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'ECONOMIC RATIONALISM' IN CANBERRA AND CANADA: PUBLIC SECTOR REORGANISATION, POLITICS, AND POWER

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Australian public sector institutions and public sector labour relations experienced intense change during the 1980s and 1990s. Proponents of restructuring sought to insert market-like pressures into areas formerly governed by bureaucratic mechanisms. This reversed a trend towards continual growth in state provision of non-market based social protection and social welfare, and continual growth in the public sector's share of the economy. The politics and content of Australian public sector restructuring under Labor and then the Liberals substantially resembled restructuring efforts in two Canadian provinces. In all three examples, political pacts between unions in the exposed and non-exposed sectors, and between organised labour and capital, determined the direction of change. But the level of institutional robustness of these various actors determined both the pace and effectiveness of change. Weak employer organisations and unions incapable of sustaining pacts in Canada produced wider oscillations in policy content that attained less substantive success than in Australia.

INTRODUCTION

The public sector was second only to collective bargaining in general as the most intense site for institutional restructuring in Australia during the 1980s and 1990s; because the areas overlapped, public sector labour relations may well have seen the greatest degree of institutional restructuring. Proponents of restructuring sought to insert market-like pressures into areas formerly governed by bureaucratic mechanisms, reversing an acceleration in the provision of social protection and employment through tax funded, non-market transfers and services in the previous 20 years. By the early 1980s government spending accounted for about

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one-quarter of Australian gross domestic product (GDP), and government employment was about one-fifth of total employment. Adding in the unemployed, pensioners and those on social assistance meant that roughly two-fifths of Australians relied on the state for a 'pay cheque.' While this was low by OECD (1976, 1994) standards, most other OECD economies also had lower levels of trade protection and wage regulation at that time.

Castles *et al.* labelled this reversal *The Great Experiment*, but a more pointed label might be 'The Second Great Transformation'.[1] States everywhere responded to the disembedding of markets identified in Polanyi's analysis of the (first) great transformation by sheltering individuals and firms from the world market that had emerged by 1914, and fallen into catastrophic depression in 1929. Australia's version of this sheltering relied more on border protection and pervasive wage regulation than Europe's typical mix of tax funded, high public transfer, high public service social welfare programs.

The second great transformation reintroduced market pressures into many formerly sheltered areas. Deregulation replaced bureaucratic controls on private enterprise with prudential regulation of corporate behaviour and market regulation of prices and products. Deregulation replaced bureaucratic controls on public enterprises with market and prudential regulation via commercialisation or privatisation. Deregulation also replaced input orientated bureaucratic controls over non-commercial public activities with more competition among agencies, more private sector style management of personnel and inputs, and more emphasis on outputs. So 'deregulation' did not eliminate regulation from the public sector so much as it changed the nature of regulation, and shifted the boundary between the public and private sectors via privatisation and contracting out.

Who engineered these changes and for what reasons? What did they try to do? Did they succeed? Many analyses attributed these changes to 'globalisation', but this is an overly broad term that tells us nothing about actors' motives, what groups tried to do, about variations in policy choices, and whether they succeeded in what they attempted. In the present article I will compare Australian public sector restructuring to similar processes in two Canadian provinces, Ontario and British Columbia (albeit with a 10 year delay). I use Canadian provinces rather than the federal government, because they account for the bulk of public sector spending and service delivery, as well as having a substantial say in private sector regulation.

Considering provincial politics also provides tighter control over the analysis. The actors, motives and intentions were similar in all cases. All three had episodes in which Left leaning parties tried to restrain relative unit labour costs through public sector reorganisation and deals approximating the Australian Labor Party's (ALP) 'Accord.' Indeed, the Canadian accords explicitly drew on that of Australia.

1 Castles *et al., The Great Experiment.*

All three ultimately saw an erosion of unity with the Labor movement and between Labor and the segments of business that supported Labor's favoured form of reorganisation. The similarities suggest that Australian 'economic rationalism' was unique only in its relative success. While actors' motives were similar everywhere, their varying organisational capacities for political management of public sector reorganisation affected their ability to carry out reorganisation. The following sections examine the 'problems' with the public sector; who responded to these problems and why; what institutions they tried to change; and what these changes might signify.

THE 'PROBLEM'

Simultaneous sharp increases in global real interest rates and competition in product markets in the early 1980s put the cases considered here into economic difficulty, although Ontario initially benefited from an expansion of automobile production by multinationals. All three economies had rising unemployment, fiscal deficits and foreign domiciled debt or foreign currency debt. The two Canadian provinces encountered even greater difficulties in the 1990s, when the Canadian Federal Government began cutting its own deficit. Foreign investors downgraded debt ratings and speculated against their currencies. Internally, unemployment rose to unprecedented levels while public dissatisfaction with public services put pressure on politicians. The policy implications of these indicators were unclear, because bad numbers do not necessarily create similar responses. Policy responses to bad numbers are a function of how politically powerful groups understand the problem in relation to their interests. Most actors understood and explained their policy preferences as a response to globalisation.

However, as I have argued elsewhere, globalisation is a meaningless word.[2] What was significant about the 1980s and 1990s was the gradual reintroduction of market forces into parts of the economy that had been sheltered from market pressures ever since the Great Depression. Although many analysts saw globalisation strictly as an effort by capital to roll back the most visible protections for labour, namely the welfare state, substantial producer sectors were also sheltered by the state. The potential introduction of markets thus threatened rates of return and investments for business as well. The reintroduction of markets into the service sector began in the USA with deregulation of civil aviation, trucking, natural gas transmission, rail, telecommunications, finance and power generation in the late 1970s and early 1980s, and soon spread to Britain. The USA government simultaneously mounted an international offensive to open up protected service sector markets in Europe and elsewhere, which culminated in the World Trade Organization's General Agreement on Trade in Services.

2 Schwartz, *Round up the usual suspects*.

United States of America deregulation of the service sector changed the material interests of exposed sector businesses and unions outside the USA.[3] Both business and unions had previously acquiesced in public ownership of the service sector, and in wage growth that sometimes ran ahead of productivity gains. This was because public ownership assured local firms of supply contracts and workers enjoyed the benefits of expanding welfare state services. But USA deregulation and the growing reality of competition made exposed sector firms and unions more sensitive to the relative cost of sheltered service sector inputs. Similarly, the growing importance of supply chain management and 'just in time' production disciplines increased exposed sector firms' sensitivity to the quality and responsiveness of service sector firms. Exposed sector firms could not compete with USA firms that enjoyed falling relative prices for services inputs. At the same time, rising global interest rates meant that governments could no longer subsidise inefficient publicly owned firms with cheap capital.

The public sector was thus out of balance with the rest of the economy. Public sector unions had used their growing membership and organisational strength to demand wage increases above productivity gains in the 1970s, and in any case public ownership and tight regulation hampered efforts to raise productivity and service quality. Tightly centralised systems of collective bargaining then spread these gains to the exposed sector. As the Australian models and the Scandinavian Aukrust-EFO inflation models suggest, these wage increases made exporting more difficult by raising relative unit labour costs in the exposed sector.[4] Public sector wage increases thus contributed to rising current account deficits, while disrupting established wage parities between different groups of workers. Each state tried to use incomes' policies – central bargains in which unions exposed lower wages for tax cuts or a stable social wage – to control or roll back these wage rises. Unions in the exposed sector were willing to adopt wage restraint strategies in order to remain internationally competitive and protect employment, but sheltered public sector unions did not face a direct international constraint on wages. Finally both citizens/consumers and elected officials were increasingly irritated by the low quality of service from, and unresponsiveness of, public sector workers and bureaucrats.

Understanding how general pressures to fix these public sector problems turned into specific policies requires us to examine how different actors were affected by the expanding public sector, and how these groups combined to produce specific policies for public sector reorganisation. Splitting organised interests up into

3 The tradable or exposed sector produces goods whose price is determined by world markets either through competition for global export shares or competition with imported substitutes in domestic markets. The non-exposed sector does not face significant external competition and so can price by marking up above its costs. Tradability is partly determined economically and partly politically.

4 OECD, *Economic survey – Australia, 1976*, p. 24; Nannestad, *Danish Design*, pp. 103–104, 175–178.

capital and labour, and exposed and non-exposed sectors, yields four different policy paradigms centred on each of the four groups (Table 1). The four policy paradigms are limited neo-liberalism (limited because it only attacked policies sheltering labour), neo-progressivism (or the new public management, NPM), social progressivism (NPM with a human face), and the responsive state strategy (better welfare as a political strategy). These pure preferences were rarely expressed in actual policy, because each group needed coalition partners both to win elections and to implement wage and income policies. While these groups had different interests and thus sought different ends, they could often agree on similar means – public sector reorganisation – to those ends.

FOUR GROUPS, FOUR POLICIES

Sheltered businesses, primarily small service sector firms and direct agricultural producers, seek limited neo-liberalism. They seek to roll back welfare for workers and remove regulations that hamper their profitability, while preserving regulations and subsidies that shelter them from the market. Sheltered firms typically prefer the wholesale elimination of publicly socialised health, education and labour market risks to lower their tax burden. (Except, of course, where they live off that sector, for example, private health sector producers.) Individuation of risks allows sheltered firms to pass social costs onto larger firms that face organised

Table 1. Cleavages over public sector reorganisation

	Capital	Labour
Sheltered Streams of income secured by property rights created though collective action or (producer) regulated markets	*Limited neo-liberalism* Typical actors: Traditional Service Sector State owned firms with (regulated) monopolies The new self employed and the old professions Politically protected or defined markets (e.g. law) Farmers	*Responsive state* Typical actors: Public sector unions in health, education, and social services Unorganised workers in traditional services Construction unions
Exposed Streams of income secured by (transient) technological advantages	*Neo-progressivism (New Public Management)* Typical actors: Large export orientated firms, multinationals, franchisers Agri-business and food processing	*Social progressivism* Typical actors: Private sector unions and public sector unions in large manufacturing firms

labour and so must provide a wide range of benefits to buy labour peace. Lower income taxes enable the owners and managers of sheltered firms to purchase 'welfare goods' tailored to their needs, and to maintain a socially defined standard of living in the face of increased competition. In terms of the broader public sector, smaller scale sheltered firms and producers also prefer wholesale privatisation of (relatively expensive) public services and deep budget cuts to fund accompanying income tax cuts (because they receive much of their return as what the tax system considers to be 'income').

Sheltered firms and producers also prefer to shift regulatory control out of the state and down to their own organised interest groups. For smaller firms, the fixed costs of regulatory compliance cannot be spread over large and stable revenue flows, so the choice is to contract out for them (at a high cost) or simply evade them (risking legal penalties). Studies of Australian firms have shown that these costs are not trivial, amounting to 4% of turnover and equivalent to 32% of profits in five sampled industries.[5] Delegation of regulation down to sheltered firms' producer organisations reinforces their ability to use selective (dis-) incentives for collective action in defence of their property rights, while minimising regulatory costs.

Exposed sector firms, by contrast, seek to lower the cost of service sector and welfare state inputs rather than trying to eliminate the welfare state wholesale. Like the original progressive movement in late 19th century America, this 'neo-progressivist' model emphasizes depoliticised and efficient government, and it attacks 'corporate welfare' (i.e. sheltering) just as the progressives attacked the urban machines' patron–client welfare networks. Thus, exposed capital is the strongest advocate for the NPM model of public sector reform, involving real wage disciplines, results orientated management, budgetary transparency, and true costing. New public management does not involve the wholesale program of deregulation, privatisation, and public sector staffing cuts that sheltered firms prefer. Instead, it aims at lower costs via higher productivity and via the professionalisation and insulation of the state, and at making public sector actors behave more predictably and more like private sector actors who are susceptible to cost reduction pressures.

New public management consists of:

1. A 'policy-provider split': separating policy making from the management and implementation of policy or the provision of goods/services; and separating commercial and regulatory functions.
2. Management by results: shifting from input orientated, bureaucratic controls to output and results orientated control modes using quantifiable output and performance measures.

5 OECD, 1998, p. 128. Similarly, some French small business owners have registered their firms in Britain to avoid taxation on proprietor's income, with savings amounting to 30% of owners' gross pay (*Washington Post*, 16 April 1998, p. A23).

3. Multi-year business or strategic plans, true and full costing of services, budgetary transparency and enhanced auditing capacity at the centre.
4. Real wage discipline: hire-fire capacity and pay for performance.

Substantively exposed firms seek increased public sector productivity because they directly and indirectly consume a wide range of public services. These services typically amount to 30% of total costs for these firms. Most firms in this sector either face organised labour or value a stable, skilled labour force as a competitive resource. They thus view dismantling the welfare state and desocialisation of risks as something that will raise their labour costs rather than reduce them. Exposed firms thus see fiscal discipline as a way to put a hard budget constraint on public producers, a way to attain better credit ratings, and a way to stabilise tax levels, rather than a way to finance tax reductions in individual income tax levels. Fiscal discipline improves the state's credit rating and thus indirectly firms' own rating and borrowing costs. Exposed firms prefer broad based sales taxes whose regressivity does not affect their upper management, and whose rebate-ability improves their position in export markets. In short, exposed firms prefer to fix the state's service production rather than eliminate it.

Employers in the exposed sectors also find that centralised systems for collective bargaining prevent them from attracting or developing a pool of skilled labour without simultaneously causing wage increases in the public sector. Disciplined skilled labour was a prerequisite for success in the changed international economic environment of the 1980s. But income policies, solidaristic bargaining by unions that compressed wage differentials, and award rigidities prevented them from using increased wages to attract skilled labour.[6] Rising private sector wages triggered public sector demands; in turn private sector employees and employers sought to restore differentials with the public sector, setting off wage leapfrogging.

Unions in the exposed sector also prefer a flavour of progressivism. Exposed sector unions fear that wage pressures emanating from organised sheltered workers induce their own workers to take wage positions detrimental to their long-term employment. But exposed workers also consume public sector services that represent socialised risks, and prefer that to individualised and market based risk. Exposed labour thus prefers to reorganise the public sector and welfare state to impose fiscal and wage disciplines on it, but without a recision of public services. Like exposed firms, exposed labour prefers welfare state reorganisation to dismantling, but it also prefers continued public ownership to privatisation and open private–public competition. To the extent that productivity gains are not forthcoming in the public sector, exposed workers have strong incentives to band together with exposed firms to break wage parities with the public sector.

6 Frenkel, *Union Strategy and Industrial Change*; Ewer *et al.*, *Unions and the Future of Australian Manufacturing*; Iversen, *Power, flexibility, and the breakdown of centralized wage bargaining*.

This ensemble can be called 'social progressivism.' As with the neo-progressivism of exposed firms, it emphasises the more business-like, NPM model; but it diverges by preferring continued socialisation of a broad range of risks and a relatively higher level of public spending, ownership and service provision.

In all our cases, the most important private and exposed sector unions – the metals and transportation equipment unions grouped under Australia's Metal Trades Federation of Unions (AMTFU), Ontario's automobile and steel workers, and British Columbia's forestry union, International Woodworkers of America (IWA) – sought control over public sector wages. The erosion of wage differentials between skilled and exposed sector workers on the one hand and unskilled and public sector workers on the other dismayed the unions of skilled workers.[7] The Australian Accord is, of course, familiar. But in British Columbia after 1991, the left wing New Democrat Party (NDP) government and the private sector Federation of Labour constructed new corporatist institutions to regularise and control public sector wage bargaining. The Ontario NDP similarly offered an accord to public sector workers. As with Australia's Accord, these new institutions rested on an explicit exchange of wage restraint for employment security.

Finally, sheltered sector unions seek to protect labour markets from world market prices much as sheltered firms seek to protect their stream of profits from franchisers and other forms of international market intrusion. These unions prefer a large public sector whose entrenched work norms and rules enable it to soak up excess (and often unskilled) labour. Aside from direct beneficiaries, who are almost always concerned only about their own specific income stream, this is the largest status quo constituency in the welfare state debate.

In its most positive and forward looking formulations, this strategy tries to overcome the management problems associated with a bureaucratic welfare state in order to generate continued public support for the public sector.[8] It is a 'high road' strategy for the public sector, emphasising high quality services at, of course, high cost. The political strategy here tries to retain the support of middle-income voters (or firms) by offering high quality services, and then using cross subsidies also to provide high quality services to poor people. This strategy also tries to inculcate a set of values centred on social citizenship; not everything has a 'price', and the state is not a supermarket for services. Consequently, this strategy focuses much more on client service than on NPM style production efficiencies; thus it is a responsive state strategy. Only public sector labour unions possess enough organisation to implement this strategy, because most private service industries have fragmented and volatile labour forces. However, unionised private sector service workers in regulated product markets are also conscious defenders of their 'local

7 Swenson, *Labor and the limits of the welfare state*.
8 Bo Rothstein, *The Social Democratic State*, Pittsburgh: University of Pittsburgh Press, 1996.

welfare state', that is, the secure employment conferred on them by sectoral regulation and market segmentation.

What about the state itself? Finance ministries provide convenient theoretical diagnoses of public sector problems using public choice and agency theories.[9] Public choice theories suggest that pressure groups typically demand too much in the way of services and transfers, that bureaucrats inflate budgets, and that politicians are overly eager to concede these items to both groups. Similarly, agency theory argues that public sector organisations and their workers work too little and in the wrong ways from the point of view of consumers and politicians. Both imply that consumers (and/or taxpayers) are at a disadvantage when they try to organise to curb public sector expansion, or make public servants act in clients' (their principals') interests.

Finance ministries see markets with private production as one solution to these problems, because they allow consumers to use exit as a method of disciplining producers; consumers can take their money to another, presumably cheaper and more consumer-friendly producer. But markets are not the only plausible solution. Other possibilities are more competition among public providers (e.g. through vouchers or capitation payments), more user input in the administration of public services (e.g. parent dominated school boards), more legal rights (e.g. via citizen charters) and more operational autonomy for producers (e.g. freedom from counterproductive central surveillance). So both the definition of the problem and the solutions proffered are political.

These four groups and state actors fought to build coalitions to secure political power and institute their preferred policy solution to the emergence of service sector markets and public dissatisfaction with welfare state services. The next section analyses policy oscillation as a function of change in political power in each of our three cases.

REORGANISING THE AUSTRALIAN STATE

All three of our cases responded to the crises of the 1970s (in Australia) or 1980s (in Canada) with efforts to rationalise the welfare states and state owned sectors that had emerged in the previous decades. In all three, reorganisation efforts oscillated between different syndromes, even though similar legislative and political technologies were deployed in pursuit of office. Roughly speaking the 1970s and 1980s saw relatively hesitant efforts at change and even some continuation of policy routines, but as fiscal pressures deepened after 1980 and 1990, efforts to create a new model emerged in all three cases. The discussion will privilege the

9 For a more extensive treatment see Schwartz, *Public choice theory and public choices.*

Australian experience, using the Canadian ones to highlight the political dimensions of change.

Gough Whitlam's ALP government 1973–1975 represented an effort to blend social progressivist and responsive state strategies, but like the British Columbia and Ontario cases, the Whitlam government rested on a very unstable and uninstitutionalised coalition between different wings of the Labor movement. Whitlam tried to expand the state's provision of welfare through Medibank and the Australian Assistance Program, while also imposing new management routines. He centralised financial controls while decentralizing service provision. Whitlam attacked bureaucratic indifference to both customers/clients and (would-be) political masters via the Royal Commission on Australian Government Administration (Coombs Commission 1976). Coombs articulated three complaints about bureaucratic unresponsiveness.[10] First, bureaucracies ignored their own employees' desires for a less hierarchical administration; second, they ignored the presence of distinct communities within Australia; and third, they ignored unorganised communities. Coombs' recommendations on personnel administration foreshadowed the later use of forward estimates to let departments set their own priorities and staffing.

State level inquiries, like Peter Wilenski's (1977) *Review of NSW Government Administration*, echoed this. Wilenski argued for more accessibility to, more diversity in, and more political control over, the bureaucracy. Anticipating later trends towards budget centralisation and operational decentralisation, Wilenski argued that politicians, not technicians, should set policy, using competition between old and new programs to guide spending. Simultaneously the 'excessively hierarchical' administration should delegate responsibility downwards, allowing technicians to tailor programs to individual needs.[11]

The Coombs and Wilenski reports presented 'left' critiques of public sector unresponsiveness, reflecting Whitlam's and Wran's difficulties in controlling bureaucracies indifferent to the ALP's social aims. Both reports exerted a strong influence on the ALP governments of the 1980s. But when Malcolm Fraser displaced Whitlam in 1975, he articulated a new right-wing critique and praxis that focused on pure cost control rather than responsiveness. Despite small managerial reforms that foreshadowed the NPM, Fraser's government primarily pursued a limited neo-liberal agenda. Fraser abolished the Australian Assistance Program, the Department of Urban and Regional Development, and severely cut staff at the Department of Social Services.

On the managerial side, the Fraser government launched its own Administrative Review Committee in 1975 to root out 'waste', but also to increase central control over the growing bureaucracy inherited from Whitlam. Two Acts in 1976

10 Royal Commission on Australian Government Administration, *Report*.

11 Campbell and Halligan, *Political leadership in an age of constraint*, p. 201; Wilenski, *Review of NSW government administration*.

and 1977 gave managers wider latitude to fire and manage staff. Finally, Fraser carried out the ALP's recommendation to separate the Department of Finance from Treasury, and began the gradual cumulation of real policy control into the Department of Prime Minister and Cabinet that marked the Hawke years.

As administrative reforms, all these early efforts had limited success. They focused on questions of formal organisational structure, and not on the motivations of public sector workers. They were designed to impose a central vision across multiple agencies, but in the absence of a crisis environment they tended towards incremental change and faced a united phalanx of workers' organisations with a change in zero-sum terms.

All this changed in the early 1980s. Public choice theory (PCT) and agency theory had shifted fiscal bureaucrats' attention away from organisational charts per se and towards the incentive structures governing employee and agency behaviour. Fear of 'Banana Republicanisation' gave impetus to root and branch reform. Unions in the exposed sector had reasons to support public sector reorganisation, and the new presence of sheltered and public sector unions in the ACTU made a deal possible, providing public sector unions were offered some positive incentives for wage restraint. Sweeping change was now possible, and with Whitlam's experience still a living memory, the ALP explicitly campaigned on public service reform in the 1983 election.[12]

All this made a social progressivist policy possible under the Hawke ALP governments. These governments sought to create markets and quasi-markets for publicly provided goods and services in order to change the incentives governing the behaviour of agencies and employees in the public sector. By changing the incentive structures embedded in institutions they hoped to change individual and collective behaviours. The emphasis on markets was strongest at the Commonwealth level and then diffused to State policy. How were markets to be created?

Marketisation of the public sector

The essential feature of microeconomic and public sector reform in Australia and elsewhere was putting market pressures on producers and consumers of public services. Reorganisation had two streams: first, commercialising and then privatising government business enterprises (GBE) producing services and goods with close private sector equivalents; second, introducing market-like principles into the production of merit goods (e.g. health or education) where private markets typically failed.

To make markets, proponents of reorganisation had to break up roles that had previously been combined within monolithic, monopolistic agencies. Reorganis-

12 Australian Labor Party, *Labor and the quality of government.*

ers had to segregate the roles of service consumer, service arranger, service financer and service provider into different people and organisations to create the discrete buyers and sellers of goods and services that markets need to function. Reorganisers thus had to separate policy making from policy execution (or service provision), and separate those who financed services from those who provided services. Reorganisers also had to open up service provision to competition and insert a cash or contractual nexus between providers of services and consumers and funders of services. Reorganisers complemented this separation with changes in work practices inside agencies, and between agencies and their funders, in order to make it possible for agencies to respond to market pressures. When it was not possible to create an open market, reorganisers tried quasi-markets like purchasing 'outputs' from agencies.

Let managers manage

Reorganisers built markets with four key institutional changes affecting workers' behaviour, managers' behaviour, agency and ministerial behaviour, and the overall environment, respectively. The first change went by the slogan 'let managers manage', but really implied the reimposition of private sector style wage disciplines on public sector labour. Reorganisers sought to replace older public sector tenure, seniority, job classification and uniform pay systems with managerial power to hire and fire, to individuate pay scales (including incentive pay), to set flexible work hours and to determine individual job responsibilities. This change extended to senior civil servants in Australia. Reorganisers wanted these changes to motivate workers, and they wanted separate executive career tracks to reorient agency heads' loyalties towards the finance ministry and not their own agency.

The ALP decentralised control over internal personnel for the Commonwealth using two mid-1980s Acts that reduced the number of job classifications and gave managers more power to redeploy, hire and fire labour at will. Control over staffing levels shifted from the Public Service Board to the Finance Ministry. Performance pay expanded from senior executives to other managerial ranks in 1992. The 1988 Industrial Relations Act and subsequent Australian Industrial Relations Commission (AIRC) decisions reduced the number of salary bands and a 1992 government-union agreement expanded enterprise bargaining. By 1993 about 62% of the workers with AIRC approved enterprise bargains were in the public sector.[13] The Liberal-National government also reinforced wage discipline with its 1996 Workplace Relations Act. This made individual and enterprise contracts possible under the federal system, while constricting the scope of federal awards and the old federal AIRC.

13 Hamilton, *Employer matters in 1993*, p. 117.

Management for results

The second change is summed in the phrase, 'management for results', and involved the reorientation of management attention away from inputs and towards outputs and outcomes. Budgeting and accounting practices shifted from detailed input control towards block budgeting, and current and capital spending were split. The (sometimes limited) introduction of 'user-pays' principles encouraged managers to recover and retain at least part of the cost of production. Consistent with these changes, finance ministries achieved greater control over the composition of the total budget, and control over public sector personnel shifted from dedicated public service boards to finance ministries.

Reorganisers wanted to change managers' behaviour by using this simultaneous centralisation of control over the allocation of gross budgetary resources and decentralisation of operational authority to use budget and personnel resources. Rather than worrying about overspending their line item for pencils, managers would focus on delivering goods or services to clients. Meanwhile, competition would assure that market pressures would force managers to use their new-found managerial 'freedoms' to search for efficient production methods. Managers could organise production and attain their goals any way they pleased, so long as they did not exceed their budget. In effect, finance ministries tried to turn line agencies into black boxes; they no longer cared how the job was done – or indeed by whom – as long as it was done. Despite earlier failures with across-the-board budget cuts, the ALP also used pre-announced real budget decreases to increase pressure on managers to boost productivity.

Australia's budget and management changes occurred through the 1984 Financial Management Improvement Program and its associated Running Costs and Program Management and Budgeting Systems. These shifted planning to the production of specified outputs. The introduction of program budgeting in 1987 and the simultaneous imposition of an across-the-board annual 1.25% reduction in budgets reinforced the reorientation of control towards outcomes and managerial flexibility. Program budgeting brought together functionally related areas previously dispersed across several ministries, and allowed ministers to make trade-offs among different programs inside a given portfolio. Agencies could retain any savings they made over and above the 1.25% 'efficiency dividend' (i.e. budget cutback) and use those retained funds to reward individual productivity. In 1996 a new budgeting information system, the Finance Information on Resource Management (FIRM) – aptly suggesting both the private sector and budget restraint – gave the centre more control.

Holding company models

Reorganisers changed the machinery of government to make it conform more closely to the then popular private sector notion of a 'flat corporation', in which planning (policy) and implementation (provision) are divorced. Strategic decision-making, including the allocation of investment resources, was concentrated into small policy teams who arranged for the purchase/provision of services from both internal and external suppliers, and who themselves 'managed the managers.' These teams took orders from the politicians, who presumably represented social demands for particular services.

Commonwealth fiscal bureaucrats saw flatter hierarchies as permitting tighter global financial control simultaneous with operational autonomy. Structurally, control over spending was concentrated into the Department of Prime Minster and Cabinet. The centre was able to hold departments to multi-year 'forward estimates' of their spending, roll current forward estimates over as next year's budget, and set line agency budgets without new input from those agencies.

The 1987 Machinery of Government reform reinforced this, consolidating 27 departments into 16, partly to eliminate middle management jobs, and partly to subordinate departments controlled by old style social liberals to those controlled by the new style Senior Executive Service (SES). Further centralisation was hampered by intra-ALP factional fights, and conflict between the Ministry of Finance and the Treasury.

Both Pusey's fine-grained study of the Senior Executive Service elite, and Campbell and Halligan's broader survey of administrative change reveal a commitment to flatter hierarchies, increased central control over spending levels (but not details), and a reorientation towards outputs via portfolio budgeting – in short a complete change in the geist of the Australian federal public service.[14] Equally important competitive pressures were placed on agencies through a combination of full cost recovery user fees and pressures to contract out. These changes opened the door to private–public competition.

Competition

Finally, reorganisers imposed a market's most basic requirement: competition between producers. They tried to eliminate or undercut agencies' monopolies over service provision by introducing competitive tendering or internal markets. All these changes were aimed to reduce surveillance costs for finance ministries and the information asymmetries creating moral hazard. Planners/contractors could afford to let implementation agencies be 'black boxes' so long as they could replace them with other (equally 'black box') agencies from the public or private sector in the event of failure to produce the outputs specified by the contract.

In Australia, the whole thrust of microeconomic reform and post-Hilmer competition policy has been to introduce market-based competition in broad swathes of the economy. Transportation and civil aviation were liberalised, and all GBE

14 Pusey, *Economic Rationalism*; Campbell and Halligan, *Political Leadership*, pp. 28–31, 43–51.

were commercialised and many privatized. Health care continues to be characterised by competition among private physicians, and the Liberal-National government tried but failed to encourage a shift towards private health insurance and ultimately private hospitals with a tax rebate.

PRAXIS MAKES PERFECT: CANADIAN VARIATIONS

If there is a choice between restructuring with a human face and with a hard face, what are the political preconditions for the former? The critical precondition for restructuring with a human face appears to be comity between exposed and sheltered unions. This in turn rests on the institutions surrounding collective bargaining, as can be seen with regard to British Columbia and Ontario.

British Columbia: From neo-liberalism to social progressivism

Social Credit (conservative) governments pursued increasingly purer limited neo-liberal projects from the 1982 recession to 1990. This alienated exposed sector labour and firms, leading to a NDP government in 1991. This government began a social progressivist project in 1991 with strong support from sheltered and exposed unions, and passive support from exposed firms. When side payments to sheltered unions eroded fiscal balance, driving exposed firms towards the Liberal Party, the NDP added neo-progressivist elements to its project to retain their support. In short, the 1990s in British Columbia played out much like the 1980s in Australia.

Limited neo-liberalism 1982–1991

Before the 1980s, British Columbia's many sheltered firms formed the Social Credit party's core electoral base. During the 1970s, Social Credit relentlessly expanded the public sector to retain support from exposed firms and labour in rural areas, while also relentlessly promoting concentration in the forestry and mining industries. These policies inadvertently expanded both exposed sector and public sector unions and thus the base for a strong left party, the NDP. Two Social Credit administrations in the 1980s tried to cage this Frankenstein with limited neo-liberal policies. The first (William Bennett's government) was more conscious of the need to make side payments to exposed firms and exposed unions than the second (William Vander Zalm's) whose purely neo-liberal policy line antagonised exposed unions and firms, and destroyed Social Credit.

The Bennett administration pursued five typical neo-liberal policies after the recession of 1982, which were: attacking public sector employment, wage levels, and collective bargaining rights; centralising spending and operational authority; burden shifting to municipal government; contracting out for its own sake; and increasing subsidies for sheltered private sector projects. The 1983 Compensation Stabilisation Program (Bill 11) held public sector wage increases below inflation. Bennett also proposed removing government employees' rights to negotiate anything but wages in collective bargaining and giving public sector employers the ability to fire without cause.[15] Civil service employment fell from 47 000 full time equivalents in 1983/84 to approximately 40 000 in 1984/85, while real public sector spending fell from C$4200 million in 1984 to C$3700 in 1985 and stayed there until 1990.[16] At no time were any NPM principles introduced.

Bennett initially continued Social Credit's long-standing strategy of dividing exposed and sheltered unions. When public servants and public clients defeated Bill 11 with demonstrations and strikes, Bennett struck a deal with the largest exposed sector union (International Woodworkers of America – forestry) that allowed him to whittle away the public sector. But Bennett proposed legislation potentially damaging to exposed unions, while his successor Vander Zalm pursued almost pure limited neo-liberal policies. The Vander Zalm administration cut civil service employment from 34 314 full time equivalents to 27 635 between 1987 and 1991, and began wholesale privatisation in 1987.[17] Exposed sector unions flocked to the NDP, forged an alliance with sheltered labour and agreed to a pact resembling Australia's Accord. Meanwhile fiscal deficits and corruption drove large exposed businesses to the NDP, putting them in office in 1991.

Harcourt and social progressivism

The NDP oversaw two distinct periods of public sector reorganisation. In the first, under Michael Harcourt, the policy centre of gravity lay between sheltered and exposed unions' interests. Glen Clark led the second, whose centre of gravity lay more between exposed unions' and firms' interests.

The NDP's policy reflected a classic social progressivist bargain between sheltered and exposed unions. In 1987 the NDP leadership imitated the ALP's Accord, proposing to exchange public sector employment security for wage restraint and an end to pay relativities conflicts. Harcourt brokered this deal between the exposed and sheltered sector unions, and then tried to institutionalize it using the 'Korbin Commission On The Public Sector'.[18] The commission contained representatives from exposed firms and labour, and the NDP. The commission argued that contracting out made spending unmeasurable and thus

15 Magnusson, *The New Reality*, pp. 79–80.
16 Korbin, *Final Report*.
17 Ruff, *Provincial governance and the public service*, pp. 166–167.
18 Gawthorp, *Highwire Act*, p. 32.

uncontrollable, while endangering public and private sector wage parities.[19] Korbin recommended creating a set of nested corporatist bargaining arenas to permit the state to plan and control 240 000 workers and C$10.5 billion in wages. The commission thus preserved public provision of social protection while making provision more business-like and predictable.

The March 1992 Employment Security Agreement and the Public Sector Employers Act 1993 institutionalised these recommendations. In the former, public sector unions traded wage restraint for government promises to preserve overall staffing levels but not specific positions. The latter consolidated managements' bargaining units under the new Public Sector Employers Council (PSEC). The PSEC gave the government control over public sector wage settlements. In the private sector, the NDP's new Labour Relations Code made the closed shop compulsory if a majority of workers voted to unionise. The British Columbia Business Council – exposed sector firms – helped draft the bill, while small and non-traded firms opposed it.[20] In short, these Acts allowed the Harcourt administration to create institutions that would be able to enforce wage restraint in the public sector while also delivering employment security to public sector workers.

New Democrat Party efforts to reward their core supporters created some tensions with exposed firms. Giving sheltered public sector unions elements of a responsive state policy by focusing on 'process' in public sector administration conflicted with the more value for money orientation of neo-progressivism, while failing to control costs.[21] The Korbin institutions failed to deliver, with public sector wages rising approximately 23% from 1991 to 1995, ahead of forestry sector wages. Public debt rose from 12.5% to 19.5% of GDP. Exposed firms drifted away from the NDP as the share of revenue being raised from business approximately doubled.[22] Harcourt's resignation in 1995 signalled a rapprochement between exposed sector firms and unions, and a more NPM style policy.

The successor Clark administration mixed social progressivist and neo-progressivist projects. On the social progressivist side, the NDP shored up exposed unions by using legislation and state owned firms in natural resources to reunionise construction and forestry industries. Representatives from capital, labour and environmental groups were constituted as new self-standing corporations governing natural resource extraction. These corporations imposed closed shops, which exposed unions liked. Exposed firms were assured that neither labour nor environmentalists would block their projects. The NDP also catered to exposed firms by reining in public sector spending after 1996. From 1996 to 1998 Clark cut social services spending and froze wages for civil servants for 20 months. In short, Clark's policy reflected the following typical interests of the

19 Korbin, *Interim Report*, and Korbin, *Final Report*, passim.
20 Gawthorp, *Highwire Act*, p. 66.
21 Ruff, *Provincial governance and the public service*, pp. 172–173.
22 Scarfe, *Public finance and fiscal policy*, pp. 228, 231.

exposed sector: productivity pacts in export industries; public sector wage restraint; and a business-like public sector.

Ontario: from social progressivism to neo-liberalism

Ontario, in contrast, experienced two extreme projects because successive governments failed to build sustainable coalitions. The Rae NDP government (1991–1995), that was loosely anchored to both exposed and sheltered unions but shunned by exposed firms, initiated a responsive state project but shifted toward a social progressivist social contract to control an expanding fiscal deficit. This contract failed because the relatively unprofessional NDP also confronted undisciplined labour organisations. The successor Harris Conservative government (1995–2002), anchored firmly in sheltered firms, pursued a limited neo-liberal policy, cutting spending and taxes without introducing NPM.

Rae, the New Democrat Party, and failed social progressivism

Although the NDP represented the interests of exposed and sheltered unions, it had relatively weak ties to them and had never held government before 1990. The government's inexperience and distance from its natural social partners made it difficult to implement either a responsive state or social progressivist strategy, and rendered a disciplined response to recession-induced deficits after 1991 impossible.

The NDP first tried to implement a set of NPM proposals generated by the civil service, including more cooperative relations between management and public sector workers, decentralising operational responsibility to lower level workers, putting clients in control of part of the process of service delivery, and the beginning of a policy–provider split. The NDP also tried to create corporatist institutions in the exposed sector, using the Ontario Training and Adjustment Board as an institutional arena for corporatist cooperation. But exposed sector firms had little respect for the sandal wearing NDP, impeding a progressivist alliance in the manner of British Columbia. Ultimately only exposed sector unions supported the NDP.

The NDP also rewarded sheltered unions with large wage hikes and an expansion of their collective bargaining and strike rights.[23] This allowed the NDP to close about 25% of Ontario's hospital beds without much job loss or furor.[24] But a C$10 billion fiscal deficit ended efforts at a responsive state policy. Instead the NDP tried to negotiate a formal social progressivist deal with public sector labour,

23 Lindquist and White, *Streams, Springs and Stones*.
24 Ibbitson, *Promised Land*.

offering job security (rather than 40 000 job cuts) for wage restraint. But without organic ties to either side of the labour movement, without any experience of this kind of deal on labour's part, and with public sector workers divided over a multitude of unions, this failed. Consequently NDP legislated a 'social contract' with support from exposed sector unions. The Expenditure Control Plan of April 1993 imposed C$4 billion in savings through attrition of 7000 public sector employees. Public sector unions then suicidally refused to support the NDP in the 1995 election.

Harris and a pure neo-liberal project

The NDP's electoral catastrophe opened the door to a neo-liberal project under the Harris Conservative government. By 1990 a neo-liberal faction had displaced the Tory party's traditional 'red tory' leadership based in exposed sector firms. They successfully campaigned for a 'Common Sense Revolution' in 1995. The Revolutionaries made sweeping spending cuts that left Ontario below average Canadian spending levels for most public expenditure areas, and matched those cuts with a 30% cut in personal provincial income tax rates. The Harris government also made blind, across-the-board public service staffing cuts of 15%. Finally Harris aggressively pursued deregulation favouring sheltered firms by devolving control over the enforcement of regulations onto producer groups. The Harris administration also rolled back a variety of labour protections, stripping successor rights away from public sector employees to pave the way for privatisation. This provoked failed strikes by civil servants and teachers in 1996.

Harris pursued neo-liberal administrative reforms, centralising control over spending without NPM's simultaneous devolution of operational authority. In education, for example, the government removed school boards' tax powers, and then amalgamated them into fewer bodies with fewer real powers. There have been no sustained efforts at bench marking, client service, or quality standards.

CONCLUSION

This brief survey of public sector reorganisation suggests that its restructuring was not a transient phenomenon, that Australian restructuring was neither idiosyncratic nor an 'error' promulgated by an ALP imitating trans-Tasman or British trends, and that politics does matter. Inevitable changes can take different forms with different consequences.

Restructuring is the internal face of 'globalisation.' Creating markets for public sector goods and services in many cases exposes them to international competition, which precludes returning to older bureaucratic forms of regulation. Policy has transformed sheltered sectors into exposed sectors. Restructuring and decentralisation in collective bargaining are thus a general phenomenon. Restructuring everywhere had the same core elements: new mechanisms for consumer voice, choice, and exit; the delegation of operational authority to public sector producers; and the use of global budgets to maintain macroeconomic balance. But the devil is in the details of those core elements. Voice, choice and exit can be institutionalised through regressive taxes, unregulated private competition, and individual employment contracts or through publicly provided vouchers, intra-public sector competition, and collectively bargained safety nets. There is a choice between change with a soft face and change with a harsh face.

Finally, political skill and labour market institutions interact in managing this transition, as the contrasting cases in the present report show.[25] The relative balance of power among the constituents of restructuring coalitions, and their ability to translate their preferences into policy meant that these 'inevitable' changes took different forms, even where the social base for restructuring was relatively similar. The ALP in its heyday seemed to have had the greatest success balancing political survivability for the party, macroeconomic balance, a continued political base for a safety net, and thorough restructuring. Despite the recent Liberal-National victory, social democracy down under may not also mean social democracy going down. Moreover, the economic robustness of the Australian model in the 1980s and 1990s suggests that other societies might usefully adapt some of its institutional structures.[26]

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25 See for example Castles and Shirley, *Labour and social policy*; and Schwartz, *Small states in big trouble*.

26 See Schwartz, *Social democracy going down*.

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