on what turned out to be an unjustified belief by Rudd Labor and the senior Department of Environment, Water, Heritage and the Arts (DEWHA) public servants that the existing insulation market would deliver the program with speed, while ensuring probity and safety. Both these propositions resulted directly, as I will show, from a series of risk assessments commissioned by DEWHA and provided by law firm Minter Ellison.

Because the out-sourcing of risk was so fundamental to the design of the HIP, when the deaths and fires occurred there was little the government could do to remedy the program. This is why the HIP was eventually abandoned by the government. Neither the government, nor indeed its parliamentary critics, could suggest an amended HIP that would be closer to risk-free. The narrow neoliberal parameters within which the HIP was conceived could not provide a program capable of achieving four goals — rapidly increasing energy efficiency in private housing across the country, stimulating the economy, ensuring the safety of workers and houses and ensuring the quality of insulation.

Therefore for the Labor government, dealing as it was with the political fall-out from the HIP and looking for assurances of safety, there was no alternative to termination of the program:

> … the strategies were put in place in an industry that has inherent risk. There is probably only one way of ensuring a risk-free environment in this regard—that is, not going into the ceilings to put in place insulation (Robyn Kruk, Senate 2010h).

> As the government's announcement on Friday indicated, it was an appropriate course of action to terminate the program while the safety issues could be adequately reviewed. I am sure that you are in no way suggesting that industries should be continuing to operate in this space without that guarantee able to be provided (Robyn Kruk, Secretary, Department of the Environment, Water, Heritage and the Arts, Senate 2010h).

The demise of the HIP was to be a turning point. Just as Rudd's promotion of Garrett before the 2007 election was at the centre of a political theatre in which Rudd presented himself as the candidate of change (Burgmann & Baer 2010), Garrett's fall epitomised the electorate's awakening from the spell of Rudd's dramatic symbolism. In the first days of his government Rudd's speedy ratification of the Kyoto Climate treaty had been accompanied by his much quoted description of climate change as "the greatest moral, economic and social challenge of our time". But the implosion of the HIP, accompanied by a crisis around Rudd's Carbon Pollution Reduction Scheme (CPRS), signalled Rudd's turn from climate action. After the HIP even the "light-green" energy efficiency policies that had been included in Rudd's program for mitigating climate change were wound-down (Goods 2011, p. 57).

The HIP therefore had a special place in the creation of an intractable perception of chaos and incompetence that plagued the final months of Rudd's first term as Prime Minister – and beyond. The fact that Rudd shelved the plan probably did his government no good, as appears to have been the case with the withdrawal of his flagship climate package the Carbon Pollution Reduction Scheme (CPRS). Pulling unpopular programs and back flipping on promises began to create serious credibility problems for Rudd with voters.

7.1 The story of the Home Insulation Program

The HIP was designed around two goals – immediate economic stimulus, and emissions reductions. The most "shovel-ready" of the stimulus measures, a rebate for insulation, was available from the day the government announced the HIP. The HIP was the central plank of the $3.859 billion Energy Efficient Homes Program. Of this $2.7 billion was budgeted for the HIP[72], $507 million to the solar hot water rebate and $613 million to the Low Emissions Plan for Renters.[73] The HIP saw households engaging an installer of their choice and the government reimbursing the operator up to $1,600 per job through the Medicare system. The package was not means tested (DEWHA 2009, p. 3).

Take up of the HIP was extraordinary and unexpected. Early assumptions were that there would be around 90,000 installations per month. By November 2009, the number of claims had peaked at nearly 180,000 per month. The HIP registered10,000 installation firms ('House of Representatives Ministerial Statements Home Insulation Program Speech - Greg Combet' 2010) . Hawke notes that the "quantum of projects (sites and workers) under the HIP" at around 1 million households was vastly greater than even the 9000 projects that made up the BER (Hawke 2010, p. 18). This massive uptake led to the large-scale employment of low-skilled workers who formed the labour base of the insulation

[72] Under the HIP, DEWHA received $112.7 million for administered expenses and $13.6 million departmental expenses (including $12.6 million staffing costs). Administered expenses covered funding for activities including: audit site inspections; training programs; call centres; and contracting service providers" (Hawke 2010, p. 58).

[73] The Low Emission Assistance Plan for Renters (LEAPR) scheme saw no upfront costs for landlords or renters, but Medicare paying insulation installers directly. But LEAPR failed for lack of uptake. This failure seems to be a product of the 'split incentive' that sees neither tenants nor landlords having an incentive or ease in undertaking modifications to rental properties will accrue to the other party. As the Tenant's Union Victoria recognised, however, the failure of LEAPR would have detrimental impact on "…low-income households [who] spend relatively more of their income on energy than other households. Most low-income households are in the private rental market. Most have little discretionary expenditure and little capacity for significant capital outlay. Most tenants are restricted in their capacity to make changes to the fabric of their tenancy" (Senate 2010i, p. ECA 98).

workforce.

Two years earlier in 2007 the Insulation Council of Australia and New Zealand had commissioned Deloitte (a company that provides audit, consulting, financial advisory, private, risk and tax services) to study the economic impact of the government insulating 2.7 million homes (the same number targeted by the HIP) over a 7-year period, based on a $500 government rebate. The study was provided to the then Howard government (Senate 2010i, pp. ECA 61-2). It seems probable that this study informed the government's decision to choose insulation as one key way to stimulate the construction industry.

The government had been told by insulation manufacturers that it would take around two years to bring new factories online, and therefore that the short time-frame of the HIP would mean that the program would do little to stimulate the manufacturing sector. However some insulation manufacturers did take on new workers in order to run the factories 24 hours a day in an attempt to meet the vastly increased demand created by the HIP (Hawke 2010, p. 34).

Despite such increases in factory hours, domestically produced insulation was insufficient to meet the needs of the HIP, and so insulation was imported, mainly from the US and China. It seems that some of the imported product did not meet the Australian standard and may in fact have failed to insulate houses. On top of the unknown reduction in the potential emissions saved under the HIP, the use of insulation produced overseas was seen by many as a poor use of government money that was deployed with the aim of stimulating the Australian economy.[74]

As we will see, designing the HIP around a rebate recognised the priority the government gave to economic activity and job creation. It ensured the maximum freedom for new companies to start up quickly and easily. As Hawke notes, the very lack of regulation in the insulation industry made it a prime candidate for "shovel-ready" stimulus because there were so few barriers to setting up a new

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[74] DEWHA reported to the Senate Inquiry that it was Australia's obligations under free-trade agreements that disallowed the government to impede the import of foreign insulation for the purposes of the HIP.(Senate 2010j, p. ECA 26).

insulation company (Hawke 2010, p. 43). However as an anonymous DEWHA insider told the ABC's 4 Corners, job creation also trumped safety:

> In fact we were told that safety was of less importance than job creation… Job creation was the most important thing. That was mentioned on many occasions, we were told many times by senior management that the technical and safety issues were of less importance than getting this program up and running and creating jobs (un-named DEWHA insider, *"A Lethal Miscalculation" ABC Four Corners* 2010).

While claiming to take full responsibility for the problems created by the HIP, Rudd at the same time strongly defended rolling out the HIP as a rapid stimulus measure in response to rising unemployment caused by the economic crisis:

> The bottom line is, what the Government was seeking to do was to respond to the global financial crisis… Why did we step up to the plate with our response to the global financial crisis with programs across the country? Because we didn't want the economy to collapse. Plainly this particular program [the HIP] has been implemented ineffectively, and you've got problems (*Rudd disappointed in himself: ABC 7.30 Report* 2010).

The HIP was seen as providing employment for many low-skilled manual workers who would otherwise struggle with the shrinking labour market (Coordinator-General 2009, p. 40). By early 2009 the government was aware of a severe slow-down in the construction industry, and by the middle of that year it had identified twenty areas in the construction industry where economic stimulus could be prioritised (see footnote Hawke 2010, p. 15), see also (Senate 2010b, p. ECA 33).

The rebate model maximised access to the insulation industry by start-up companies, but at the same time it limited the access the government had to the HIP workers, making it virtually impossible to regulate the conditions of the scheme's workforce. This became increasingly clear as the government attempted to respond to the deaths of workers by ramping-up regulations (see Figure 1 below).

For instance when, on the 9th of February 2010, Minister Garrett suspended the use of foil insulation from the HIP, he gave the reason that:

> … despite strong measures taken to date including [i.e. the previous issue of regulations] banning the use of metal fasteners for foil insulation in November last year, we are still seeing evidence of foil installations which do not meet clear program requirements (Hawke 2010, p. 41).

Despite sending SMS and online "Installer Advice notifications" (Hawke 2010, p. 39) to all registered installers, still deadly work practices abounded under the HIP. The failure of Garrett's regulations to effect changes in work-practices in the HIP was quantified when UGL undertook inspections as part of the Pricewaterhouse Coopers audit. These inspections found that 26 per cent of installations undertaken after the government banned metal staples on the 2nd November nevertheless contained the banned staples (Hawke 2010, p. 41).

The following time-line indicates DEWHA's attempts to impose regulations as the problems in the HIP emerged.

Figure 7.1 Time line of the Homeowners Insulation Program

February 2009	HIP announced	Rebates available if householders obtained two quotes
1st July 2009	HIP "goes online"	Medicare rebate model swings into action
1st September 2009	Minister Garret reviews **regulations:**	- Requiring insulators to undertake a physical site inspection before providing written quotes. - Mandating Insulators to provide evidence of qualifications or competencies at the time of registration. - Providing price guide advisories for different types of insulation for householders.
14th October	First death	25 year old Matthew Fuller electrocuted installing foil insulation in a home south of Brisbane when he stapled a metal fastener into a live cable. His 18-year-old girlfriend, Monique Pridmore, also received severe electrical burns.
November 2009	Number of HIP claims peaks at nearly 180,000 per month	
2nd November 2009	Minister Garrett releases new **regulations**:	- Metal fasteners (staples) banned. - Mandatory installation of covers over down lights and other ceiling appliances. - Introduction of the targeted electrical safety inspection program.
18th November 2009	Second death	16 year old Rueben Kelly Barnes, electrocuted when he came in contact with a metal batten that was "live", near Rockhampton, QLD.
20th November 2009	Third death	19 year-old Marcus Wilson died of heat exhaustion after his first day "filling in for a friend" by working on the HIP. The temperature had reached 40 degrees in the St Claire suburb of Sydney where Marcus was working.
1st December	Minister Garrett releases new **regulations:**	- Requiring households to get two independent quotes. - Requiring de-registered installers to be listed publicly on the Department of the Environment, Water, Heritage and the Arts website. - Requiring that insulation not be installed with the use of non-insulating metal or conductive implements.
4th February 2010	Fourth death	Mitchell Sweeney, 22, electrocuted while installing foil insulation in a house at Millaa Millaa, on the Atherton Tablelands, QLD.
19th February 2010	Minister Garrett announces the suspension of the HIP	
22nd April 2010	Hawke Review into the HIP released and program permanently suspended	

The HIP was an economic stimulus measure combined, some would say awkwardly, with a carbon emissions reduction program. Ceiling insulation is believed to be among the ‘lowest hanging fruit’ of emissions reductions (Palmer 2012; Vandenbergh, Barkenbus & Gilligan 2008). In other words it is the cheapest way to reduce potential electricity use and therefore (given Australia’s dependence on burning coal for electricity production) the release of carbon emissions. The climate-credentials of the HIP revolved around the claim that ceiling insulation can reduce power costs and consumption by up to 45 per cent (DEWHA 2009, p. 11).

In his April 2010 Review of the HIP Allen Hawke points out that claims that roof insulation would create dramatic reductions in carbon emissions were quickly drawn into question. Features of the HIP such as insulation inappropriate to the house’s climatic profile, as well as insulation that was removed due to electricity and fire concerns, make it difficult to calculate the impact of the scheme on carbon emissions. As was clear to most observers of the HIP, the program was geared far more towards economic stimulus than to environmental objectives (Goods 2011, p. 56).

Another feature of the HIP that throws into question both the impact of the scheme on emissions savings and on domestic economic stimulus is the use of overseas insulation, an unknown quantity of which was found to be sub-standard and therefore ineffective in household energy-reduction. As it became clear in the Senate Inquiry into the HIP, government officials are not able to identify the proportion of insulation material which went into the HIP that may not have been fit for its purpose. But Tino Zuzul, a manufacturer and Executive Committee Member of the Polyester Insulation Manufacturers Association of Australia (and therefore with a clear financial interest in Australian manufactured insulation) reported:

> We have done testing on about 20-odd products. Every product that we have tested has failed …there has been a gross waste of taxpayers money… conservatively, 30 to 40 per cent—that is my belief—of homes contain a noncompliant product that does not achieve the R-values [which

> measure the insulation properties of each material] (Senate 2010i, p. ECA 10).

7.2 What went wrong?

On the 25th February 2010 Rudd appeared on the ABC 7.30 Report to announce his intention to take responsibility for the failing HIP:

> This program has created real problems on the ground; it has resulted in a lot of difficulty for a lot of people. As Prime Minister of the country I accept responsibility for that. My job now is to fix it up (*Rudd disappointed in himself: ABC 7.30 Report* 2010).

But what caused the problems that plagued the HIP and how would they be fixed? As this exchange between Rudd and the ABC's Kerry O'Brien makes clear, the Labor government seemed unable to pin-point exactly what lay at the heart of the HIP's failure:

> KEVIN RUDD: Well, plainly, what has gone wrong is that those who were rorting the system, those who were shonky operators, were not picked up by the compliance mechanisms which were established.
>
> KERRY O'BRIEN: So...
>
> KEVIN RUDD: That's the problem.
>
> KERRY O'BRIEN: What went wrong that the department's compliance mechanisms did not work?
>
> KEVIN RUDD: Well, plainly, in the case of those installations where we've had a safety concern arise as a result, we see evidence plainly of the system not having worked as it needed to.

> KERRY O'BRIEN: Yes.
>
> KEVIN RUDD: As I've said before?
>
> KERRY O'BRIEN: But what went wrong, where did it go wrong?
>
> KEVIN RUDD: Well, compliance means that you have a compliance system within it which provides quality control and assessment of the installations which go into each home. The compliance...
>
> KERRY O'BRIEN: Yes, I understand-I understand what the compliance is, I'm saying what went wrong with the compliance system? How did it fail?
>
> KEVIN RUDD: Well, it failed because it didn't pick up a pattern of, shall I say, wrong installation, or badly done installation, by a certain number of firms.
>
> That is what went wrong. The Minister had established a series of risk management strategies across the program, mindful of the advice which had come forward from the risk assessors originally, but plainly the point.
>
> KERRY O'BRIEN: Okay, but it failed.
>
> KEVIN RUDD: Yeah. Look, I'm just saying to you loud and clear, Kerry, this - there's no point sugar-coating it one bit - this program has produced real problems for people, both workers and the companies and for households (*Rudd disappointed in himself: ABC 7.30 Report* 2010).

It is worth re-visiting the vehement denunciation of the Rudd government's handling of the HIP both in the media and in parliament. This quote from Greens Senator Bob Brown, who could have been expected to support a program such as the HIP, gives a feel for the ignominy heaped on the government as a result of the HIP:

> It [the HIP] is an utter shambles. We have been left to wonder how the government could get into such a mess. One of the problems is that there was not due diligence from the top… and Prime Minister Rudd must take – responsibility for the way in which this extraordinary failure of billions of dollars of potential investment of tax-payers' money, and money from the private sector, has been botched. That is what has happened (Senator Brown (Greens) Senate 2010f, p. 843).

However, as the changes to HIP regulations issued by DEWHA in our introductory time-line indicate (Figure 7.1), Garrett's department was not wholly unresponsive to the emerging problems in the HIP. As fellow Labor minister Chris Bowen argued in defending Peter Garrett's handling of the HIP on Lateline, DEWHA's introduction of mandatory training and the eventual banning of metal fasteners and foil insulation were all measures that lifted the safety standards above those existing in the insulation industry prior to the HIP ('Chris Bowen discusses insulation incompetence claims ' 2010).

Allen Hawke, who reviewed the HIP for the government, and whose report was to become the justification for the permanent termination the HIP, rejected the notion that the program was grossly mismanaged:

> Bungle is actually a furphy because the many positive outcomes (already and potentially) flowing from the HIP serve to address long standing problems besetting the industry. The lessons learned from the fires and tragedy of the four deaths should lead to much safer work practices across Australia. The program has highlighted considerable gaps in the regulatory framework and an Australian regulatory system for the insulation industry building on the South Australian model will also represent a significant way forward (Hawke 2010, p. xiii).

In a similar vein, ‘Possum Comitatus’ from Crikey argued that the HIP had actually *reduced* the rate of house fires caused by the installation of insulation (Comitatus 2010a). If we accept this, then explaining the sense of crisis surrounding the fires caused by the HIP comes to two features. On the one hand the scrutiny surrounding the HIP as a high-profile government initiative brought the fact of fires caused by roof insulation, rightly, to the public mind. Secondly, the intensive speed of the insulation roll-out within the space of 12 months gave the ensuing frequent fires much more profile than if a higher proportion of fires had been caused over a number of years of normal roll-out.

At the opening of this chapter I summarised the characterisation, from nearly all quarters of public life, of the HIP as a failed program. Since the closure of the HIP in 2010 a series of academic articles have been published in public administration and applied economics journals that use the HIP as a case study of “government failure” (Dollery & Hovey 2010; Kortt & Dollery 2012a; Kortt & Dollery 2012b; Lewis 2010; Stewart & Mackie 2011). Lewis (2010) argues that the Department of the Environment, Water, Heritage and the Arts (DEWHA) failed to follow established public policy protocols, such as those set out in the Australian Policy Handbook (Lewis 2010, p. 83). However Dollery, Hovey and Kortt go further, employing public choice theory (Kortt & Dollery 2012a, p. 70) to argue that the HIP epitomises “federal government failure” (Dollery & Hovey 2010; Kortt & Dollery 2012a; Kortt & Dollery 2012b).

As Kortt and Dollery and Hovey explain, “government failure” applies the concept of “market failure” to “non-market organisations”. This literature, applying neoclassical economics to non-market/social/political phenomena, is designed expressly to remove a perceived asymmetry that emerges in being able to diagnose market failure without a corresponding critical tool for non-market failure. The result of this theoretical innovation, according to Dollery, is to identify that government programs are inherently prone to “legislative failure”, and “bureaucratic failure” (Dollery & Hovey 2010, p. 347).

Dollery, Kortt and Hovey apply these tools to the department of environment's design of the Home Insulation Program (Dollery & Hovey 2010, p. 348) arguing:

> It is clear that the implementation and administration of the HIP represents a classic case study in how not to undertake a public expenditure programme. As we have seen, 'federal government failure' has been evident in most aspects of the HIP. [From the] initial flawed decision to use **the Commonwealth Government's bureaucratic apparatus to deliver** a highly decentralised expenditure programme involving literally millions of people… [onwards] (my emphasis, Dollery & Hovey 2010, p. 351).

The campaign against the HIP waged by *The Australian* and the Liberal opposition relied on an implied ideological preference for markets over government — which is characterised as wasteful, bureaucratic and inefficient. Shaun Carney writing for *The Age* had also suggested that the HIP had tested "Australians' faith in big government" (Tiffen 2010). However in the work of Dollery, Kortt and Hovey, such critical characterisations of government are made plain by assessing the value of the state through the prism of the market (Kortt & Dollery 2012a, p. 70)[75]:

> The nature of the ''bureaucratic failure'' surrounding the HIP is worthy of further reflection. In the first place, it would appear from the Hawke Review (2010) that the labyrinthine complexity of the institutional arrangements for the implementation and administration of the HIP, involving a bewildering array of federal government agencies, including in the initial stages DEWHA, the Office of the Coordinator-General, Medicare, DEEWR and the Australian Tax Office, serves to underline the fact that Commonwealth Departments had negligible experience of delivering highly decentralised local infrastructure expenditure and were simply not suited for this purpose. It is thus little wonder that the HIP did not succeed as planned… the Commonwealth

[75] Having said this, Dollery and Hovey accept, for the purpose of their argument at least, that those designing the HIP decided that a non-market (government) instrument would be the best tool for delivering the rapid fiscal stimulus and energy-saving goals of the program. They argue, along with Kortt and Dollery, that state government or local councils would have been preferable institutions for delivering the HIP (Dollery & Hovey 2010).

> Departments involved with the administration of the HIP simply lacked not only technical knowledge of the details of ceiling insulation installation, but also awareness of local conditions in the form of the reliability of suppliers and the like (Dollery & Hovey 2010, p. 350).

However as I will illustrate below, the rebate model for the HIP was selected precisely in response to the notion that the federal environment department is too centralised and bureaucratised to provide such programs in a timely manner.

7.3 The role of Minter Ellison

One of the first things DEWHA staff did in initiating the HIP was to commission law firm Minter Ellison to provide a risk report and a risk register. The Minter Ellison risk register was seen as crucial to building a "…sound foundation upon which [the government] could move forward in developing the risk mitigation strategies in the context of the program design" (Senate 2010h). These initial documents cost the government $28,985 and were handed to Garrett's office in April 2009. Minter Ellison then ran a risk workshop for the government (Senate 2010b, p. ECA 39), and a member of Minter Ellison's staff, Margaret Coaldrake[76], was seconded to work as the HIP Strategic Risk Advisor within DEWHA, paid at an hourly rate of $269.50. As a result Coaldrake sat on the "project control group" that oversaw the running of the HIP (Senate 2010b, p. ECA 37).

The Minter Ellison risk reports would play a pivotal role in the media and parliamentary fire-storm that overwhelmed the HIP in early 2010 and led to minister Garrett's demotion. 'Possum Comitatus' argues that were it not for the

[76] The Queensland Coroner's Inquiry into the deaths of three of the HIP workers notes that "On 23 April 2009, Ms Margaret Coaldrake, acting through Minter Ellison, entered an agreement with DEWHA… According to the Deed of Agreement, the Additional Services included: On an hourly basis, provide support and assist the nominated Risk Manager appointed by the Department...to support the development and implementation of any necessary ongoing adjustments to the existing Risk Register and Risk Management Plan. The hourly rate was $269.50 and included Ms Coaldrake attending and reporting to the Project Control Group meeting as needed and responding to the Risk Manager's enquiries relating to the Risk Management Plan (Coroner 2013).

reporting of the Minter Ellison documents, the HIP would not have been prematurely discontinued (Comitatus 2010c).

It is worth establishing the way in which the Minter Ellison risk register (a 4-page table) and risk assessment (a 20-page table) were consistently cited as the smoking-gun of DEWHA's failure in the HIP. Here is the way that these reports were treated in the parliamentary debate:

> This Minter Ellison report **identifies almost all of the risks that have come to pass** (my emphasis, Christine Milne, Greens Senator 2010h, p. ECA 32).
>
> Given the tragic deaths of four Australians and 93 house fires, does the minister agree that the safety arrangements he helped put in place were clearly inadequate? Does the minister accept that it was a gross failure of process for **such fundamental issues as fire and electrocution, which were identified in two government initiated Minter Ellison reports**, to never have been raised in his briefings? (my emphasis, Senator Birmingham (Liberal) Senate 2010d, p. 822).
>
> This report set out all the warnings about rushing this scheme – **all the work safety issues**, the possible bloated pricing and shoddy performances. It predicted it all (Senator McGauren, Nationals Senate 2010e, p. 1041).
>
> The report, compiled by law firm Minter Ellison, contains warnings about fire, fraud and poor quality installation (AAP 2010).

Possum Comitatus writing the "Pollytics" blog at Crikey.com (my emphasis, Comitatus 2010c) prepared this useful summary of media reporting on the content of the Minter Ellison report:

> This document, which is more than 10 months old, was drawn up by a major Australian law firm, Minter Ellison, and was **comprehensive enough to foretell just about every disaster** that has befallen Mr Garrett's housing insulation program" – *Courier Mail* editorial

> Garrett led a department charged by cabinet with implementing a scheme for which it was not equipped, and which was warned there would be fraud, fires, waste and accidents if it did not delay the start of the scheme by at least three months" – Dennis Shanahan in *The Australian*
>
> Garrett's own department commissioned a report from Minter Ellison Consulting last year on whether its free-insulation scheme would work, and in April last year the report was sent to both Garrett and Rudd's office, warning the scheme was in fact dangerous and could waste hundreds of millions of dollars" – Andrew Bolt in the *Herald Sun*
>
> Mr Garrett is under pressure to reveal when he was first briefed about the Minter Ellison safety risk assessment, which warned of **shonky installation and house fires**" - *ABC Online*

The sole exception to the unanimous account in the mainstream media was published in Crikey's Pollytics blog by 'Possum Comitatus', who said of the dominant line: "The only problem here is that this – and I mean ***all of this*** – is complete and utter bullshit" (Comitatus 2010c).

And indeed based on this near-universal reporting of the Minter Ellison risk documents one would expect the reports to be full of detailed warnings of the inevitability of fires, electrocutions and injured or killed workers as a result of the HIP. In fact the content of the Minter Ellison report is nothing of the sort. To visually illustrate the key risks identified in Minter's risk register, Figure 7.2 is a 'word cloud' of its content.

Figure 7.2 Word cloud illustrating the content of Minter Ellison's Risk Register

Note: this graphic was generated using tools at http://www.wordle.net. A word cloud sizes of words proportional to their occurrence a document.

(Source: Minter Ellison Risk documents, appendix 6, Senate 2009b)

Notice that in the word cloud reveals no mention of fire, electrocution, death or injury. In fact neither of the Minter Ellison documents mention the risk of injury or death for HIP installers. Fire gets literally a single mention, left to risk number 4, falling under the heading "Installation quality and compliance" (Senate 2009b). Even in the 20-page risk report, still fire is only mentioned once in the entire document, and then it is only envisioned as creating a possible financial risk for the federal government. In other words DEWHA's private risk experts were utterly blind to the reality of the scheme involving young untrained workers working in dangerous ceiling spaces.

Margaret Coaldrake, the Minter Ellison contractor seconded to DEWHA as the HIP Strategic Risk Advisor was required to give evidence at the Queensland Coroner's Inquiry into the deaths of Matthew Fuller (25), Reuben Barnes (16) and Mitchell Sweeney (22), the three Queenslanders killed working on the HIP. The Coroner's report reveals that:

> Ms Coaldrake was of the view installer safety was not a 'Commonwealth risk' and that for some reason the Commonwealth was trying to manage further than they were strictly expected to. Ms Coaldrake explained she relied on the Commonwealth to identify the risks to her and the issue of installer safety was never raised as a risk for consideration. However, Mr Keeffe was of the view DEWHA had commissioned Minter Ellison to conduct a global or complete risk assessment… Ms Coaldrake accepted the risk of fire was included in the Risk Register was because people might sue the Commonwealth in respect of a fire. The inquest was provided with most of the updated Risk Registers throughout the life of the HIP. **None of the Risk Registers specially addressed installer safety, and more specifically, electrical risk for installers** (my emphasis, Coroner 2013, p. 13).

Later the report notes:

> Ms Coaldrake accepted that the risk assessment contemplated the risks to the Commonwealth financially or reputationally, but not to the installers in terms of death or injury. However, she accepted in evidence that the death of an installer would be a risk to the Commonwealth (Coroner 2013, pp. 82-3).

Overwhelmingly the risks that Minter Ellison were concerned with were those of program delivery, timelines, and the federal government's exposure to legal and financial liability. The first risk identified by the Minter Ellison document is "Extremely limited time to determine and implement effective Program methodology post 1 July" (Senate 2009b, p. 1). The report goes on to designate an

"Inherent risk quantification -Substantial non-delivery; Admin costs & conflict; Poor control of processes and financial outcomes $40-95m Costs, non-delivery, fraud etc" (Senate 2009b, p. 1).

The experience of the HIP provides a damning assessment of the increasingly prevalent culture of corporate risk assessment and risk transfer. More concerning, as we will see, is the extent to which Australia's senior public servants are steeped in notions of government provision of goods and services that are designed to transfer risk away from the government. We saw this theme in the justification from senior NSW public servants of the extensive out-sourcing of the BER through the managing contractor model in Chapter Six. The issue of such transfers of risk is even more insidious and alarming in the case of the HIP.

We saw above the way in which the Minter Ellison risk documents were wrongly reported as containing warnings about the risks facing workers under the HIP. Rather than criticise the failure of Minter Ellison to foresee that workers' lives and health might be at risk from the HIP[77], most public reports assumed that Minter Ellison *had* made these warnings, and the problem lay with DEWHA's inability to act on these concerns. The Queensland Coroner identifies the limitations in Minter Ellison's risk analysis and argues that the Commonwealth

[77] Minter Ellison are frequent recipients of government tenders. A search of the Austender website on 6/6/12 reveals 1228 records of successful tenders. See: https://www.tenders.gov.au/?event=public.advancedsearch.keyword&keyword=Minter+Ellison They were described by Liberal Senator Troeth as "…a household word for high-level professional advice" (Senate 2010h, p. ECA 38), a description confirmed by DEWHA Secretary Robin Kruk (Senate 2010h, p. ECA 38), and Senator Brandis took the opportunity of the Senate Inquiry to boast that he is a Minter Ellison alumnus. It is therefore worth mentioning how wrong Minter Ellison was in its overall assessment of the unfolding of the HIP. Consistently their reports register concern that: "Take-up: program may not achieve its objectives through poor uptake / program awareness" (Senate 2009b, p. 4). In fact the problems of the HIP derived more from the extremely rapid and enthusiastic take-up of the HIP. For instance the extensive communications and advertising strategies that DEWHA developed to publicly promote the HIP (on the advice of Minter Ellison's concern), were sensibly abandoned when it became obvious in the first months of the program that take-up was grossly exceeding the parameters of the program. It is also quite staggering the degree to which a document which includes such wide-ranging exploration of some conceivable risks in the forthcoming HIP can have be so blind to the risks facing the workers and householders whose lives would be literally on the line during the program. But is there any financial or reputational opprobrium for Minter Ellison as a result of these mis-predictions? Who bears the risk when Minter Ellison's predictions are so wide of the mark? Interestingly, while Minter Ellison's website bears no mention of their involvement in the HIP, it is at pains to promote its expertise in Public Private Partnerships (PPPs): "Public private partnerships (PPPs) continue to be a successful method of delivering major infrastructure projects for governments. We have an exceptionally strong track record of advising on high profile, commercially complex and strategically important Australian PPP and construction projects and are respected by and engaged on a recurring basis by government clients" (http://www.minterellison.com/government/infrastructure-and-development/ accessed 7/6/12).

government should have foreseen and prevented the risks to workers under the HIP:

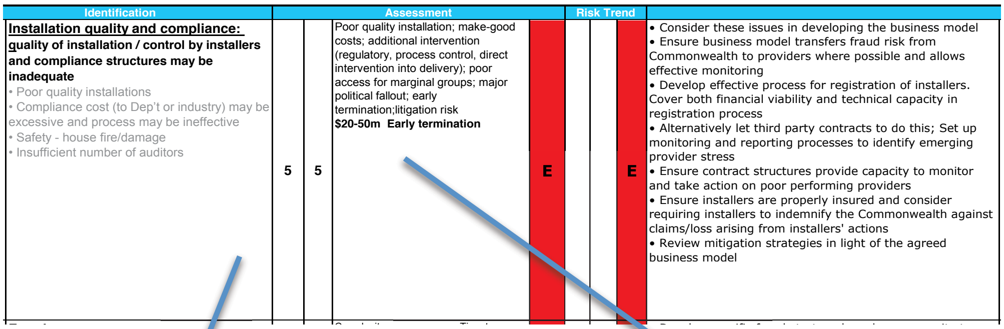
> The risk assessment of the program conducted by Minter Ellison did not identify electrocution of installers on the basis that risks to workers were not categorised as being a risk to the Commonwealth. Despite that process being labelled a risk assessment, in fact it simply responded to risks others identified, rather than being an independent in-depth scan of the actual potential risks (Coroner 2013, p. 68).

7.4 Rebate

As we have seen, the risks identified by Minter Ellison were not risks as the public would understand them. In other words DEWHA did not employ Minter Ellison to explore what the government would need to do to provide a program that was safe for its workforce and the community. Rather its role was to look at how to insulate the government from legal and financial consequences. This becomes all the clearer when we look at an issue – fire – that would pose real risks for householders and workers under the HIP. In Minter Ellison’s risk register the “management plan” for Risk 4, which includes “Safety - house fire/damage” suggests the government should:

> Consider these issues in developing the business model • Ensure business model transfers fraud risk from Commonwealth to providers where possible and allows effective monitoring • Develop effective process for registration of installers. Cover both financial viability and technical capacity in registration process • Alternatively let third party contracts to do this (Senate 2009b, p. 1).

Figure 7.3 Excerpt from Risk 4 in Minter Ellison Risk Report



Identification			Assessment		Risk Trend		
Installation quality and compliance: quality of installation / control by installers and compliance structures may be inadequate • Poor quality installations • Compliance cost (to Dep't or industry) may be excessive and process may be ineffective • Safety - house fire/damage • Insufficient number of auditors	5	5	Poor quality installation; make-good costs; additional intervention (regulatory, process control, direct intervention into delivery); poor access for marginal groups; major political fallout; early termination;litigation risk **$20-50m Early termination**	E		E	• Consider these issues in developing the business model • Ensure business model transfers fraud risk from Commonwealth to providers where possible and allows effective monitoring • Develop effective process for registration of installers. Cover both financial viability and technical capacity in registration process • Alternatively let third party contracts to do this; Set up monitoring and reporting processes to identify emerging provider stress • Ensure contract structures provide capacity to monitor and take action on poor performing providers • Ensure installers are properly insured and consider requiring installers to indemnify the Commonwealth against claims/loss arising from installers' actions • Review mitigation strategies in light of the agreed business model

Risk description:
Installation quality and compliance: quality of installation / control by installers and compliance structures may be inadequate
• Poor quality installations • Compliance cost (to Dep't or industry) may be excessive and process may be ineffective
• **Safety - house fire/damage** •
Insufficient number of auditors [my emphasis]

Inherent risk quantification:
Poor quality installation; make-good costs; additional intervention (regulatory, process control, direct intervention into delivery); poor access for marginal groups; major political fallout; early termination; litigation risk
$20-50m Early termination

(Source: Minter Ellison Risk documents, appendix 6, Senate 2009b)

Figure 7.4 Excerpt from Minter Ellison Risk Report. Risk 4 (cont.)

Identification		Assessment				Risk Trend		Management Plan	
4	**<u>Installation quality and compliance:</u> quality of installation / control by installers and compliance structures may be inadequate** • Poor quality installations • Compliance cost (to Dep't or industry) may be excessive and process may be ineffective • Safety - house fire/damage • Insufficient number of auditors	5	5	Poor quality installation; make-good costs; additional intervention (regulatory, process control, direct intervention into delivery); poor access for marginal groups; major political fallout; early termination;litigation risk **$20-50m Early termination**	E		E	• Consider these issues in developing the business model • Ensure business model transfers fraud risk from Commonwealth to providers where possible and allows effective monitoring • Develop effective process for registration of installers. Cover both financial viability and technical capacity in registration process • Alternatively let third party contracts to do this; Set up monitoring and reporting processes to identify emerging provider stress • Ensure contract structures provide capacity to monitor and take action on poor performing providers • Ensure installers are properly insured and consider requiring installers to indemnify the Commonwealth against claims/loss arising from installers' actions • Review mitigation strategies in light of the agreed business model	• Developing links with ACCC and other regulatory bodies • Information available through call centre and is being reviewed as the business model is being developed • Strategic communications strategy in place • Communications channels with industry have been identified and are being developed • Regular communications with States and Territory regulatory bodies in palce • Early installation guidelines include specific quality and safety requirements – installers must be verified – hooked into Australian Standards • Breach reporting system in place. Site inspections – planned to begin early 09/10 • Assessing training requirements and discussing with DEEWR • Internal compliance and monitoring system under development • Technical Working Groups with industry covering safety and quality of product

Recommended Management Plan All: allocate single point responsibility for each extreme and high risk; Develop each mitigation plan into a strategy; monitor progress against the strategy:

- Consider these issues in developing the business model
- ***Ensure business model transfers fraud risk from Commonwealth to providers where possible*** and allows effective monitoring
- Develop effective process for registration of installers. Cover both financial viability and technical capacity in registration process
- ***Alternatively let third party contracts to do this***; Set up monitoring and reporting processes to identify emerging provider stress
- Ensure contract structures provide capacity to monitor and take action on poor performing providers
- Ensure installers are properly insured and consider requiring installers to ***indemnify the Commonwealth against claims/loss arising from installers' actions***
- Review mitigation strategies in light of the agreed business model

(Source: Minter Ellison Risk documents, appendix 6, Senate 2009b)

What is clear here is that the risk register does not propose ways to lower the risk of fires in the HIP (regulations, training and supervision for workers, mandating of insulation product used etc.) but instead recommends ways that the federal government can use contracts to "transfer the risk" away from the government.

This concern with transferring legal liability from the Commonwealth is mentioned several times throughout the document. This is the kind of risk that Minter Ellison were being paid to identify. And so to ensure that the federal government moved the risks to another party, the HIP was designed around the premise that the only contractual relationship being formed was between the householder – the "customer", and the insulation installer (Senate 2010h, p. ECA 23).

In other words the rebate model itself was proposed as a solution to risks such as fire. It was a solution in the sense that it removed the federal government as a legal party to the HIP altogether, and relied on the notion of a contract between the insulation provider and the householder. Malcolm Forbes, First Assistant Secretary, Corporate Strategies Division, DEWHA explains:

> With the implementation risks, there were a whole range of mitigation strategies which we were conscious of. Of course, some of those issues related to ensuring that we had, post July, a whole range of mitigation strategies… certainly we were relying on the relationship between householders and installers… (Senate 2010j, p. ECA 51).

And Robyn Kruk, Secretary of DEWHA concurs:

> …the department had a clear design whereby the contractual relationship was between the household and the installer. The installers were not contracted by the government to install insulation under the program. Information was, however, given to the householders to support them to make informed choices (Senate 2010h, p. ECA 3).

These quotes show how the model advocated by Minter Ellison removed the government as a legal party to the HIP and relied on householders to ensure the quality of the insulation being installed, and employers to ensure the safety of their workers. This model may have made sense to DEWHA officials at the commencement of the HIP, but events were to show that it relied entirely on two fictions. Firstly, as we shall see below, the community rejected the notion that the safety of the workers as part of the HIP could be out-sourced from the government. Secondly the HIP was built around the belief that the million householders receiving the insulation free of cost would be able to act as "informed buyers" and regulate the quality and safety of the insulation being installed in their ceilings. The strength of this assumption (with little evidence) suggests a strong degree of ideological adherence to "choice theory" by public servants involved in the design of the HIP. This can be seen in documents such as DEWHA's submission to the Senate Inquiry into the HIP:

> The insulation installation industry operates in a competitive market in which householders can obtain a number of quotes to ensure the best value for money. The assistance offered by the [HIP] has seen an increase in the number of installers, and hence competitors, in this market (DEWHA 2009).

In fact householders seemed largely oblivious to safety issues and quality concerns until these were highlighted in the media. And yet the government's auditing process, central to the quality assurance and fraud prevention system of the HIP, revolved around the householders' response to government letters inquiring about their satisfaction with their insulation. Complaint calls and letters about the HIP ran at only 0.65 per cent (Senate 2010h, p. ECA 24).

But as Greens Senator Milne comments:

> …is it not a completely unrealistic question to ask a householder, 'Are you happy with the insulation?' Ninety per cent of people would have very little understanding of what constituted good or bad insulation in terms of their climatic zone and thermal resistance of the batts or whatever went in there. It is not really a realistic question (Senate 2010h, p. ECA 24).

However this common-sense was lacking in the design of the HIP as advocated by Minter Ellison.

Minter Ellison's risk assessments are far from ideologically neutral. As may already be clear, Minter Ellison's advice to the government shows a clear bias towards the market and away from the government. This manifests in Minter's depiction of DEWHA's involvement in service delivery as necessarily more centralised and slow than market provision of the same services. The reports consistently advocate out-sourcing at all levels to improve the chances of the HIP being an effective and timely program.

The risks which Minter Ellison identified are to be remedied by the adoption of the out-sourcing model:

> Focus on outsourcing major risks while retaining capacity to monitor and regulate the key relationships through contracts... Choose a regulatory approach consistent with the Program Methodology and implementation timetable based on outsourcing model and commercial contracts • Likely need to include specific regulatory aspects into contracts as the core focus of regulation… (Senate 2009b, p. 3).

Risk 14 identified by Minter Ellison was particularly crucial in DEWHA’s decision to choose the out-sourcing model:

> Delivery method: delivery structure may result in over-centralisation, poor allocation and political / economic fallout • Government interventions versus free market • Inefficiency in delivery Over-centralisation through one-stop shop… (Senate 2009b, p. 4).

Minter Ellison’s advice was absolutely central in the decision to build the HIP around a government rebate. In other words the government would provide the funds, but the market would be relied upon to provide the services and manage the HIP. Minter Ellison’s centrality in this decision is confirmed by every account of the design of the HIP. Here for instance, Allen Hawke explains the evolution of the HIP model and the shift in design following from Minter Ellison’s risk register:

> Consideration was given to a direct contract model whereby DEWHA would manage delivery of the program through a series of regional head contractors…However, a risk assessment conducted by Minter Ellison in April 2009 identified “the Number 1 risk” as the delivery capability of DEWHA to complete procurement and implement the contract model within the program implementation timeframes. The risk report also identified other risks associated with the direct contract model, including financial and audit risks, and concerns were raised through the PCG [the Project Control Group that oversaw the HIP] that the direct contract model substantially

impacted Commonwealth liabilities. To mitigate these risks, the regional contract model was replaced by a market driven installer model supporting small business operators where insulation businesses would register themselves for the program, establish a contractual relationship with the householder, and make claims for payment following installation (Hawke 2010, p. 26).

Note that Minter Ellison's concerns were that if DEWHA had to manage large regional contractors to undertake HIP work then, firstly, the program would not meet its tight deadlines, and secondly the government would be burdened with liability for the outcomes of the HIP. Minter's proposed alternative rebate model shifted liability from the Commonwealth to the householder. The impact of the Minter Ellison advice is confirmed by the account of the then Commonwealth Coordinator-General Michael Mrdak, who was responsible for the overall implementation of the stimulus package:

> …[The Minter Ellison Risk Report] was done on the basis of early consideration of an option whereby the environment department would directly contract installers to install insulation into people's homes. So the procurement risk in that report that we discussed at that time was very much around could the department of environment go through what would effectively be a tender and procurement and contracting process with installers, to be able to actually do a direct contract model. There were various options being looked at as to whether you would engage a large firm nationally or you would break it up into a series of regional or location tenders. The judgment—what Minter Ellison were referring to is that the time line involved in undertaking that sort of tender procurement process was going to be almost impossible to achieve by 1 July, and so that was the risk… And that is what then influenced our consideration of utilising the model we adopted, which is to essentially retain the direct contractual relationship between the home owner and the installer… (Senate 2010j).

7.5 Training

As we have seen, the rebate model ensured that the HIP created a gulf between the federal government and the installation work process on which the program relied. The issue of training for HIP workers reveals the tension within the program between the need to allow the market to get on and implement the program as quickly as possible, and training regulations. The Assistant Secretary of DEWHA Home Energy branch made this explicit at the Queensland Coroner's Inquiry saying that "…DEWHA had a regulatory role, but a light touch regulatory role that enabled rapid market uptake" (Coroner 2013, p. 7).

Prior to the HIP installing insulation required no specific training or registration (except in South Australia). The industry was unregulated. From its inception the HIP therefore produced a higher level of training and regulation than previously existed. This was a point the government would stress again and again:

> It is estimated that over 3700 installers participated in insulation training delivered by RTOs over the course of the program. This training package was formally endorsed by the National Quality Council in February 2010 as the first national skills competency for installing ceiling insulation (Hawke 2010, p. 36).

However it wasn't until December 2009 that the training was compulsory(Coroner 2013, p. 9). In the Queensland Coroner's Inquiry, Mr Carter, the First Assistant Secretary of the home Energy Branch of DEWHA revealed that initial planning assumed that all installers would undergo training. However "this position changed due to the time constraints of the program" (Coroner 2013). Nevertheless Carter argued that "there were the existing safety and regulatory regimes in place to mitigate the risks in the existing industry" (Coroner 2013, p. 9). Further this was training targeting the supervisors who were assumed to be present at all HIP jobs (in fact this was not always the case). Electrical subcontractor Chris McKay told *Four Corners*, that to have had a supervisor present at each job as the regulations required would have made the job uneconomical (*"A Lethal Miscalculation" ABC Four Corners* 2010).

In fact there were next to no “existing safety and regulatory regimes in place”. One insulation sub-contractor told the Queensland Coronial Inquiry that when he asked HIP representatives for advice about what preparations were needed to register as part of the program he was told: “…how hard is it to put insulation in a roof, mate? Make hay while the sun shines” (Coroner 2013, p. 31).

It is clear that the deaths and fires seen during the HIP were the result of inexperienced and untrained workers, and that existing regulations were grossly insufficient to protect HIP workers. The Liberal dominated Senate Inquiry reached this conclusion in its final report:

> Arguably the key mistake was failing to ensure from the outset that all personnel involved in installation (not only supervisors) were properly trained. It was not adequate to allow a trained/qualified registered installer to oversee what could be an unlimited number of untrained workers. In this situation it was unreasonable and irresponsible to assume that written warnings about fire and electrical safety would effectively reach the actual workers in the roof (Senate 2010a, p. xvi).

This view is echoed by James Tinslay of the Electrical and Communications Association:

> The training was inadequate and the people who were doing the work had literally, in some cases, been pulled off the street and told to install without the proper training. This shouldn’t have occurred if the training had of been done correctly at the beginning of the program (Hawke 2010, p. 61).

7.6 Government capacity vs the market

In this chapter so far I have presented a critical picture of the advice that Minter Ellison offered to DEWHA and its role in the failures of the scheme. I have also indicated that the rationale that underpinned Minter Ellison's model for the HIP relied on pro-market ideologies that depict government provision as necessarily slow, centralised, and less efficient than market provision. It would be easy, therefore, to fall into an explanation of the failure of the HIP that identifies Minter Ellison as a representative of 'the market', playing an insidious role in undermining DEWHA – in this schema the representative of 'the state'. However it is important to remember that Minter Ellison in no way imposed their vision of the HIP onto the leadership of DEWHA. Rather they were, of course, contracted to advise DEWHA of precisely the sorts of risks that they identified. When they proposed the rebate delivery model DEWHA staff appear to have strongly supported both Minter Ellison's rationale and the rebate model itself. Therefore in order to understand the nature of the HIP we must confront the fact that the anti-government/pro-market bias of Minter Ellison was wholeheartedly endorsed by the DEWHA public servants responsible for designing the HIP. For example Robin Kruk, the Secretary of DEWHA indicates her support for Minter Ellison's calls for greater use of external private expertise:

> The Minter Ellison document quite rightfully indicated that, for a program of this scale, with its ambitious targets, capacity issues would be real for any agency involved in its rollout… [The HIP's] …reach and the time lines obviously raised capacity issues at various levels—at state level and at Commonwealth level. The response was very much to buy in external expertise in relation to contracting (Senate 2010h, p. ECA 14).

DEWHA also concurred with Minter Ellison's suggestion that the solution to protecting government departments with little in-house capacity from risk is to out-source that risk. Despite all the problems that did eventuate in the HIP, support for such outsourcing does not appear to have diminished. This comment by the DEWHA secretary is typical of the attitude in the leadership of the public service:

> My view is it was an ambitious program. Basically, the issue was to use a range of strategies to minimise that risk. I am being very honest here. In relation to a lot of the program management expertise, the very detailed compliance work and the very detailed intersection with industry, that was quite pivotal. It would have been both naive and inappropriate for the department to attempt to have undertaken that in-house… The outsourcing of delivery was and is an incredibly sensible regime… (Senate 2010h, p. ECA 21).

As a result of the buying in of external expertise, the companies and consultancies that worked for DEWHA on the HIP read as something of a who's-who of Australian corporate consultants including; UGL Services (a large building maintenance contractor) for quality audits, subcontracted by Pricewaterhouse Coopers; Minter Ellison Consulting for risk assessment; PricewaterhouseCoopers (PwC) and Protiviti for compliance and audit service providers; KPMG for business model design; Ernst & Young to develop a fraud control plan; and Booz & Co. for a completion strategy once the HIP was terminated.

In DEWHA's submission to the Senate inquiry we get a clear sense that the department itself holds the utmost respect for the workings of the insulation market, and that any activity by the government must be geared to contributing to this market:

> The department has worked closely with industry including manufacturers and installers to ensure an extensive understanding of the products, methods and competition in the market… The market driven delivery model ensures

probity principles are maintained. At 6 December [2008] 6,313 active installer companies were competing in the marketplace to service household demand generated by the program. Whilst the provision of the assistance [the HIP rebate] has supported market expansion, the department does not have a direct role in the market (DEWHA 2009, p. 13).

In the previous chapter I explored the findings of the Building the Education Revolution Implementation Taskforce (BERIT) on the erosion of public works capacity in state and federal governments as a result of neoliberalism. The same issue of government incapacity features strongly in the explanations given by both Minter Ellison and DEWHA about the reliance on market delivery in the HIP. However BERIT not only quantified the erosion of state capacity, it also explained the history of this erosion and the resulting problems for future government programs.

This is in stark contrast with the treatment of DEWHA's lack of capacity in the HIP where we find the existing incapacity of the government used consistently to explain the failures of the HIP. However no commentators suggest using the HIP funding to remedy this lack of capacity. Recognising DEWHA's inability to manage contracts (Hawke 2010, p. xv), let alone insulate houses, the department congratulates itself regularly on its use of external corporate contractors to run the HIP, as seen here by DEWHA Secretary Kruk:

> It was also quite clear that the financial resources that we were required to put in this area and also the ability to attract the staff to work on the rollout very quickly were and remain challenging issues. We resorted, I think sensibly, to the use of external contractors to actually provide that. (Kruk, Senate 2010h, p. ECA 19).
>
> Staffing numbers ramped up through the period, but there was a heavy reliance on contracted staff…there were skill capacity issues at play as well. These were identified in the Minter Ellison risk report and various mitigating strategies were put in place, including using private sector

> resources to fill gaps and augmenting staffing as the program developed and rolled out (Hawke 2010, p. 48).

As I argued in previous chapters, in this way the historical erosion of government capacity that resulted from earlier policies of out-sourcing created a fait accompli that the private sector would be increasingly relied on in the future. In the debates surrounding the HIP there is a consistent belief that having DEWHA deliver the HIP is not just a current impossibility (because of its lack of capacity), but is an absurdity. For instance Liberal Senator Troeth commented of the HIP:

> I am sure you would appreciate that federal government departments are not normally in the business of service delivery. It is like them running a business, as it were, and they were running the business from here. I mean that there was no connection between them and the people on the ground (Senate 2010g, p. ECA 15).

Significantly, this view of the absurdity of the Federal department for climate change being "in the business of service delivery", is shared too by the leading staff in the department itself. Here DEWHA Secretary Robyn Kruk shows a less than enthusiastic attitude towards the idea that the HIP required DEWHA to enlarge its regulation of the insulation industry:

> Had the government elected to go down the path of putting in place another set of OH&S conditions across all of the states, that would have been neither practical nor feasible and, in effect, would have put in another layer of government (Senate 2010h).

Yet as we have seen, it was precisely the out-sourcing of risk to householders that led to a situation where the government was so many steps removed from the workers delivering the HIP that it was incapable of ensuring safe work practices. This ultimately led the government to end the program prematurely and undertake (as we shall see) a hugely expensive clean-up, compensation and work-placement program. It is interesting to note that in the controversy that engulfed the HIP none of Labor's parliamentary or media critics suggested that more of the program could have been run by the government. The notion that a government agency could itself be capable of undertaking home insulation is completely absent from the debate. In the public debate over this failed program, the universal assumption about its delivery was that There Was No Alternative to the market.

However the capacity of DEWHA was not the only area of the state where the history of neoliberalism intersected with the HIP. Debate about the standard and climatic appropriateness of various insulation materials exposed the degradation of Australia's testing and climatic research capabilities. Michel Boström, (a former Senior Policy Analyst with the New South Wales Treasury and now Managing Director of an insulation firm) claimed that economic rationalism, in other words neoliberalism, was the underlying cause of many of the HIP's problems.

In the Senate Inquiry Boström argued that the science behind insulation has slipped as a result of two decades of privatisation. He describes a litany of down-grading and out-sourcing of previously leading scientific bodies, under the logic of out-sourcing:

> A governance issue has been raised about the running of this program, but I think the governance issues go way, way further back than that. We are talking about 20 years back…Not only academia but testing and development have been run down in the name of economic rationality. We have abolished the CSIRO testing facility. The Solarch rig at the University of New South Wales, run by Professor Ballinger and Professor Deo, which was a top-rate, internationally rated rig for testing airflow, thermal flow, condensation and vapour issues, failed to get support. That was shut down and a little piece of it was sold to James Hardie. The Australian Institute of Tropical Architecture, which Professor Aynsley headed, was shut down… (Senate 2010i, p. ECA 46).

Echoing the sentiments of the foil insulation industry generally (and noted by

Hawke's review " (Hawke 2010, p. 33), Boström claims that during neoliberalism Standards Australia has gone from a government agency dedicated to furthering quality through science, to becoming open to corporate manipulation, a brand available to the highest bidder:

> We have privatised the standards association. It is now a business and it is there to make money. As I mentioned earlier, the committees are dominated by commercial interests. At the last meeting of the committee on insulation, three prominent scientists in the field, who expressed opinions as to what a suitable amendment would be, were completely disregarded and a vote was taken, largely amongst fibreglass salesmen, as to what the appropriate measures should be. That view carried - the views of the three scientists were completely disregarded and their report was thrown out (Senate 2010i, p. ECA 46).

The Liberal-dominated Senate inquiry concurs with Boström that Australia's independent scientific testing and standards structures are wanting. In the final Senate Inquiry report the following recommendations were made:

> 5.19 Considering the importance of insulation to the energy efficiency of Australian homes, it is most regrettable that there is no independent scientific facility in Australia able to research the properties of the various systems and advise on insulation policy in context of overall energy efficient housing goals.
>
> …
>
> 5.21 The committee agrees that there should be a dedicated and independent research facility able to research insulation systems and advise on insulation policy. Where it should be housed would be a matter for further consideration.
>
> 5.22 This should be regarded as an essential part of any future government initiative to improve home insulation, in order to ensure that the investment is directed most efficiently (2010a, p. xxii).

These recommendations are particularly surprising given that many of the changes that Boström points to were undertaken during the last Liberal Howard government.

7.7 Manage and control, not abdicate and hope

I have illustrated the way that the government designed the HIP around shifting legal and financial liability from itself to the householders and installers. But what became clear in the scandal surrounding the HIP is that in the public mind the government ultimately remained responsible for the HIP – the safety of the houses involved and the workers who insulate them. The Liberal opposition also held the government to account for the HIP, (perhaps hypocritically given their own ideological commitment to the out-sourcing of risk embodied in the HIP). Further, in the end the federal government did bear at least the reputational and moral (if not financial and legal) risks of the HIP. This can be seen in the fact that Rudd felt compelled to take full responsibility for the failures of the HIP in 2010, and even to issue a formal apology in 2013 to the families of the workers killed.

The voices of the families whose loved-ones were killed working on the HIP show clearly that in the public mind the government was held responsible for the program. Asked who Christine Fuller, mother of 25 year old first-time insulation worker Matthew Fuller, held responsible for her son's death she answers:

> The government. The government for rolling out that insulation package with no, no plan. Just put it out there and see what happens, fix it on the go. That's what they did (*"A Lethal Miscalculation" ABC Four Corners* 2010).

The same message comes loud and clear from the Wilson family:

> I think it's just a make money scheme, basically. Get any workers you can in there, experienced or not. Just get 'em in there, get your money's worth out of 'em, who cares about the workers. And unfortunately it did take the death of my brother, but I want someone responsible for this, and I think the government needs to wake up and just start taking action (Jessica Wilson, sister of young worker who died working on the HIP *Worker's death prompts calls to halt insulation scheme: ABC 7.30 Report* 2009).

Indeed the Queensland Coroner concluded that the Commonwealth government should have foreseen the risks facing the HIP workforce and done much more to address them:

> …it is reasonable to expect that when the Commonwealth Government injects $2.7 billion into the economy via a program designed to create employment for unskilled and/or unemployed workers, it will have regard to the possible safety implications (Coroner 2013, p. 67).

Coroner Barnes also notes that the design of the HIP gave extremely limited powers of regulation to DEWHA. As we have seen, DEWHA officials celebrated this 'light touch' regulation because it allowed the market greater scope to flourish and rapidly implement the HIP. Further the Coroner argues that there were faults in the HIP's risk assessment processes:

> The scheme was based on participants self selecting and qualifying and then certifying compliance to receive payment. The only leverage the project managers had was to refuse to pay if they became of aware of non compliance with the HIP guidelines. The risk of physical danger, damage to property and fraud should have been obvious – all eventuated. DEWHA sought to control a massive program anticipated to operate around the country for a number of years by simply stipulating minimum training or experience criteria for those seeking to become registered installers and requiring that they supervise the people actually doing the work who would only have to have the minimal entry level OH&S induction… The

> program's only real control mechanism was a refusal to pay unless certain criteria were met but it had minimal mechanisms in place to monitor these. Inadequate safeguards to protect installers from the risk of electrocution were mandated because the risk management process which informed the design of the program did not identify the magnitude of that risk accurately (Coroner 2013, p. 67).

Once the government was seen as responsible, then all the ways in which the HIP design attempted to out-source risk were interpreted as cynical and irresponsible ploys to conceal government responsibility for the scheme. In the following comments by the Fullers to the Senate Inquiry into the HIP, all the policies we have referred to are explained through a prism that rejects the idea that the householders and installation contractors should be responsible for the tragedies of the HIP. From this point of view all the elements of the scheme (insisted on by Minter Ellison) such as covering off liability through careful contracting, and risk-mitigation strategies, are understood as cynical attempts by the government to shirk its responsibilities:

> [home-owners] were expected to sign for everything being hunky dory—'I fully approve this and I absolve the government of everything.' How many people read it? That is why it was designed that way, because they knew no-one would read it— 'We're covered.' It was a case of it being at arms-length, another separation. In our opinion, all the paperwork and the tick-and-flick safety forms that were progressively implemented **were primarily designed to absolve the government and the department of all known risks. When they found another risk, they did another thing to absolve themselves of that…** The department must manage their own program. They cannot expect the homeowner to sign off on it and absolve them (Senate 2010g).
>
> We think that every step, every form and every change throughout the program was made to ensure that there was always a distance between the problem and the government department. In the new program [at the time

> of these comments the HIP had only been temporarily suspended] the department and its staff must have teeth and should own the program and not hide from it – manage and control, not abdicate and hope (Senate 2010g, p. ECA 6).

These comments are very astute. They indicate that despite the hegemony of outsourcing and market provision within the senior public service, the community nevertheless understands that the government is, and should be, responsible for its programs. Interestingly the Fullers also correctly identify the way in which the very design of the HIP centred on identifying risks and transferring them away from the federal government.

Arguably the only way that the government could meet these expectations would be to implement the program in-house – to "manage and control, not abdicate and hope". As it was in the rebate-model HIP, hope is all the government could reasonably do, with mushrooming of providers able to access payment through Medicare with only online registration. The comments of the families suggest that the neoliberal assumption that government should no longer be "in the business of service delivery" has failed to win support in the wider community. In fact there is derision for the idea that the government no longer have an active role in running a program such as the HIP:

> To us it was seriously a case of: 'We have everything covered because we don't do anything. We're the government and what we have done is that [the HIP rebate]. Now if you can give me a bit of paper that says you've got your business covered and you've got insurance and you've got this and you've got that, therefore whatever you do wrong has got absolutely nothing to do with me. I haven't written any policies or procedures. I haven't really given you any instructions (Senate 2010g, p. ECA 15).

7.8 Clean-up

Rather than address the fundamental failings of the rebate-model, the government decided that the whole program must be terminated. But, and this was something more accurately predicted by Minter Ellison, such a termination came at a heavy price. On 24 February 2010 Rudd announced a $41.2 million “industry assistance package for insulation workers” ('House of Representatives Ministerial Statements Home Insulation Program Speech - Greg Combet' 2010, p. 2152) including 4000 training places to assist the workers who had temporarily entered the insulation industry but were dismissed when the HIP closed (Hawke 2010, p. 5). Calls for all houses insulated under the HIP to be inspected came from the Melbourne Metropolitan Fire Brigades (*Garrett under pressure over insulation deaths: ABC 7.30 Report* 2010) and the CEO of Master Electricians ('House of Representatives Ministerial Statements Home Insulation Program Speech - Greg Combet' 2010, p. 2154). Stopping short of this mammoth undertaking, on 10th February 2010 Minister Garrett announced that all houses insulated with foil would undergo an electrical safety inspection (*Foil roof insulation suspended by Government: ABC 7.30 Report* 2010).

There appears to have been a more thorough and methodical treatment of the clean-up than of the original roll-out, as the top priority of the government had become scandal-avoidance (*Foil roof insulation suspended by Government: ABC 7.30 Report* 2010). Open-ended promises were made, and government agencies such as the CSIRO were brought on board for the first time, to evaluate the extent of electrical hazard requiring action by the Commonwealth. Somewhat ironically it was the HIP clean-up program, the “Home Insulation Program Review Office” overseen by Minister Combet (Hawke 2010, p. 32), that finally saw the government create a dedicated agency within DEWHA relating to energy efficiency. This would not be an ongoing agency.

However the involvement of the CSIRO and enlargement of DEWHA's staff to deal with the fall-out from the HIP did not signal the end of the involvement of private consultants. In fact while Minter Ellison were not re-engaged, the use of corporate risk consultants continued. DEWHA Secretary Robyn Kruk explains:

> Subsequent to the government's announcement of the termination of the program, we have been working very closely with PwC [Pricewaterhouse Coopers] to put forward a proposal to government that effectively deals with the risk structures that we have picked up through our own program to date (Senate 2010h, p. ECA 31).

The cost of closing the scheme and throwing huge levels of resources into the clean-up must not be overlooked in assessing the lessons of the HIP. In April 2010 *Four Corners* calculated that the cost of inspecting the houses already insulated under the HIP could be up to $1 billion (*"A Lethal Miscalculation" ABC Four Corners* 2010). The final costs were likely higher still. These termination costs only extenuated the failure of the HIP to leave any ongoing capacity in the relevant government departments at the end of the scheme.

7.9 Conclusions

As I discussed in Chapter Six, the erosion of government service delivery and public works capacity has been a key feature of the neoliberalisation of the state in Australia. However school buildings have been a historically constant feature of government responsibility, allowing us to compare the model of their delivery in the neoliberal period to that of previous governments. In contrast, awareness of climate change and the formation of an environment department are recent developments and originated within the parameters of neoliberalism. This poses difficulties in imagining another, non-neoliberal, conception of such a department.

It is clear that despite the historic size and scope of the HIP, the Rudd government never conceived the program as part of the ongoing creation of an energy efficiency agency. One of the Hawke review's suggestions is that if the HIP were to be maintained (remembering that it was the publication of Hawke's review that was used to finalise the program) it should be overseen by Defence Housing Australia [DHA] (Hawke 2010, p. 37). Hawke's rationale is extremely revealing:

> [Defence Housing Australia] is the only Commonwealth agency that continues to contract directly with the construction industry on a national basis. Significantly, it has successfully delivered the Defence Housing component of the Nation Building and Jobs Plan (Hawke 2010, p. 37).

Here Hawke implicitly recognises the limitations of the out-sourced model of the HIP and the need for coordination by a government agency with in-house capacity to work directly with the construction industry. As Hawke notes, DHA's ability to spend its allocated stimulus funding in a short-time with high quality outcomes was dramatically greater than departments such as state and territory housing or education departments where a more out-sourced model had been established as a result of neoliberalism.

Hawke fails to suggest the next step on this line of reasoning – that DEWHA should be funded to acquire a level of in-house capacity similar or greater than that of DHA. But there is an implicit recognition in this recommendation that if the HIP were to work it would require greater government capacity.

CHAPTER 8

The Social Housing Initiative

At a cost of $5.638 billion (KPMG 2012, p. 1), the Social Housing Initiative (SHI) was the third largest program in the Nation Building Jobs Plan after the Building the Education Revolution and the various cash payments. Initially the SHI aimed to build 20,000 homes for Australia's most disadvantaged people. Later the size of the program was reduced to 19,300 homes after the government diverted $750 million to make up a funding shortfall in the Primary Schools for the 21st Century program (P21) (Colebatch & Nader 2009).[78] However some of this reduction was compensated for with "…the number of dwellings to be delivered exceed[ing] targets by approximately 13 per cent" (KPMG 2012, p. 3). This meant that the final number of new dwellings constructed was closer to 19,700 (KPMG 2012, p. 3). As a result of the repair and maintenance component of the Social Housing Initiative another 12,000 dwellings deemed "uninhabitable, or likely to be uninhabitable within two years" were brought up to a standard that kept them in the social housing system (KPMG 2012, p. 3). Overall an estimated 24,000 people were housed as a result of the Social Housing Initiative (KPMG 2012, p. 72).

The Social Housing Initiative (SHI) stands out amongst the Rudd government's stimulus programs in several ways. Firstly, unlike the other major infrastructure elements of the Plan such as the Building the Education Revolution or the Energy Efficient Homes package, the SHI drastically augmented an existing and on-going element of federal and state responsibility. In other words the SHI was not specially designed for the stimulus package, but rather provided an historic funding boost to the existing social housing program, which, as we will see, had not received an increase in funding for many years previously. The SHI also stands out as responding directly to a recognised decades-long crisis in affordable

[78] See Chapter Six. The government had only estimated a 90% uptake for Primary Schools for the 21st Century, when this was significantly exceeded, and new schools opened which the government had not budgeted for, the P21 program fell short of funds. These were taken from the SHI.

housing. It is for this reason that the social housing initiative has been greeted enthusiastically by the welfare sector and beyond.

Interestingly the enormity of the SHI and the enthusiasm it generated among those working in the sector were not reflected in the level of publicity that the program attracted. It is remarkable how little public coverage the housing of over 20,000 people achieved. One reason for this is that the SHI was not subject to the level of controversy seen in the Building the Education Revolution or Home Insulation Programs. This lack of publicity may have been due to the fact that social housing recipients are socially and politically marginalised, unlike, say, school children and their families (as the key group affected by the Building the Education Revolution). However the Social Housing Initiative may have avoided the opprobrium directed at the Building the Education Revolution and the Home Insulation Program because it was run better than either of the other major construction measures in the NBJP. If this is the case it lends weight to the suggestions made by the Building the Education Revolution Implementation Taskforce (BERIT) that programs which draw on a greater level of in-house public service expertise produce safer and more reliable results than those relying more extensively on private contractors. The SHI, as an extension of an existing program, had drawn on existing public works expertise in state and territory housing departments.

However, even though collaboration with the private sector did not lead to the high-profile debacles seen in the Home Insulation Program or the Building the Education Revolution, it was nevertheless central to the operation of the SHI. The erosion of public works capacity and its impact on the nature of social housing is a key determinant in the way that the SHI was delivered. Many of the issues about the relationship between historic out-sourcing and public works capacity discussed in Chapter Six are relevant to understanding the SHI. The program also provides further evidence of the pro-market bias of senior public servants and Rudd government Ministers discussed in Chapter Seven.

As well as changes in the way that public housing has been delivered as a result of neoliberalisation, this chapter explores the equally dramatic erosion of public housing itself in recent decades. As we shall see, the SHI became a double-edged sword for the Rudd government. It generated enthusiasm in the welfare sector, yet rather than satisfy demands for social housing[79], the program drew attention to the fact that Rudd Labor was not providing a long-term solution either to the decline in public housing or to the crisis in housing affordability more widely. The ambivalence provoked by the SHI is captured by Greens Senator Scott Ludlam in a parliamentary speech in 2011, who commented "I think [the Social Housing Initiative] was one of the better part of the stimulus package that the government, with the concurrence of the Greens, sought to make investments in public housing…" (Senate 2011).

Having registered support for the SHI, Ludlam quickly moves to criticising Rudd Labor's failure to create a long-term strategy to deal with the on-going crisis in affordable housing, saying:

> There is no plan, there is no proposal, to plug that shortfall [in funding for affordable housing] of $24 billion. [Labor Senator Mark Arbib] says it is up to the affordable housing sector to build it, it is up to the community housing sector, it is up to investors. He wants to leave it to the market to fix a market failure and chronic underinvestment by successive governments… This is why we need long-term planning, funding and targets for social housing as a proportion of all stock based on housing need. The stimulus spend was absolutely welcome, but even the government and the minister concerned have acknowledged that it does not go nearly far enough… (Senate 2011).

We cannot make sense of the SHI without first explaining this "chronic underinvestment by successive governments" (Senate 2011). This chapter will

[79] Social Housing is an umbrella term that covers public housing provided directly by state and territory housing departments, and housing provided by Community Housing Providers (CHPs). The term only arose with the prominence of the CHPs after the 1990s. In this chapter I have used the term public housing to refer to government provided housing pre 1990s and social housing to refer to both public and CHP housing in more recent times.

therefore chart the history of social housing and the context into which the Social Housing Initiative fits. Senator Mark Arbib claimed that the SHI was the “single largest investment in social housing ever undertaken by an Australian Government” (*Handover of 750th social housing home to Mission Australia Housing in NSW* 2011), a description supported by Minister for Housing Tanya Plibersek who called the SHI the “biggest ever investment in social housing in Australia” (Carapiet 2009). Arbib and Plibersek are certainly right that the SHI brought funds into the social housing system that had not been seen since the Hawke government of the 1980s (KPMG 2012, p. 29). However their claims ignore the public housing investment by Labor’s post-war Curtin/Chifley administration. The Labor government of the 1940s funded the building of 120,000 houses in the decade following 1944, a program that dwarfs the SHI in numerical terms, even before considering population growth.

The final section of this chapter discusses the legacy of Rudd’s injection into social housing. Central to this question, the chapter explores the implications of the Labor government’s decision to transfer ownership of 50per cent of housing built under the SHI to non-government Community Housing Providers (CHPs). Further, of the remaining half to be owned by the state and territory housing departments, 30 per cent would be managed by CHPs. This chapter explores the rationale for this dramatic transfer of government assets into the Community Housing Non Government Organisation (NGO) sector. The central aim of this program design was the desire by the Federal government to maintain social housing not through government borrowing, but rather through private financial debt. As we will see, the transfer of social housing out of the government sector was overwhelmingly conceived as a way to “leverage” borrowing in commercial credit markets in order that these borrowed funds go to the maintenance and expansion of social housing. This is a recent, and indeed novel, use of the non-government sector as an intermediary in a scenario designed to reduce government debt financing for social services. It was a strategy for transferring responsibility, liability and debt off the government’s balance sheet.

The design of the SHI around asset-transfer out of state and territory housing departments poignantly captures many of the tensions in Rudd's stimulus efforts. On the one hand the SHI represents a badly needed public investment in a service that assuredly benefits the poorest in the Australian community while generating employment through a significant fiscal intervention. The SHI arguably represents a substantial expansion of the state. However the SHI was not designed to expand the state. Rather, the greater part of the funds was deployed in such a way as to limit the need for future government outlay. This was spending designed to reduce spending. In this sense the half of the program that ended in assets owned by Community Housing Providers can be categorised as economic engineering, and in a perverse way an effort to streamline the state and pare down government responsibility for public housing.

8.1 The SHI at a glance

The stated aims of the Social Housing Initiative were to:

1. Increase the supply of social housing, via construction of new social housing and the repair and maintenance of existing dwellings;
2. Provide increased opportunities for people who are homeless or at risk of homelessness to gain secure long term accommodation; and
3. Stimulate the building and construction industry.
4. (KPMG 2012, p. 1).

In Chapters Six and Seven I illustrated to what extent the needs of the construction industry were central in the design of the Building the Education Revolution and the Home Insulation Program. The same concerns are evident in the design of the SHI. Indeed the aim of stimulating the construction sector appears to have been achieved. KPMG modelling suggests that the SHI created 9,000 full-time equivalent jobs in the construction industry, and perhaps 14,000 jobs across the economy generally (KPMG 2012, p. 2), which was welcomed as a good outcome. The SHI received special mention in comments made when Kevin Rudd addressed the Master Builders Australia national conference in November 2009, saying "…the building industry had risen to the challenge of the 'most ambitious nation-building recovery plan in Australian history'… 'I salute your industry'" (Rudd, quoted in Bartlett 2009).

Master Builders Australia also appreciated the SHI for stimulating activity in the construction industry. This was conveyed by Peter Jones, Chief Economist of the Master Builders Australia, who said: "The [building] industry is playing a vital role in the Government's countercyclical fiscal policy and construction for the public sector was up a massive 17.6 per cent in the September quarter and by nearly 40 per cent through the year" ('Government stimulus spending supports construction' 2009).

As with the other stimulus measures, the time-lines dictated by Canberra were hugely ambitious and these were central to the design of the program. For instance the SHI operated in two stages, and in order to receive funding states and territories had to submit proposals for the approval of the Commonwealth Minister for Housing. Projects funded under Stage 1 had to be submitted by 15th March 2009 (only a month and a half after the announcement of the NBJP), and those funded under Stage 2 by 30th June (less than five months into the stimulus program) (Shepherd & Ableson 2010, p. 96).

At the same time the Federal government set the condition that the maximum average cost of construction for dwellings should not exceed $300,000 (Shepherd & Ableson 2010, p. 96). As a way to meet both the Federal government's cost-cap, and the ambitious time-frames for approval, Housing NSW built 94 per cent of its social housing on land already owned by the state government rather than acquiring land on the private market (Shepherd & Ableson 2010, p. 99).

Despite these constraints, some reports suggest that the SHI helped lift the standards of social housing in several ways. For instance the KPMG auditors of the program reported that the SHI had led to innovations in the design of social housing, and had "…provided a catalyst to shift social housing outcomes and urban design in certain areas to new levels of excellence" (KPMG 2012, p. 5):

> The overall design of the dwellings (inside and outside) was highlighted as being "a great leap forward in social housing", with one architect noting that the construction industry is moving towards "blind tenure" design, which evens out the quality of buildings across private, public and community housing (KPMG 2012, p. 44).

Under the SHI NSW building procedures reached a six star energy rating (higher than normal), with solar or gas heating (Shepherd & Ableson 2010, p. 96). Similarly the SHI saw 46 per cent of housing constructed in regional locations that had long been unable to meet the demand for public housing (KPMG 2012, p. 4).

8.2 History of social housing

In the introduction above I noted that the Social Housing Initiative, while welcomed by the welfare sector, appears to have only exposed the scale of the existing crisis in affordable and public housing in Australia. This mixed response indicates the way in which the history of public housing and its erosion imposed itself onto the SHI. It is therefore necessary to explore this history by way of contextualising Rudd's program. Further, the historical changes to social/public housing since the Second World War provide an instructive illustration of the transformation of the state during this time.

The Commonwealth-State Housing Agreements (CSHA) arose out of the recommendations of the Commonwealth Housing Commission established by Labor Prime Minister John Curtin in 1944 and concluded in 1945 then under Chifley Labor. The Second World War had created huge housing shortages with civilian construction suspended throughout, and Labor's public housing program was a central plank of its post-war reconstruction efforts. In the decade after 1945

120,000 units of public housing were built (Morris 2010, p. 33). The political popularity associated with public housing can be seen in the fact the incumbent NSW Labor Premier McGirr won the 1947 election on a platform of building 90,000 homes in the state within three years (Wilkinson 2005, p. 6).[80]

An important part of Labor's early public housing policy responded to the housing needs of returned soldiers and their families, with the1945 Commonwealth-State Housing Agreement ensuring that 50 per cent of housing went to ex-defence force personnel. However there was also a clear social democratic basis to the housing programs of this period and as Troy explains, the Commission itself "…was strongly oriented to concepts of public housing reflecting the needs of lower income workers" (Troy 2009, p. 15). Further, the Commission held affordable housing to be an entitlement which governments were responsible for fulfilling. This led to a policy whereby public housing rent was set at 20 per cent of the basic wage (Wilkinson 2005, p. 6). The 1944 Housing Commission's report argues:

> We consider that a dwelling of good standard and equipment is not only the need but the right of every citizen – whether the dwelling is to be rented or purchased, no tenant or purchaser should be exploited by excess profit (Wilkinson 2005, p. 6).

Or as Chifley stated:

> The Commonwealth-State Housing Agreement is an assurance that the low-income earner can secure a good home at the rent he can afford because of the assistance rendered to him under the rental rebate system (Chifley 1949).

Labor's housing policy in these years centred on public provision, and little concern was given to the impacts this might have on the private housing market. For instance Labor Housing Minister Dedman said of the promotion of homeownership to workers "[t]he Commonwealth Government is concerned to

[80] McGirr's public works programs were not delivered as promised. However it is worth noting the scale – within NSW alone – of this proposed program dwarfs the SHI, especially on a proportional basis.

provide adequate and good housing for the workers; it is not concerned with making the workers into little capitalists" (Troy 2009, p. 21).

Labor's housing policies in this period show a clear commitment to the social democratic notion that the government should use the state to civilise the market. By building public housing on a significant scale the Labor government expanded the remit of the state in order to protect workers, returned soldiers and the poor from the inadequate housing options (or homelessness) accessible to them in the private market. However, as we saw in Chapter Two, this vision of the social democratic state was in no sense antagonistic to the market itself. In fact in his re-election bid in 1949 Chifley welcomed and took credit for the growth of the private housing sector under Labor (Chifley 1949).

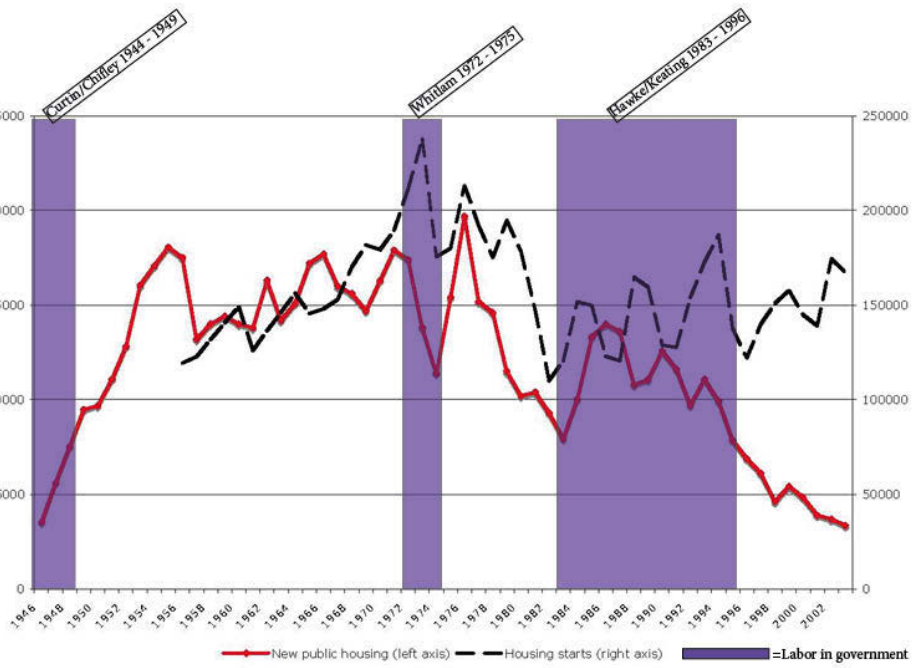
In Chapter One I noted that the post-war welfare state received bipartisan support by virtue of the fact that it was seen as complementary to the expansion of the economy and increasing labour productivity. This bipartisanship can be clearly seen in the fact that even when Labor lost power in 1949, the CSHA public housing system continued to receive support and funding from the federal government under the Conservative Menzies government. In fact the public housing system established by Chifley was a bedrock of Australia's welfare state throughout the post-war boom (Morris 2010, p. 33).

However the priority given to the public provision of housing between 1945-1955 lessened during the 1960s. The key reason for this was that the boom that took off after the war, by increasing real wages and genuine full employment, facilitated the growth of private homeownership. Yet even with an increase in the numbers of workers buying their own homes in the 1950s and 1960s, the rate of public housing built each year averaged roughly 20 per cent of all new houses built (Wilkinson 2005).

The 1970s – public housing for "special areas of need"

Given Whitlam Labor's ambitious social reform agenda, as discussed in Chapter Two, the Whitlam government might have been expected to dramatically increase the level of funding for public housing. However despite increasing the public housing budget he inherited, Labor did not reverse the decline of the proportion of new public housing to overall housing, which fell to 13 per cent of the private sector by the time Whitlam left power in 1976 (Wilkinson 2005, pp. 10-5).

Figure 8.1 New Public Housing Construction 1946 – 2002



Note: The Figure appears to show a drop in public housing construction (red line) under the Whitlam government. However, allowing for the lag between a government announcing increased funding, and the delivery of new housing, the realisation of Whitlam's housing policies can be seen in the spike in public housing that occurs in 1976 and 1977.
(Source: Dalton 2009)

Whitlam was also responsible for beginning the evolution that saw public housing move from being conceived as a respectable option for low-income working families to a means-tested “safety-net” available only to welfare recipients suffering multiple categories of social disadvantage. Further, Whitlam’s housing policies make explicit Labor’s strong support for the private housing market, as can be seen in these comments by one of Whitlam’s Housing Ministers Joe Riordan:

> …the construction activities of the public [housing] sector are designed basically to complement rather than compete with the private sector. They cater for special areas of need… The government wants to see a healthy private sector continuing to dominate the [housing] industry…There is no intention or desire to increase the direct role of government in the industry (quoted in Wilkinson 2005, p. 14).

Riordan’s mention of public housing addressing “special areas of need” is indicative of the shift which began under Whitlam whereby the role of public housing itself was reworked from what had been considered a mainstream service for low-income workers, to a program targeted at those on the lowest incomes and with the greatest social need. As another Whitlam Housing Minister, Les Johnson, explained, Labor’s “… assistance [would] henceforth be directed towards those families and persons most in need of it… Those eligible will be mainly the lower income families” (then housing minister Les Johnson, quoted in Wilkinson 2005, p. 15).

The Liberal Fraser government consolidated this trend of targeting public housing, or as Wilkinson describes it the “…conversion of public housing to residual welfare housing…” (Wilkinson 2005, p. 18). Wilkinson argues that Fraser’s Coalition government “…essentially resolved to terminate public housing as a government-assisted recourse for low income earners” (Wilkinson 2005, p.

17). As a result the 1978-82 Commonwealth-State Housing Agreement (CSHA) saw public housing construction rates fall to 8 per cent of the total builds.

Hawke and Keating

Figure 8.1 above clearly indicates the significant spike in public housing investment in the early years of the Hawke Labor government. However rather than attempt to reinstate public housing as a broad-based service to meet the government's responsibility to house its citizens, it appears that Hawke's concern was to deal with the immediate housing crisis resulting from the recession of the 1980s. Rising unemployment combined with high inflation had become a barrier to home ownership for growing numbers in the early 1980s. Waiting lists for public housing passed 125,000 in 1983 (Morris 2010, p. 33).

Hawke more than doubled funding for the Commonwealth State Housing Agreement (Morris 2010, p. 33). However even with this huge increase of funding, and the increase in public housing stock (from 273,000 dwellings to 388,600 dwellings), scompared to the total private housing market public housing only grew slightly from 6 – nearly 7 per cent (Morris 2010, p. 34). By the end of the Hawke period in 1989 this figure had fallen to 5 per cent (Wilkinson 2005, p. 20).

At the same time as increasing the CSHA Hawke pioneered other policies that would be even more important to the nature of housing policy in coming decades. Far more significant than Hawke's doubling of the CSHA was his government's establishment of Commonwealth Rent Assistance (CRA) (Wilkinson 2005, p. 20) in the form of a cash payment for eligible low income people to subsidise in part their payment of private rent. Even with Hawke's increase to the public housing budget, still funding for CRA quickly increased to the point where it surpassed the public housing budget. The CRA budget went from 25 per cent of the CSHA budget, to 150 per cent by the mid-1990s as both the number of recipients, and the amount of assistance that they received exploded (Morris 2010, p. 34).

This shift from government funding the direct provision of housing to providing a subsidy for private rents is of the utmost importance. Morris argues that it was in part driven by the size of waiting lists for public housing, which topped 200,000 people in the early 1990s (Morris 2010, p. 34). However as Morris also notes, there was a growing significance to the notion that governments' role was subsidising the private market, rather than providing housing itself.

The development of the CRA – a cash payment subsidising the private rental market to provide accommodation to those on low incomes – appears emblematic of the neoliberalisation of the state, which as discussed in Chapters One and Two, was being overseen by Hawke and Keating's Labor government. The transition from CSHA to CRA exemplifies the broader neoliberal shift in which government pares back the direct provision of services and instead provides funds for citizens to deploy in the market. It embodies the shift from rowing to steering discussed in the introduction to this section.

Alongside the CRA Hawke launched other policies that bolstered the private housing market. In Chapter Five I discussed the First Home Owners Grant which Rudd boosted as part of his stimulus efforts. Hawke pioneered the Grant in 1983.[81] As we saw in Chapter Six, many critics of payments for first homeowners have argued that rather than provide access to housing the grants in effect allow the seller to increase their prices. Similarly, upward pressure on rents is arguably created by the payment of Commonwealth Rent Assistance,[82] which effectively assists landlords rather than tenants.

On top of these housing policies, in an effort to increase rental supply Hawke also introduced "negative gearing" tax concessions for homeowners and investors who rented out their properties (Wilkinson 2005, p. 20). The late 1980s saw a boom in

[81] The First Home Owners Scheme legislated in October 1983, was not means-tested, and provided between $2000 and $5000 to buyers (Morris 2010, p. 35). In 2000 the Howard government re-introduced a $7000 grant to first time home owners.
[82] A further concern with the efficacy of rent assistance payments is that not only are they are not sensitive to the variation of rent across geographical areas, but they have woefully failed to keep up with market rents. Morris cites the example of a single person living on Newstart Allowance, who are left with only $34 left to subsist on after paying the median rent for a one-bedroom apartment in Sydney (Morris 2010, p. 40).

housing prices, particularly in Sydney where a 245 per cent increase in the median price was seen between 1980 and 1989 (Wilkinson 2005, p. 21). Both the First Home Owners Grant and negative gearing policies contributed to this. These increases came at the same time that the mechanisms of the Accord ensured wage suppression (Wilkinson 2005, p. 21).

While Hawke had both drastically increased public housing expenditure and invested in policies directed at ensuring that the private housing market met the needs of those on low incomes, under Keating the Labor government's housing policy leant firmly away from public provision. Keating believed that rapid expansion of the private housing sector had "…buoyed the economic recovery" after the recession of 1992 (Wilkinson 2005, p. 23). According to Wilkinson this had a negative impact on the Keating government's attitude towards public housing:

> With the commercial housing sector now being used to propel recovery in the business sector, the Keating government was reluctant to re-introduce government as a competitor to the housing sector and now began to turn even more to rent subsidies as a means to support people on low incomes (Wilkinson 2005, p. 23).

As a result the 1989 - 1996 CSHA actually saw a dramatic contraction in the rate of social housing construction with public housing being built at only 4 per cent the rate of the total housing sector. The growth of the private housing market itself became entrenched as the Labor government's preferred method of housing low-income workers, as was embodied in Commonwealth Rent Assistance and Labor's other housing industry supports:

> When the Coalition regained control of the federal government in 1996, the perception within government that low-income non-homeowners should preferably find their accommodation in the private rental market rather than public housing was well-established (Morris 2010, p. 35).

During the last years of the Keating government and throughout the Coalition government‘s tenure (1996-2007) the predominance of funding for rent assistance over social housing grew, with federal funding for Commonwealth Rent Assistance being increased by 7 per cent in real terms at the same time as the CSHA funding was decreased by 54 per cent. This left the CRA budget roughly double that of CSHA by 2006 (Morris 2010, p. 36).

Under the Howard government the funding for social housing was reduced to the extent that the total number of dwellings fell from 388,000 to 335,000 despite population increases (Morris 2010, p. 36). Howard brought the erosion of public housing to its logical conclusion with the abolition of the Housing Ministry, the tightening of eligibility tests for public housing, attacks on the notion of lifetime tenure, and moves to "convert the $1.5 billion used by the CSHA for construction and maintenance into cash assistance for private and public renters…" (Karantonis, quoted in Wilkinson 2005, p. 27). By 1999 public housing was being built at 2 per cent of the rate of the private housing sector. In other words the growth rate of public housing compared to the broader housing market had fallen to one tenth of the rate established in the 1940s (Wilkinson 2005, p. 28). By 2002 it had fallen to 1.5 per cent (Wilkinson 2005, p. 30).

The policies of Hawke, Keating and Howard were directed towards support for the private housing sector. This goal was seen as both a way to stimulate growth in the economy generally and, through funding private rent subsidies, as the preferred method for supporting low-income people to achieve housing. As Greens Senator Scott Ludlam points out, these priorities can be clearly seen in current federal and state budgets, with support for the housing industry itself through tax breaks and as we have seen through homeowner bonuses, dwarfing the assistance going towards public and affordable housing budgets:

> The Senate select committee investigated factors influencing the demand for housing and reported that the combined total of capital gains tax arrangements, land tax exemptions, negative gearing arrangements and so on is of the order of $50 billion per year. That is spread across the

> Commonwealth and state systems $50 billion a year in concessions while we are spending something of the order of $2 billion or $3 billion a year on genuine housing affordability initiatives across the country (Senate 2011).

8.3 Rudd's Social Housing Initiative

The summary history above illustrates the way in which a significant public housing system initiated in the 1940s and maintained until the 1990s was slowly de-funded to the point of near collapse. As we have seen, several factors allowed this transformation. Initially the growth of home ownership resulting from rising incomes and the boom conditions of the 1950s and 1960s lessened the demand for public housing. Under the Whitlam Labor government the notion of public housing as a mainstay of working class housing was altered to envisage public housing as a service for the disadvantaged. However, it was the Hawke government that, while initially hugely increasing spending on public housing, initiated policies that provided government-supported low income housing in the private rental market. As I have argued, Keating, by ending Hawke's support for public housing, steered government policy squarely towards market solutions to housing affordability. This approach allowed the rapid and near-terminal decline of public housing.

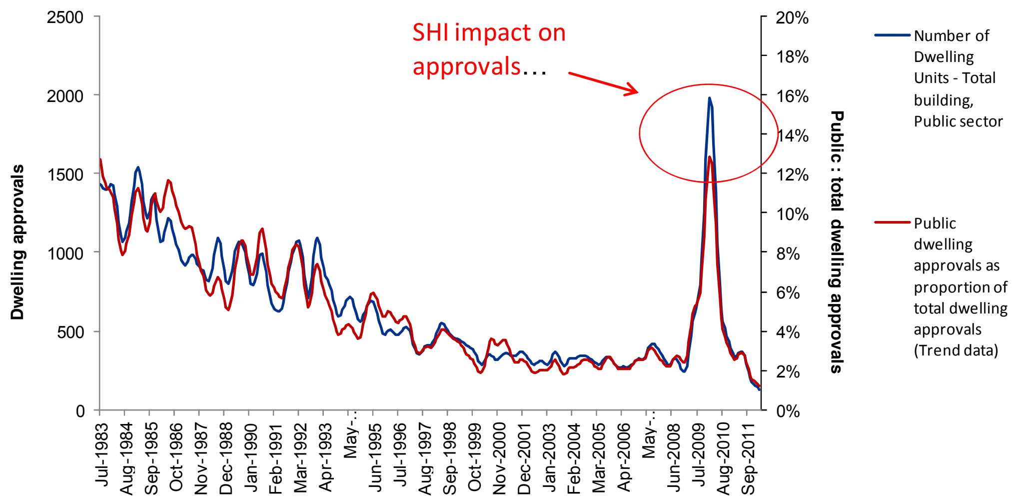
It is in this context of a continuing narrowing of government support for public housing, alongside the consistent increase in policies that strengthen the private housing sector, that we must locate Rudd Labor's housing policies. Indeed on coming to power Rudd claimed that affordable housing was one of its high priorities, with the commissioning of Green and White papers in its first year in office (Morris 2010, p. 47). The outcome of these was the National Affordable Rental Assistance Scheme. In this scheme the government provides financial incentives for organisations and companies[83] to house low-income people on rents at least 20 per cent below market rates (Services 2013).

Rudd's $6 billion investment into social housing is therefore quite a break with the previous twenty-years of policy of depleting public housing. Despite Rudd's interest in housing affordability, he had not, prior to the crisis, increased investment in social housing. The National Affordable Rental Assistance Scheme (NRAS) his government initiated, by subsidising private organisations to provide rental accommodation for low-income earners, has more in common with Commonwealth Rent Assistance than with social housing, in that it relies on the market to ensure provision. The mandated rental caps as part of the NRAS assists affordability more effectively for low-income renters than CRA. Nevertheless, the NRAS is a government subsidy rather than a direct government provision mechanism.

Figure 8.2 below clearly shows the massive injection of resources into public housing as a result of the SHI.

[83] The Department of Social Services website offers the following description of those they suggest participate in NRAS: "Potential participants in NRAS include financial institutions, medium to large-scale investors, private developers, not-for-profit organisations and community housing providers who may build, own, finance or manage NRAS dwellings" (Services 2013)

Figure 8.2 Public Housing Building Approvals 1983 - 2011



(KPMG 2012)

Figure 8.2 also captures the trajectory of decline since the 1983 election of the Hawke government (when the data-set begins). Lastly the figure captures the fact that at the completion of the SHI approvals for social housing fall once more to less than 1 per cent of total housing approvals. From the figures provided above we know that this is in fact the lowest level since the Second World War. The KPMG audit of the SHI captures this contrast – the immensity of Rudd's injection into social housing, and also the fact that without an ongoing commitment to increase the program the rate of building has fallen to historic lows also on Rudd's watch:

> At the height of the SHI, public housing building approvals accounted for almost 13 per cent of total building approvals — the highest proportion in almost two decades. Now, with the SHI construction almost completed, construction and activity levels have decreased to below historical trends (KPMG 2012, p. 32).

The figure, and indeed all the figures above referring to the rate of public versus private approvals, do not capture the relative size of the social housing stock, only the rate of construction. Read incorrectly the figure appears to indicate that the housing stock built under the SHI simply disappeared in 2011, when in fact those units are a sizeable increase to stock. However even at the level of the real housing stock created by the SHI, Morris calculates that the program failed to make up for the scale of decline in previous decades:

> Thus, although $6.1 billion has been allocated for public housing and it is envisaged that 19,300 homes will be built, this latter figure represents less than half of the public housing stock that has been lost in the last 15 years and less than 10 per cent of the number of households on waiting lists for public housing (Morris 2010, p. 47).

This bleak reality is echoed in reports from the welfare sector. Even after the completion of SHI organisations working at the coalface of homelessness and poverty continued to report a chronic shortage of affordable housing options for their clients. A 2012 survey of ACOSS member organisations found that 81 per cent of homelessness services reported not being able to keep up with demand, meaning that every day on average 56 people were being turned away (Berkovic 2012). The KPMG auditors of the SHI argue that "[t]he future effectiveness of homelessness programs could be limited in the absence of further increases in housing stock" (KPMG 2012, p. 5).

The government funded Australian Housing and Research Institute (AHURI) calls for 20,000 new "social and low-cost rental dwellings" to be constructed **each year for ten years** at the cost of $7 billion a year. This represents the equivalent of the SHI for each year. However even this level of investment would only return the system to the equivalent of the proportion of affordable housing that existed in 1996 (Hurley & Wilmot 2012).

Given the scale of the deficit of public housing inherited by Rudd Labor, it is not surprising that even a program as ambitious as the SHI failed to ameliorate the crisis in affordable housing. One of the key subsidiary goals of the SHI was to "…reduce wait times for people on public housing lists by 50 per cent and reduce the number of low income households who pay more than half their income in rent through the construction of new dwellings" (KPMG 2012, p. 60). Yet despite the size of the SHI, the overwhelmingly positive audit of the program conducted for the government by KPMG reported that “The SHI did not correlate with material changes to wait times and wait lists…” (KPMG 2012, p. 4). KPMG go on to surmise that the failure to reduce waiting lists was “…most likely due to the effect of concurrent wider social and economic conditions on the demand for social housing over the same period” (KPMG 2012, p. 4).

It may be true that the economic slow-down accompanying the initial crisis of 2008 led, as KPMG suggest, to increased numbers of people losing their homes and in need of housing assistance. With such large unmet need for affordable housing, however, it is equally possible that 20,000 housing units could have been absorbed with little trace even without rising levels of people losing their homes. One of the Community Housing Providers interviewed by KPMG articulated this view, saying “the common waiting list is inexhaustible, demand can never be completely satisfied’” (KPMG 2012, p. 61). This perceived inexhaustibility needs to be seen in the context of the systematic de-funding of public housing described above. It is no wonder that current welfare sector perceptions are that low-income housing is in permanent crisis. However the historical account provided illustrates this is a consequence of distinct government housing policies.

8.4 Outsourcing and the SHI – The NSW case

In my discussion of the Home Insulation Program in Chapter Seven, I charted the attitude of senior public servants responsible for designing the stimulus programs towards the public and private sectors. Like the Building the Education Revolution and the Home Insulation Program, the SHI pioneered an increased level of private sector involvement in the operations of state and territory housing departments. Equally significant is the way in which increased out-sourcing is understood by the government’s representatives in the public service.

NSW was allocated the largest slice of the SHI or 6110 new dwellings, (followed by Victoria with 4539) (Carapiet 2009). The NSW SHI also left the largest legacy of information about the functioning of the SHI on the public record. It features strongly in the Shepherd and Albeson Review[84] (Shepherd & Ableson 2010, p. 18). The SHI is also a focus of *Building Success* (Leece 2011), the report by NSW Infrastructure Coordinator General Bob Leece, which I drew on extensively in Chapter Six. For these reasons it is worth examining the case of the NSW SHI as an indication of how the national program (or at least a large section of it) functioned.

In NSW the SHI was used to increase the level of private sector involvement with Housing NSW, a relationship that appears to be uncritically supported by senior public servants. Housing NSW created an internal Project Management Office (PMO) within the Department (Shepherd & Ableson 2010, p. 95). The key rationale for the PMO was the "Development of a self-contained culture in which the private sector has a greater influence than is normal under business-as-usual" (Shepherd & Ableson 2010, p. 98). Elsewhere Shepherd and Ableson, who were commissioned by the NSW government to assess that State's implementation of the Nation Building Jobs Plan, elaborate to explain that the PMO model ensured:

> …a stronger partnership with the private sector. The PMO is headed by a public servant, but the other management positions including senior ones are a mix of private and public sector managers. This has allowed more innovation and implementation of private sector practices… [and] a stronger commercial culture to develop… (Shepherd & Ableson 2010, p. 113).

While Housing NSW utilised its own in-house town planning and building materials experts (Shepherd & Ableson 2010, p. 98), it "[o]utsourced nearly all project management, architectural services, engineering design and related

[84] The Shepherd and Albeson Review was commissioned by the NSW government to investigate the 2009 Act that facilitated NSW's implementation of the Nation Building and Jobs Plan, and in particular the office of Infrastructure Coordinator General (Shepherd & Ableson 2010, p. 18)

construction services. In business-as-usual much of this work is done in-house" (Shepherd & Ableson 2010, p. 113).

Housing NSW business-as-usual arrangements often involve contacting a project manager that acts as an agent for the government, and the government itself is party to the building contracts. Under Stage 1 of the SHI, contracts were project-managed by Resitech (an in-house project management arm of Housing NSW), and the Project Management Office itself. However in order to meet the targets and time-frames of the SHI, the Stage 2 projects included 12 that were solely managed by private firms (Shepherd & Ableson 2010, p. 101).

NSW Infrastructure Coordinator General Bob Leece also stresses that greater collaboration with the private sector was fostered through the SHI, and in particular through the Project Management Office:

> Housing NSW formed an alliance with Landcom [a corporate entity within Housing NSW], and also introduced a large number of private sector resources at both the senior management and operational level. Housing NSW created nine project management teams – all run by private sector companies – to roll out the design and delivery of over 500 projects delivering over 6,300 dwellings (Leece 2011, p. 17).

This embrace of the private sector was not only at the level of individual companies, but also saw a collaboration between Housing NSW and the construction industry's peak bodies:

> By working with government agencies and industry peak bodies such as the Building Products Innovation Council, the Housing Industry Association and the Master Builders Association, my office developed a consultative market capability framework (Leece 2011, p. 19).

KPMG's Review into the national SHI program reiterates the view that collaboration with the private sector was one of Housing NSW's aims in the SHI:

> In NSW, government representatives noted that one of their objectives was to 'open up' the opportunities provided to contractors who did not traditionally work within the public housing sector. To do this, NSW changed **the contracts that had been traditionally used (which were biased towards the Government)**[85] and ensured that the contracts were more commercially focused (my emphasis, KPMG 2012, p. 68).

In discussing the Building the Education Revolution in Chapter Six, I explored the vexed issue of assessing whether or not an out-sourcing arrangement delivered value for money for the government. This question, which it must be remembered was central to the public controversy surrounding the Building the Education Revolution projects, also arose in the context of the SHI. The KPMG audit into the SHI concluded that "Value for money was evident" (KPMG 2012, p. 5) in the work of construction contractors delivering the program. However it is not clear how this conclusion was reached. All of the over 700 contracts administered by Housing NSW as part of the SHI were subject to competitive tendering, and were 'fixed-price' to protect the government from rising project costs (Shepherd & Ableson 2010, p. 102). As a result the Shepherd and Ableson review concludes that:

> Assessment of cost-effectiveness for the NBJP projects is therefore reliant on ensuring that the process maximised competitive market rates for materials and labour. In that context the process was competitive. Each project was subject to competitive tender (Shepherd & Ableson 2010, p. 106).

This assessment echoes the circular logic that we saw in Chapter Six from senior Department of Education officials in NSW. Education officials argued that

[85] In Chapter Six I discussed John Quiggin's argument that the Public Sector Comparator – used to judge the merits of in-house delivery as against a particular private contract tender – is structurally biased against public provision. I also mentioned the fact that National Competition Policy mandated against allowing the any natural advantages of government (such as tax-free status) decide in favour of government provision instead of private. Given this history it seems unlikely that Shepherd and Ableson's claim that the existing NSW Housing contracts are biased towards government are correct. What is interesting is to note the way in which the stimulus program helped continue the process of ensuring that government tenders are "commercially focused".

because the Building the Education Revolution projects were subject to market tenders, therefore the prices charged to the Department by contractors necessarily represented the correct market value, and therefore value for money. As we saw in Chapter Six, this line of reasoning was maintained even in the face of the Building the Education Revolution Implementation Taskforce (BERIT) Cost Analysis Model, which illustrated that the NSW education department had consistently paid more for the same or worse quality BER structures than any other authority nationally.

The KPMG audit drew slightly different conclusions from the Shepherd and Ableson review about value for money in the SHI. While KPMG noted that all states and territories had used a competitive tender process to award contracts under the SHI (KPMG 2012, p. 66), they also sounded a note of caution in the idea that competitive procurement is the only requirement to establish value for money:

> VFM [value for money] is not only achieved though competition, but also as a result of efficient and effective use of resources, innovative solutions and appropriate risk management. Determining VFM in the procurement process **requires the comprehensive documentation of any relevant conditions for participation and the establishment of appropriate evaluation criteria** to enable the assessment and comparison of costs and benefits of tender submissions in an equitable manner over the procurement cycle (my emphasis, KPMG 2012, p. 64).

As we saw in Chapter Six, BERIT found that completing a competitive tender was not a sufficient basis for establishing that value-for-money had been achieved in public works. Instead the Taskforce created its own criteria for comprehensively comparing the value of BER projects in different states. Sadly no such "comprehensive documentation" has been assembled to determine whether or not value for money was achieved under the SHI.[86] In fact the deputy

[86] Housing NSW also resisted the idea that SHI projects could be compared to either private housing, or business-as-usual public housing. They argued that the standards required for public housing, including for

chairman of the Building the Education Revolution Implementation Taskforce David Chandler, commented publicly that the value for money issues raised by his organisation's reports were likely replicated in the Social Housing Initiative (Klan 2012).

Interestingly, while generally endorsing the level of private sector involvement in the SHI in NSW, Shepherd and Ableson echo some of the concerns raised in the BERIT that out-sourcing had been taken to the level where government departments had lost all expertise in public works. They note:

> "…it is useful to have some permanent in-house expertise in architectural services, engineering design and related construction services to tackle specialist projects which may be unique to social housing and to ensure that the organisation has the expertise to work with and manage external suppliers of these same services, inform asset policy development and maintain corporate memory" (Shepherd & Ableson 2010, p. 114).

Despite this note of caution, the conclusions from all the major reviews of the NSW SHI endorsed the elevated level of out-sourcing and private sector integration that had been pioneered during the SHI. For instance Shepherd and Ableson argue that the SHI indicates that the increased private sector collaboration established in the SHI could be incorporated into normal Housing NSW policy:

> There may be scope for developing a more commercial approach through rotating private sector commercial managers into the business-as-usual organisation to keep in touch with best practice in the commercial sector (Shepherd & Ableson 2010, p. 114).

KPMG suggest that the greater level of private sector involvement in social housing seen in the SHI already *has* been integrated into Housing NSW's

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instance the need for maximum disability access, and the increased requirements under the SHI meant that the costs could not be compared.

"…'Business as Usual' processes, including contract and project management of large scale developments, procurement processes and the opening up of the sector to builders who were competing for government contracts for the first time" (KPMG 2012, p. 51).

8.5 "Buy and sell and trade and develop and borrow"

Ownership of 50 per cent of the dwellings built under the Social Housing Initiative was transferred to 'Community Housing Providers' (CHPs)[87], or not-for-profit non-governmental organisations (NGOs) that provide subsidised housing for low-income earners. These CHPs were also given tenancy management over 80 per cent of the SHI dwellings, in other words a further 30 per cent of the dwellings that would be owned by state housing departments (KPMG 2012, p. 33). This is quite an extraordinary development. Through the SHI billions of dollars worth of housing assets were transferred to NGOs. The key attribute of the community housing sector according to the Rudd government, and the reason that Community Housing Providers (CHPs) benefited so enormously from the SHI, is their ability to "leverage" their assets. Housing transferred to CHPs became an asset that allowed them to secure greater commercial loans with which to invest in more community housing.

This created an interesting paradox for the SHI itself. On the one hand the program represented a sharp break with the trajectory of reducing the public housing budget and diverting the revenue to rent subsidies – with all the implications for the increased role of the market and decreased public service

[87] Community housing is a relatively new part of the housing sector. It originated in NSW in response to the recession of the early 1980s, with the 1982 community tenancy scheme created as a stop-gap measure for people on the waiting list for public housing (Wilkinson 2005, p. 38). Community housing grew during the Howard years, yet by 2007 there were only 33,557 dwellings being managed by this sector (Morris 2010, p. 36). The SHI made a significant change to this picture. For instance assets held by Victoria's eight Housing Associations grew from $1.2 billion to $2.2 billion as a result of the SHI (KPMG 2012, p. 34). The community housing sector is generally supported by welfare organisations (which includes of course the community organisations that are themselves community housing providers) on the basis that it offers people who cannot access private rental accommodation a range of flexible housing options. While state and territory housing departments are often seen as rigid and irresponsive towards the needs of clients, community housing is made up of a spectrum of community organisations that are able to offer a wider variety of arrangements. However the Rudd government's rationale for its extraordinary support for the community housing model over social housing rarely mentions such variety and flexibility.

involvement discussed above. In this sense the SHI represents an expansion of the state in the context where it had been eroded as a result of neoliberalism. On the other hand the transfer of such a substantive section of the housing constructed under the SHI out of the state and territory housing departments was designed to limit the future responsibility of government for social housing.

As the KPMG report notes, under the SHI "[m]aintenance and repairs for those dwellings transferred to CHPs becomes the responsibility of the CHPs and, therefore, this reduces the potential liability for the SHAs [Social Housing Associations – i.e. state and territory housing departments]" (KPMG 2012, p. 39). However the role Rudd Labor envisaged for the CHPs goes well beyond the maintenance and management of the SHI housing stock. As we will see, the financial leveraging the CHPs can undertake is seen as the future source of funds for the expansion of social housing itself, and an alternative to government funding. In this sense the SHI represented a hefty down payment towards limiting the responsibility of the federal government for housing in future budgets. This poses the question: when is the expansion of the state not the expansion of the state?

The NSW Government's report into its performance in delivering the Nation Building Jobs Plan notes that the NSW government strove to leave SHI housing in the hands of community organisations in order to "leverage" government funds. "As far as possible these new dwellings would be owned and managed by the not-for-profit sector, which would leverage off these assets to create more public housing dwellings" (Shepherd & Ableson 2010, p. 96).

The full rationale behind this policy is spelled out in the KPMG audit of the Social Housing Initiative:

> By transferring dwellings (with title) to CHPs, the ability to leverage further growth is maximised due to: Increased ability to secure future financing using the positive net operating cash flow from operations to 'leverage' and procure or develop new dwellings. Even without ownership, CHPs can still

> potentially leverage the cash flows provided under tenancy management arrangements, although this limits the potential leverage, as the financing arrangements are limited to cash flow only, rather than cash flow and asset security. NSW are expecting an additional 1,201 affordable dwellings to be become available through the CHP sector as a result of the SHI (KPMG 2012, p. 37).

Rudd Labor's Housing Minister Tanya Plibersek here clearly explains the advantage she sees in community housing over social housing:

> I really want [the Community Housing Providers] to be a strong third force in the Australian housing market, between the private rental market and straight up and down public housing… **I think there needs to be an area in the housing market that is light on its feet, that can buy and sell and trade and develop and borrow. The ability of the not-for-profits to use debt – just as commercial players do – to increase their reach is part of the equation… It really does not make sense that we have huge holdings of public assets [i.e. held by state housing departments] that cannot be borrowed against or leveraged in any way** (my emphasis, Minister Plibersek, quoted in Leneghan 2009).

To look at the final part of Minister Plibersek's comments first: at its heart the goal behind the asset transfer involved in the SHI is to provide housing for low-income and disadvantaged people without recourse to public debt financing. Public housing that is the property of state and territory housing departments is, according to Plibersek, wasted in the sense that it cannot be counted as a private asset and be borrowed against in the credit market. That the Labor government holds this view is noteworthy on several levels. For one thing it is another indication of Rudd Labor's repudiation of government debt financing. As I discussed in Chapter Three, government debt financing enjoyed bi-partisan support in post-war Australia as a lynchpin of Keynesianism. However, even while Rudd called for a Keynesian and anti-neoliberal response to the crisis of

2008, he did not abandon the neoliberal fixation with debt reduction and moving rapidly to budget surpluses.

As we have seen, it is characteristic of the Rudd Labor paradox that a major part of its response to the Global Financial Crisis of 2008 should rely on financialised housing debt to provide public works. Plibersek's view that the future of public housing in Australia involves loading private debts onto non-profit organisations is a significant further example of my point. The KPMG audit of the SHI quotes community organisations that, while no doubt happy to receive such generous support from the federal government, are nevertheless aware of the enormity of their resulting debts:

> For one CHP [Community Housing Provider], the SHI has "...loaded up the organisation with $53 million of debt" and for another "...the organisation would prefer not to be carrying $40 million of debt, but it's managing to be sustainable with it" (KPMG 2012, p. 38).

While the federal government and the welfare sector discuss the need for small community organisations that have been thrust into a role of serious debt financing to have adequate governance structures, it is not clear that the implications of these developments have been considered. For one, they represent an unprecedented financialisation of community organisations. How this process fits with the needs of low income and disadvantaged recipients of housing support in the longer term is not clear. Some indication of the shift within the culture of CHPs as a result of the role they have been cast in by the SHI can be gleaned in a report by the *Australian Financial Review* on the progress of the Brisbane Housing Company (BHC). The BHC is a not-for-profit affordable housing provider established by the Queensland government and Brisbane City Council in 2002 (Singer 2010). With the support of $80 million from the SHI the Brisbane Housing Company built 453 units, or 1160 dwellings. Brisbane Housing Company chief executive David Cant explained why Westpac Bank increased its 'facility' from $30 million to $50 million in the following terms:

> [Westpac] view it as corporate debt that we can service. Our debt financing has been relatively immune because we have money coming in, a set of performing assets (Singer 2010).

KPMG quote another community organisation, Access, explaining how SHI funds have thrust them into what can clearly be seen as a more marketised role:

> This [Social Housing Initiative funds] put Access on a path towards becoming a far more active player in the affordable housing market… As CEO, Garry Ellender, said '… we are seen as credible players within the market...' (KPMG 2012, p. 41).

There is an implicit tension in these notional "performing assets" and the reality of recouping rent from people living on social security payments (that are universally understood to be below the poverty line). For this reason CHPs both want to continue to receive assets from governments, while demanding to be able to house a "mix" of tenants and not solely those who rely on social security payments. This sentiment was captured by the KPMG audit:

> The mix of tenants is critical for ensuring robust cash flows. CHPs expressed a concern that the requirement to use the shared wait list, and to take high priority clients from that wait list, reduced CHPs' ability to mix and match tenants to types of housing and locations… It also constrains rental cash flows, as these tenants typically pay lower rents. For example, one CHP noted that Centrelink payments were the main source of income for 60 per cent of clients who were assisted and were in one of its dwellings. This significantly restricts potential cash flows to meet debt requirements and growth plans. CHPs generally expressed a view that, optimally, 30 to 40 per cent of tenants would be in receipt of Centrelink payments as their main source of income (KPMG 2012, p. 40).

8.6 Conclusions

The case of the Social Housing Initiative illustrates perfectly the way in which the history of previous changes to the state resulting from policies of neoliberalisation haunted Rudd's stimulus packages. Without looking at the erosion of public housing, and its replacement by policies reliant on steering the market, we cannot make sense of the experience of the SHI. For that reason this chapter included an extensive history of the transformation of public housing from a central plank of social democratic government intervention to a minor and ever-diminishing complement to policies reliant on the private rental market, such as rent assistance.

Just as in earlier chapters discussing the Home Insulation Program and the Building the Education Revolution, this chapter also touched on the near-universal reliance on the private sector to deliver the SHI. Further, the chapter has shown that the senior public servants involved in designing it uncritically celebrate the experience of increased private sector involvement. In fact the consensus arising from the SHI appears to be that the increased corporate involvement arising from the stimulus experience should be replicated in business as usual processes.

However the most interesting and central finding in this chapter is the way in which the SHI – which at a surface level appeared to be a straightforward expansion of the capacity of the state to achieve progressive social ends – was in fact designed to out-source responsibility for housing away from the state. The role that the Rudd government thrust Community Housing Providers into through the transfer of SHI assets is that of a player in the commercial credit markets. Further, it was this nexus between non-government organisations and the banks that Rudd Labor envisaged would not only be responsible for managing and maintaining social housing, but in fact for expanding the system.

CHAPTER 9

Conclusions

There is an important difference between ideological claims that are seen as *the best* answer to society's problems, and those that are seen as *the only* answer. The picture that emerges from my study of the Rudd Labor government's response to crisis shows neoliberalism continuing in its role as *the only* option. This finding is all the more marked because Rudd's response to the crisis was widely interpreted as breaking with neoliberalism, both ideologically, and in terms of economic policy.

Throughout the thesis a recurring pattern has emerged. Those elements of Rudd's intervention that appeared as a break, were in fact used to consolidate, or to save, neoliberalism. Rudd's essay ostensibly called for a revival of social democracy. However, my reading suggests that the substance of Rudd's argument was to rob social democracy of its traditional content and to reclaim the term for a project that is wholly compatible with neoliberalism. The effect of Rudd's ideological intervention, therefore, was to entrench the sense in which neoliberalism 'has the field to itself' in Australian political life.

A corresponding pattern emerged from my investigation of Rudd's fiscal intervention. Many, including Rudd himself, interpreted deficit-funded fiscal spending as a repudiation of neoliberal macroeconomics. However, I have argued that this intervention was made in such a way as to preserve not only the performance of the Australian economy, but also the norms of neoliberal economic management. The delivery of Rudd's stimulus programs not only confirmed trends of neoliberalisation within the state, but in some respects deepened them. Even the embrace of fiscal stimulus policy itself was enacted in such a way as to consolidate neoliberalism rather than challenge it.

In what follows I summarise the picture of state processes that emerges from my investigation of *Nation Building Jobs Plan*. I then look once more at the logic of Rudd's embrace of fiscal activism, and consider what implications it has for the global "Keynesian moment". Finally, using three examples from the political debates surrounding the Labor's stimulus programs, I examine the continuing sense in which neoliberal parameters continue to dominate Australia's party political debate.

9.1 Neoliberalisation of the state - There Is No Alternative delivery mechanism

As I argued in Chapter Four, the Rudd government's stimulus programs acted as a *stress test* for Australia's welfare state. In so doing the programs have provided a clear picture of the dynamics within several levels of government. The picture confirms the resilience of both neoliberal ideology and policy in relation to public service delivery. Even at the height of the crisis of 2008, a time when global attention was turned to the fallibility of the market, when it came to Labor ministers and public servants conceiving of ways to deliver the stimulus program, there was *no alternative* to the market.

As we have seen throughout the stimulus case studies, the administrators responsible for designing and delivering Rudd's stimulus programs manifest a level of pro-market commitment that appears oblivious to the ideological crisis that engulfed neoliberalism in 2008 and 2009. From those senior public servants responsible for designing the stimulus programs we find over and again an uncritical enthusiasm for PPPs, outsourcing and for extended collaboration with the private sector. Even when presented with evidence that outsourcing was central to the problems plaguing many of the programs within the *Nation Building Jobs Plan*, public servants and policy makers were unwilling or unable to question the validity of market delivery.

As we saw in Chapter Six, when NSW Education Department officials were confronted with the extent to which contractors had over-charged the NSW State Government, they responded with assertions that the competitive tendering processes they followed must, *necessarily,* have provided value for money. The Building the Education Revolution Implementation Taskforce found that the excessive fees paid to building contractors by the NSW and Victorian Education departments were the result of an overreliance on the market in state and territory public works departments. Yet this finding appears to have provoked no change of attitude from the senior public servants responsible for the Building the Education Revolution. Rather than reconsider the merits of market provision, as we saw in Chapter Six, the leaders of Australia's public service continued their support for government reliance on private contractors.

Similarly, evidence of fraud and criminal safety breaches by insulation firms in the Homeowners Insulation Program (HIP) appeared to have no impact on senior staff in the Federal Environment Department, who continued to manifest belief in the virtues of the insulation market. Further, despite the central role of Minter Ellison's risk advice in the failure of HIP, as we saw in Chapter Seven, neither public servants nor Labor ministers were publicly critical of the law firm. None of those responsible for the HIP contradicted erroneous media coverage that depicted Minter Ellison's advice as sound, and the program's problems as stemming from government's failure to implement that advice. In fact despite the number of investigations into the HIP, and the level of critical media coverage it has continued to attract, public criticism of Minter Ellison's risk advice remains limited to two sources; electronic magazine Crikey.com.au; and the report from Queensland Coroner Michael Barnes, who investigated the deaths of three Queensland workers killed under the scheme. The unwillingness of Labor ministers to criticise Minter Ellison's role appears to stem from those ministers' enthusiasm for corporate risk-management itself. As I argued in Chapter Seven, Minter Ellison's strategy was imbued with neoliberal notions of quantifying and outsourcing financial and legal responsibility.

Against a backdrop of unprecedented public questioning of the "free market", the *Nation Building Jobs Plan* indicates that the neoliberalisation of the state continued at an unfaltering pace. There are several significant conclusions from this. The first is a recognition of the extent to which neoliberal ideology is embedded in the top levels of Australia's public service.

A second conclusion follows from the level of commitment policy-makers and administrators demonstrate to the neoliberal service-delivery paradigm. In the public mind these individuals are represented as embodying "the state" in distinction to "the market". However, as a close reading of Rudd's stimulus programs illustrates, the historical process of neoliberalisation has resulted in a culture within the public service that both celebrates market delivery, and regards government provision of services as necessarily inferior, centralised, and bureaucratic. The stimulus program case studies therefore provide a caution for scholars who might wish to promote "the state" by mounting a defence of particular government programs. As we have seen, such programs are likely to have been designed around a neoliberal assumption about the superiority of the market.

The continuing tempo of neoliberalisation revealed in Australia's stimulus episode provides a third conclusion. The history of reforms such as National Competition Policy "*weighs like a nightmare on the brains of the living*" (Marx 1907). This history erases alternative avenues for government intervention. Put concretely, previous rounds of outsourcing destroyed the very state agencies needed to deliver programs in-house, and thereby impose a future of market delivery onto the public service. This is not to say future governments cannot reverse the course. However, this would take the determined rebuilding of public service capacity in a wide range of areas. As we have seen, even those programs within the *Nation Building Jobs Plan* that might have been expected to extend government capacity, such as the Social Housing Initiative and the Building the Education Revolution, in fact narrowed the scope of government capacity. By pioneering new levels of reliance on the market, the design of both programs imposed this dynamic onto future infrastructure spending.

In Chapter Four I suggested that the neoliberalisation of the state has been a neglected area of scholarship. I explored the idea that this significant field may have been overlooked as a result of the assumption, flowing from ideas-centred conceptions of neoliberalism, that neoliberal-aligned governments would systematically de-fund the welfare functions of the state in order to create a "small state". Rather, the funding for many welfare functions has been maintained. At the same time the level of funding hides the transformations entailed in the move from rowing to steering. Rudd's stimulus programs indicate that the neoliberalisation process at the level of delivery of government services is continuing, and therefore demands greater scholarly attention.

9.2 Locating "Keynesian" stimulus

As we have seen throughout the later chapters, the logic of the delivery of the *Nation Building Jobs Plan* continued the neoliberalisation of the state. However it is the logic of the policy itself – huge deficit-funded fiscal stimulus – that has proved much harder for commentators to account for. As I noted in Chapter Three, there is now widespread agreement at the global level that the Keynesian moment has passed. There is far less agreement about what its existence signified about the nature of neoliberalism.

In Chapter Three I paid considerable attention to the views of the Treasury officials responsible for the design of Rudd's stimulus plan. Rudd suggested that fiscal policy marked a revival of social democracy, and therefore represented a fundamental break with neoliberalism. Yet Rudd's Treasury advisors, with whom he personally collaborated in the design of the stimulus programs, implicitly disagreed. Officials such as Treasury Secretary Ken Henry rejected the notion that Labor's fiscal turn embodied a break with the economic norms of the 1980s, 90s and 2000s – in our terms, with neoliberalism. Henry explained the turn to fiscal policy in pragmatic and ideologically neutral terms. For him stimulus spending had always been an accepted economic tool, rarely as appropriate as monetary policy, but legitimate nevertheless. The unique scale of the 2008 crisis, coupled with the fact that Australian policy-makers were aware of its impending impact before recession had begun, created the perfect storm in which fiscal stimulus was embraced by the economic mainstream.

I have tended to agree with the overall gist of the Treasury interpretation. I have suggested that Keynesian-inspired fiscal stimulus was embraced as a temporary solution to an extraordinary problem. However, this embrace has not marked a decisive departure from neoliberal economic management. To illustrate this, in Chapter Three I demonstrated that even while Rudd and Swan were making history with their deficit-financed stimulus, they were setting down rigid rules for their "deficit exit strategy" (Treasury 2009).

Rather than the so-called Keynesian moment having demolished neoliberal macroeconomics, it appears that selected Keynesian postulates have been incorporated into neoliberalism. Rudd's fiscal stimulus package then appears as a Frankenstein's monster, with Keynesian strategies for creating effective demand stitched (in a *temporary, targeted and timely* way) onto a neoliberal paradigm. This becomes all the clearer when we note what did *not* accompany the Keynesian revival: the notion that government's role is to redistribute wealth in order to remedy inequality; that governments have responsibility for ensuring genuine full employment; or that government should play a substantive and ongoing role in economic affairs. Keynes developed demand-creation strategies in the context of these economic principles. However in Rudd's stimulus programs fiscal policies were uneasily incorporated into a paradigm that nevertheless continued to hold that government spending crowds out private investment; that unemployment is necessary to prevent inflation; and that markets provide the most efficient way to deliver government services.

In Chapter One I proposed an account of neoliberalism based on a series of characteristics that dominated the workings of the global economy after the collapse of the post-war boom. It is on the basis of this picture, that of the neoliberal economy, that I argued we must understand the changes that have occurred to the nature of the state – the second of my three proposed levels. One characteristic of my approach is the rejection of the idea that in order for a policy to be understood as neoliberal it should correlate to neoliberal ideology, or reflect the ideas of neoliberal ideologues such as Friedrich Hayek. The flexibility of my approach to neoliberal policy has implications for interpreting Rudd's stimulus programs. This framework allows us to consider whether, rather than a break with neoliberalism, we are in fact witnessing the development of a *neoliberal stimulus strategy*.

In this sense Treasury's interpretation of the stimulus policy as a continuation of the economic management strategies of neoliberalism seems closer to the truth than Rudd's insistence that active fiscal policy implies the revival of social democracy. To draw a historical parallel, as I mentioned in Chapter Two, some theorists have criticised the notion that Labor's Accord with business and unions in the 1980s could be considered neoliberal. These concerns flow partly from the fact that the Accord was not only a nakedly state-centred policy that imposed new levels of government control over the economy, but also that it instituted a central role for Australia's trade unions in economic activity. If we expect neoliberal policy to correlate with Hayek's vision, as we would if we held an ideas-centred account of neoliberalism, then the Accord is clearly not neoliberal. However, as I argued in Chapter Two, by incorporating unions into a process that suppressed industrial struggle, the Accord was central to facilitating the establishment of neoliberalism in Australia. It was the policy that enabled Hawke and Keating to enact many of the reforms that the Fraser Coalition had aspired to, but failed to introduce. Labor's stimulus program needs to be evaluated in the same light. Regardless of how antithetical fiscal demand-creation policies are to free-market ideas, they were possible and necessary in Australia in order to maintain economic stability. As we have seen in the years following the crisis, this stability would be governed by neoliberal norms. Where the Accord *facilitated* neoliberalism, Rudd Labor's stimulus spending was necessary for *saving* neoliberalism.

What does the invention of the concept of neoliberal stimulus mean, then, for neoliberal policy in the future? I reiterated above the flexibility of my approach to defining neoliberal policy. As I argued in Chapter One, while my approach to neoliberal policy is not limited to those policies that conform to neoliberal ideology, neither is it infinitely open. Rather, the limits within which governments can develop policy are set by the strictures of the neoliberal economy. The implication of this is that while the Australian government was able to find $70 billion in its efforts to insulate the economy from the economic tsunami engulfing the globe in 2008, this does not imply that fiscal stimulus will become an ongoing feature of economic policy, or even that it will ever again be deemed viable.

9.3 Thinking outside neoliberalism, or getting trapped inside

The picture I have painted thus far suggests that neoliberalism's momentum within the Australian state has continued throughout the episode of the GFC. Both at the level of macro-economic policy, and at the level of service-delivery, Labor's response to the crisis has continued to propose neoliberal policy. I now turn to parliamentary politics to evaluate what impact Labor's response to the crisis has had at this level. The hardest things can be the most important, so it is with thinking outside neoliberalism. Rudd's stimulus program provides us with three clear examples of the difficulty of this, which I will outline below. All three created debates that, as I have suggested, occur entirely within the parameters of neoliberalism.

Cash payments versus business tax-cuts

In Chapter Five I noted the debate between the Labor government, who deployed household payments, and the Liberal opposition who argued that business tax-cuts would be a preferable form of rapid economic stimulus. The social impacts of the choice implied here is not something critical scholars should be ambivalent about. Far better to see pensioners' spending boosted, than to see company taxes further reduced. However, as I illustrated in Chapter Five, Labor defended its policy entirely on the basis that it would be the fastest way to counter the impact of falling consumer confidence on the retail sector. In other words the terrain of the parliamentary debate ignored the social impact of corporate tax-cuts and pension increases, and was instead dominated by questions about the best instruments for maintaining Gross Domestic Product (GDP).

In Chapter Five I included the suggestions of the few Left Keynesians who called for public sector job creation as an alternative to cash payments. I did this because such suggestions expose the neoliberal consensus against direct job creation and Rudd's failure to question this. By stressing the Left Keynesian proposals put forward by The Centre of Full Employment and Equity (CoFEE), I have amplified them beyond their actual weight in the public debate. I have done this in order to provide an alternative position from which we can step outside the constraints of neoliberalism, and observe the parameters of the debate from a fresh and instructive perspective. However, it is important to note that CoFEE's proposed response to the GFC did not have the effect of creating public debate about the merits of direct government employment programs as against retail stimulus.

Government failure or market failure? The Homeowners Insulation Program

The (ongoing as of November 2013) political furore surrounding the Homeowners Insulation Program (HIP) has operated around similarly narrow neoliberal parameters. Opposition to the program has been dominated by a consistent mobilisation from Murdoch's *Australian* newspaper, and a chorus of criticism from the Liberal Party. As I mentioned in Chapter Seven, this criticism shares with an emerging academic literature the notion that the HIP's failure exemplifies "government failure". These criticisms rely entirely on neoliberal ideology, posing the market as the solution to the centralised and inefficient nature of the government.

The anti-state thrust of this criticism of the program combined with emissions reduction claims made about the HIP led some progressive commentators to come out in defence of Rudd's program.[88] Yet as I argued in Chapter Seven, it was the extent of outsourcing in the HIP, itself resulting from a pro-market corporate risk strategy, which doomed the program. As we saw in the case of the HIP, the scheme was constructed around the idea that the market is superior to the government in delivering the program. In this sense both the critics of "government failure" and the representatives of the program itself fundamentally agreed that the market is the best and only way to deliver such programs.

By way of offering a view from outside the neoliberal paradigm, I relied in Chapter Seven on the visions of families of the workers killed under the HIP. Regardless of the degree to which it represents a coherent view of the program, the families, simply by expressing their expectation that a government program would ensure the safety of its workforce, point to a model of direct government provision that highlights the neoliberal assumptions dominating the party political debate.

Public works or public waste? Building the Education Revolution

The case against the Building the Education Revolution (BER) was dominated by the same constellation of forces as campaigned against the HIP. The Liberal opposition and *The Australian* newspaper portrayed the program as another government bungle and waste of money. Just as in the HIP, Labor allowed the terms of the public debate to revolve around the question of whether the program was bungled, or whether the BER's role in maintaining activity in the construction sector outweighed the waste involved.

The work of the Building the Education Revolution Implementation Taskforce (BERIT) played a particularly important role in my analysis because it arose

[88] (McAuley 2010; Tiffen 2010). For instance Tiffen characterised the HIP as "… a well-conceived policy with both economic and environmental benefits… The home insulation program has considerable flaws, but in news reports these all but completely eclipsed its virtues. The economic and environmental achievements of the program never came into focus" (Tiffen 2010).

organically from the experience of the stimulus, and criticised outsourcing. However, while I have stressed what I believe are the important insights that flow from BERIT's work, particularly their final report, there are in fact definite limitations to the Taskforce's findings. While BERIT drew damning conclusions about the outsourcing of management functions in the BER (and generally within public works departments), their report does not question the outsourcing of the other functions such as design and construction. Further the Taskforce's extensive focus on the attributes that states need to act as "informed buyers" actually entrenches and reinforces the notion that the government should be buying, rather than building.

In other words I have taken those aspects of BERIT's findings that expose the deleterious impacts of neoliberalisation on public works and extended them to the broader picture of outsourcing. However, unsurprisingly, BERIT's conclusions, while illuminating problems flowing from neoliberalisation, do not themselves break with neoliberal assumptions about the ways that schools could be built. Further, BERIT's more ideological conclusions - that outsourcing of public works management has gone too far and that this resulted from particular neoliberal policies by state and federal governments – failed to generate a public debate. There is no evidence on the public record that Rudd Labor even noted this aspect of its Taskforce's findings.

Significantly, even when a government-commissioned report such as that produced by BERIT argued that the historic neoliberalisation of the state was the key explanation for waste and bungling found in a major, controversial national program, still a re-appraisal of outsourcing was avoided. The erasure of alternatives to the market by those setting the terms of the public debate ensures that the problems arising from the marketisation are understood as yet further evidence of the inherent limitation of government service provision. This illustrates the extent to which TINA is entrenched in the public discourse. It is for this very reason that I have attempted to mobilise all tools at my disposal to peer at the stimulus programs from outside the neoliberal tent.

9.4 Looking back to think outside?

It is in this spirit of peering from outside the neoliberal tent that much of this thesis has relied on the history of post-war social democracy to provide evidence that there were and are alternatives to neoliberalism – there is an outside, it has not always been this way. This is why I have returned to examples such as Chifley's post-war housing construction program. It is against these examples that we get the clearest perspective on how limited the imagination about social housing, for example, is under neoliberalism.

However, I have not harked back to these examples because I wish for the return of post-war social democracy or even think this is possible. Indeed, as I argued in Chapter One, the conditions in which a social democratic welfare state was built (which as I argued were fostered by a 30-year partial confluence between the interests of capital accumulation and productivity-enhancing welfare expansion) are over. Further, social democracy has definitively failed the test of providing an anti-neoliberal politics. As we saw in Chapter Two, the response of social democrats to the end of the boom exposed the limitations of the project. It was Labor's fundamental commitment to market capitalism that led not only the parliamentary leaders, but indeed the leaders of the labour movement, to abandon real hopes of civilising the market, and instead to accommodate to the neoliberal paradigm.

It is worth once more considering the content of Rudd's *Monthly* essay in this light. After all, Rudd's essay appeared as a rejection of neoliberalism and a call for a rejuvenated social democracy. While Rudd's intellectual musings are of little inherent interest, his *Monthly* essay and its connection to his interpretation of his stimulus spending provide new insights into the nature of Labor's relationship with neoliberalism. My conclusion above, that Rudd's fiscal policy can be understood as *neoliberal stimulus,* only widens the gap between his essay's call for a revival of social democracy, and the reality of his government's actions. I argued that Rudd's ideological interventions unwittingly revealed the ways in which Labor's social democracy has been remoulded and whittled down to the point where it represents nothing more than a defence of the capitalist state. We can add to this the sense in which the essay sought to entrench a neoliberal state, even as he railed against this concept. In Chapter Three I treated the support Rudd gave Hawke and Keating's reforms as a revealing anomaly. However, in light of the above discussion connecting the Accord with *Nation Building Jobs Plan* it becomes clear that the continuity between Hawke and Keating and Rudd is central to understanding Rudd's response to the crisis.

Despite understanding that social democracy offers no viable alternative to a hegemonic neoliberal capitalism, I have nevertheless consistently drawn on examples of post-war social democracy in order to provide an analytic counterpoint. Further, as I have argued, one of the lynchpins of TINA is the fact that parties that identify themselves as social democratic whole-heartedly support neoliberalism, and in the case of Australia, were at the forefront of pioneering its introduction.

In the previous chapter I quoted from then Housing Minister Tanya Plibersek, a parliamentary leading light of the Labor Left. And yet, as her role in the Social Housing Initiative (SHI) illustrates, the Labor Left fundamentally concurs with the rest of the party that Labor governments should facilitate the market, rather than seek to reform it. In Chapter Eight I quoted from Plibersek in order to illustrate the Labor government's rationale for transferring a significant part of the SHI's funds away from the state government housing departments, and into non-government housing providers. At the heart of Plibersek's case was the notion of increasing social housing stock with recourse to private credit markets rather than public debt.

Identifying the role of Australia's official social democratic party in building a hegemonic neoliberal paradigm is central to the task of illuminating what a genuine alternative looks like. As I have illustrated with the above examples from the debates surrounding the stimulus programs, throughout the thesis I have utilised a range of voices (including left Keynesian economists, families of the killed HIP workers, the Building the Education Revolution Implementation Taskforce and examples from post-war Labor governments) in order to find contrasts that expose the neoliberal parameters in which Rudd's stimulus spending operated. The difficulty of this task – the need to go so far back in history and to rely on voices that, while arising organically out of the stimulus debates, are politically marginal – is itself a symptom of the continuing dominance of neoliberalism over politics. What's more, none of these voices actually managed to change the terrain on which the stimulus programs were publicly understood.

In Chapter Two I also argued that prior to neoliberalism the Labor tradition had consistently encompassed a more radical, left reformist pole. It is worth noting the absence of such a pole in the debates surrounding Rudd's stimulus spending. As I have just summarised, the voices calling for a more left wing, or anti-neoliberal response to the crisis were few and were marginal. Yet based on the assessment of the breadth of the Labor tradition explored in Chapter Two, it is possible to imagine that such a section of the Labor Party would have demanded that Rudd's stimulus spending go further in some of the ways that I have indicated: that the policies be squarely directed to the needs of the poorest in the community; that the government use its spending to increase the size of the state and its weight relative to the market; that direct job creation be prioritised over generalised demand-creation, and so forth.

The analytical tools I have drawn upon throughout this thesis are no alternative for the social force needed to cohere an anti-neoliberal program capable of challenging the dominance of neoliberalism. Nevertheless, the task of identifying and analysing the hold of neoliberalism has an important part to play in the construction of such a program, and indeed in the movement we need to give it force.

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