

Explaining Australian Economic Success: Good Policy or Good Luck?

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Australia and some European countries experienced economic “miracles” in the 1990s that reversed prior poor export, employment, and fiscal performance. The miracles might provide transferable lessons about economic governance if it were true that economic governance institutions are malleable, and that actors deliberately changed those institutions in ways that contributed to the miracles. This paper analyzes Australian policy responses to see whether remediation should be attributed to pluck (intentional, strategic remediation of dysfunctional institutions to make them conform with the external environment), luck (environmental change that makes formerly dysfunctional institutions suddenly functional), or just being stuck (endogenous or path-dependent change that brings institutions into conformity with the environment). These distinctions help establish whether actors can consciously engineer institutional change that is “off-path.” While pluck appears to explain more than either stuck or luck in the Australian case, the analysis suggests that both off-path behavior and policy transfer are probably rare.

Introduction

During the 1990s “economic miracles” in Ireland, Denmark, and the Netherlands attracted considerable attention. All three countries reduced measured unemployment and reversed deleterious fiscal and current account deficits dating from the 1970s to a greater extent than their larger European neighbors. Analysts looking for ways to remediate the employment and growth problems in larger European economies, yet chary of imitating British Thatcherism, were particularly drawn to the two more social democratic examples of change, or to Ireland’s apparent high-tech dynamism. These analysts stressed corporatist pacting as the route to employment gains (see, e.g., Auer 2000). All this attention obscured another equally interesting “miracle” story playing simultaneously in the southern hemisphere: Australia. There, unemployment moderated despite rising participation rates and labor force expansion well above European

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TABLE 1
**Comparative Economic Data, Selected Organisation for Economic Co-operation
 Development (OECD) countries, 1991–2003 (Ranked by Gross Domestic
 Product [GDP] Growth Rate)**

1991–2003	GDP Growth Rate, Annual Average (%)	Percentage Increase in Gross Fixed Capital Formation	Percentage Increase in Persons Employed
Ireland	7.2	143	37
Australia	3.7	107	19
New Zealand	3.4	95	31
United States	3.2	82	16
Canada	3.2	48	19
United Kingdom	2.7	56	7
Finland	2.6	5	0
Netherlands	2.3	28	22
Denmark	2.1	70	4
Sweden	2.1	7	6
EU-15	2.1	12	12
Austria	1.9	25	3
Belgium	1.8	23	10
France	1.8	19	9
Germany	1.7	–1	–1
Italy	1.4	16	4
Japan	1.2	–5	0
Switzerland	1.0	3	n/a

Source: <http://www.sourceOECD.org> databases.

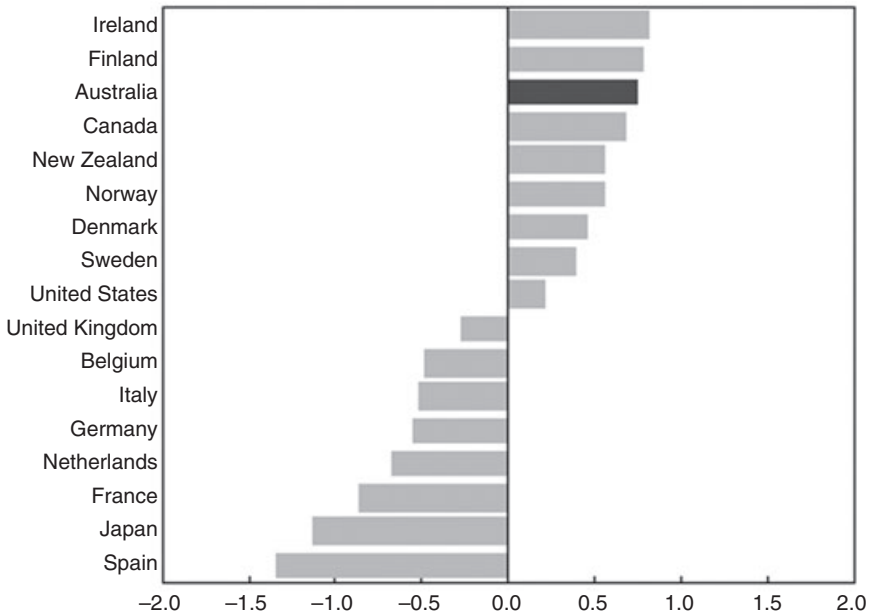
levels; productivity growth rose sharply above trend levels; fiscal deficits gave way to sustained surpluses; and a substantial shift in export profile occurred even though the current account deficit remained stubbornly high. (Table 1 provides some comparative data.)

This lack of attention is curious for both practical and theoretical reasons. Practically, the Australian economy is closer in size to the larger European ones and thus less likely to be an oddity with nontransferable policies. In purchasing power parity-adjusted terms the Australian economy is roughly equal to the combined economies of Sweden, Norway, and Denmark, making it the eighth largest of the developed Organisation for Economic Co-operation and Development (OECD) economies.¹ In the 1990s, Australia was also one of the few OECD economies besides the United States and Ireland that experienced productivity growth substantially above both its own long-term trend and the OECD average (OECD 2001, 78; Productivity Commission 1999) (see Figure 1). Finally, unlike much of the Euro area, gross fixed capital formation net of housing increased substantially over the decade (Figure 2).

The Australian case also sheds light on a central theoretical problem in comparative political economy: to what extent is nonpath-dependent change possible, how is it possible, and to whom, if anyone, shall we give

FIGURE 1

Changes in Multifactor Productivity Growth in Selected Organisation for Economic Co-operation and Development (OECD) Countries (Average Annual Percentage Change from 1980–1990 to 1990–2000)

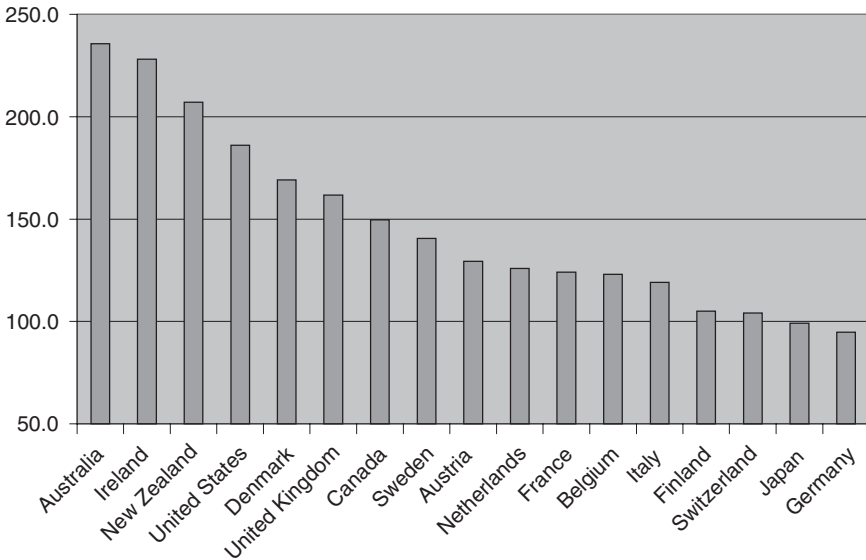


Source: OECD 2003a, 63.

credit for change? In Australia, a coalition of politicians, unions, and some employer associations intentionally reshaped the institutional complex constituting the Australian political economy in order to change the pattern of economic outcomes. Their behavior was not entirely consistent with prior logics of appropriateness present in Australian institutions, and the outcome does not seem to stem from simple good fortune. In contrast, strategic change seems less salient in the European cases, with the Netherlands and Denmark in *most* ways reproducing older policy dynamics (Benner and Vad 2000; Salverda 2005; Schwartz 2001). Does Australia present a case of off-path change that might shed light on the potential for similar sorts of change in the larger countries?

The question of whether or not off-path change is possible also sits right at the heart of governance. The efficient pursuit of economic and social policy routines out of sync with the larger economic and social environment is pointless. But recognizing mismatches, and remedying them in ways that also anticipate both the likely secondary consequences and interactions across policy domains is by no means easy. Consider the difficulties many European states face in shifting away from welfare states oriented toward pension-age male workers and toward female workers,

FIGURE 2
**Growth in Gross Fixed Capital Formation, Net of Housing, 1991–2003,
 Index 1991 = 100**



Source: <http://www.sourceOECD.org>.

particularly those of childbearing age (Esping-Andersen 1999; Saraceno 1997). Moreover, posing the question exclusively in terms of *how* deliberate policy choices play a role in remedying problems carries with it the implicit assumption that it is *only* policy, and deliberate policy at that, which matters. Yet it is not at all clear that all favorable outcomes and off-path behaviors, including those in question here, are the result of deliberate policy choices based on a strategic assessment of options.

This analysis will try to correct for the implicit privileging of intentional action in causal explanations. It explicitly considers two additional routes to successful outcomes. First, success might arise from good luck. The external environment might change in ways that make formerly dysfunctional institutional structures suddenly functional. Second, success might arise when actors make policy choices that are essentially endogenous outcomes of specific existing institutional structures and routines rather than truly strategic responses to changing environmental conditions. Although actors might consider their actions to be intentional responses to policy problems, the institutional constraints on policy choice might be such that no other choice was possible. In this situation, should actors get credit for success when their policies did not represent a substantial change of direction? With all deference due to Andreski's (1972) caution against neologisms, I will characterize the three possible

routes to good outcomes as *luck* (environmental change that makes formerly dysfunctional institutions suddenly functional, even though actors essentially did nothing novel), *stuck* (endogenous, path-dependent change that brings institutions into conformity with a relatively stable environment), and *pluck* (intentional, strategic remediation of dysfunctional institutions to make them conform with the external environment) in order to have a clear and handy set of labels that remain close to their natural English-language meanings. The first section of the article discusses the nature of institutional stasis and change in order to establish clear meanings for these labels.

The second, third, and fourth sections assess the degree to which favorable outcomes in Australia in each of three selected issue areas over the past two decades reflect luck, being stuck, or pluck. Those three areas are the current account balance, broad employment, and the fiscal balance. The justification for looking at these three issue areas is simple. These issues encompass the core economic foundations for a tax, service, and transfer welfare state, which is precisely why the European “miracles” discourse focuses on them. High unemployment obviously raises state expenditures, decreases revenues, and erodes social solidarity; low rates of labor force participation have similar effects. Fiscal deficits also clearly erode the long-term sustainability of the welfare state as deficits cumulate into debt and as interest payments begin to crowd public services and transfer payments out of the budget. Finally, current account deficits are a proxy for competitiveness, and so are often also associated with higher unemployment as imports crowd out local production or as global competitors displace exports from third-party markets. Current account deficits, whether financed through public or private debt, also usually carry higher real interest rates than does domestic debt, and moreover cannot be monetized.

Put simply, these three policy areas relate to the following questions: Is the economy governed well enough that it can produce goods at a price that overseas buyers are willing to pay? Do these exports generate enough money to employ a politically acceptable number of people? And does governance of the public sector permit the production of public sector inputs for those exports at a cost level that is consistent with continued export competitiveness and at a quality level that is consistent with continued public support for the welfare state? This last question means that I must also touch upon narrowly *political* issues of sustainability while discussing fiscal balance. Because the political acceptability of policy change matters, each of these middle three sections also assesses darker sides of the Australian success story. Finally, I assume that it takes roughly a decade for the consequences of deliberate or inadvertent institutional changes/stasis to show up in aggregate economic and social indicators. These three substantive sections thus try to link institutional changes in the 1980s and early 1990s to outcomes in the 1990–2004 period. The fifth and final section sums up the argument.

Luck, Stuck, and Pluck

To understand which of luck, stuck, or pluck explains policy success, we need to understand the origins and nature of institutional stability and change. This is perhaps the central problem in comparative institutional analysis, though a full solution is impossible in the confines of a journal article. States and markets clearly are indivisible from their institutional aspects. Variations in institutional structure clearly are one source of variation in market and policy outcomes, because institutions often determine policy formation and effectiveness.

Starting with the issue of (non)stasis might seem odd, given that analyses of governance and institutions are often concerned with efficiency and efficacy, and that most explanations of “success” stress increases in efficiency at a sectoral or economy-wide level. But while the rational choice variant of institutional analysis once was preoccupied with explanations of efficiency, recent versions have conceded that the complex of institutions that constitute any given political economy rarely even represents second- or third-best options. This concession flows from the almost universal acceptance of Douglass North’s definition of institutions as mind-sets rather than only formal rules or formal organizations (North 1990, 3–4). But the drift away from efficiency explanations also makes it difficult for both rational choice and sociological institutionalism to explain change, because market pressures for change become more diffuse.

Rational choice institutionalism understands mind-sets as self-sustaining, boundedly rational expectations about other actors’ behavior based on causal beliefs about the probable consequences of various actions (Aoki 2001, 16–26). These beliefs structure what actors perceive as the available choices for action, and the resulting strategic interactions then produce stable outcomes—nash equilibria—which recursively reinforce actors’ sets of beliefs about available choices. Because institutions represent mind-sets, rather than sets of “hard” or organizational technologies, multiple equilibria are possible, and those equilibria do not necessarily represent optimal outcomes or Pareto frontier outcomes. In this model, contra Alchian (1950), the market does not necessarily generate enough competitive pressure to move the cluster of institutions constituting a given political economy toward optimality. Instead, institutional evolution occurs through “mutations” in actors’ model of the world. These can be caused either by stochastic events in the environment, which disrupt actors’ settled expectations, leading to a reformulation of the mind-set constituting the institution. Or they can be caused by actors’ inability to assimilate accurately (but boundedly) an understanding of that environment, which leads them into institutionally disruptive errors (Aoki 2001, 191–194).

Sociological institutionalism understands mind-sets as sets of scripts and social roles that give meaning to actors as they recognize which daily

duties, routines, and rituals are appropriate to a given situation (March and Olsen 1989). This understanding of institutions as interdependent organizational logics of appropriateness also generally predicts stability as an outcome. The relative weakness of logics of consequence in daily behavior attenuates competitive pressures, and ritualized behaviors are consistent with multiple equilibria. These equilibria are not necessarily optimal in an economic sense, though they may be symbolically optimal. Here, change comes from the inadequate transmission of ritual rather than of consequential knowledge. Drift occurs because of an inability to accurately transmit the purposes ritual serves to successive generations. Rituals that once encompassed means become ends in themselves, disconnecting actors from their prior purposes, and locking them into "iron cages" built out of settled behaviors (Berger and Luckmann 1966). The critical difference between the two views is that rational choice institutionalism makes individuals primary (institutions are equilibrium aggregations of *individual* mind-sets), while sociological institutionalism locates at least part of institutional realities in organization-level phenomena like training routines, physical archives, and daily social interactions. At least initially, order is built from the bottom up for rational choice institutionalism, while the reverse is true for sociological institutionalism. But both agree that change occurs because of changes in actors' beliefs and this affects how these two theoretical camps assess policy success and failure.

Despite the drift away from efficiency arguments, both variations of institutionalism still retain traces of the original efficiency orientation in their understanding of how stability and change flows from the consequences of correct and incorrect choices. These traces show in the assumption that successful outcomes generally should be attributed to actors' deliberate and correct behaviors, while failures should be attributed either to incorrect behavior or a failure to respond to changes in the environment by changing institutions. Most policy studies assume that agents are capable of assessing their environment, making bounded policy choices, and thereby remedying the problems that sent them searching for policy choices in the first place. This can be seen generally in Fritz Scharpf's (1997) dichotomization of policy research into interaction-oriented research (which asks: Why do governments *respond* to problems?) and problem-oriented research (which asks: Why do these problems *exist* for the government?). The former looks at actors' assessment of the environment, their choice of response, and how interactions among different organizations and institutions affect responses; the latter looks at the environment itself (albeit as filtered through policy analysts' understanding of what constitutes a proper problem). Each view obscures other relationships between "internal" policy choices and the external environment. A recent analysis of the Australian case that emphasizes policy entrepreneurs as the source of success in Australia provides a similar concrete example (Goldfinch and t'Hart 2003). While the causal weight placed on plucky policy entrepreneurs might be correct, we cannot be

certain it is correct until the influence of luck and stuck is assessed and dismissed, something the article fails to do.

Both institutionalisms see success as a consequence of actors' choice of a *correct* action plan from the set of feasible actions, with *correct* meaning that the action plan matches environmental conditions or brings the set of institutions into conformity with the environment. The only difference is that rational choice institutionalism sees "available means" as circumscribed by bounded rationality; sociological by logics of appropriateness. On the other hand, failure arises from a mismatch between an action plan and an environment, or the absence of an action plan. In sociological institutionalism either of these can occur because actors continue to follow acceptable routines. But in the absence of strong competitive pressures, the environment does not select against these routines, and even when it does, new routines largely must be consistent with older logics of appropriateness.

These assumptions ignore the possibility that successful outcomes and off-path developments can arise even when actors make the "wrong" choice, or remain passive in the face of environmental change. As Max Weber argued, competition and selection (*auslese*) among units occurs whenever individuals or larger social units meet in the market (Breiner 2004; Weber 1978, 38–40). But Weber (1978, 40) argued that selection often occurred behind the backs of the actors—that is, without their cognizance of the actual factors determining the outcome of the competition—and thus that actors' successes should not always be seen as arising from their deliberate actions:

When this [the explanation of the processes of selection] is done, there is always the danger of introducing uncritical value-judgments into empiric investigation. There is, above all, a danger of being primarily concerned with justifying the success of an individual case. Because individual cases are often dependent on highly exceptional circumstances, they may be in a certain sense "fortuitous."

This is why any investigation into policy success has to account for the possibility that successful actors were lucky rather than smart.

But luck is primarily generated at the system level, rather than from individual level behaviors. Both institutionalisms see environmental change as disequilibrating. Environmental change forces actors to change. But why should this be so? An environment could change in benign or positive ways for a given institutional complex and its actors. An environmental change that created a benign environment for what were once dysfunctional institutions would probably reinforce the continuation of those institutions rather than forcing change. Because actors usually attribute their successes to their own actions, a softly constraining environment could possibly induce many actors to erroneously correlate their prior behavior and their current success. They would thus be tempted to codify this behavior in an effort to reproduce that success in the future. This "cargo cult" mentality—erroneous causal attributions arising from

fortuitous conjunctures of events—can last until repeated failure calls into question the original conclusion arising from the conjuncture of behavior and outcome. But these cargo cult behaviors can also be a source of change in institutional behavior—the mutations referred to above—as when a new behavior is wrongly associated with some successful outcome.² Luck thus has individual-level effects, as cargo cult beliefs are incorporated into either predictive models or what is seen as appropriate behavior, and then become self-reinforcing. Luck can thus keep actors on-path—when currently appropriate behavior seems to be the source of success—or move them off-path—when deviant behavior appears to be the source of success.

How pervasive is luck, though? Luck is probably more common than is thought of with respect to economic institutions. Environmentally generated luck, for example, is a natural product of typical market behaviors. All economies try to maximize their use of cheap, abundant resources and minimize their use of scarce, expensive resources. But if the environment only softly constrains, we would expect a normal distribution of institutional complexes, with some complexes using abundant resources extensively and others much less so (and the reverse with respect to scarce resources). Suppose institutional structures are such that Economy A specializes in production processes that extensively consume the most abundant resource globally, while Economy Z, for some institutional reason, consumes much less. Economy A experiences above average growth because it utilizes cheap inputs to production. Rapid growth in Economy A induces (through mimesis or a fear of relative losses) actors in economies B through Y and they try to emulate Economy A in order to also attain above average growth.

Meanwhile, actors in Economy Z remain passive, either out of ineptitude or because a transformation in the direction of Economy A is seen as inappropriate. As economies B through Y shift toward Economy A's model, consumption of the abundant resource increases, driving up its price. Meanwhile, Economy Z benefits from the shift toward Economy A's economic model, because this reduces competition for the formerly scarce inputs it uses in production. Economy Z then emerges as the model economy, despite the lack of conscious efforts at institutional change aimed at securing first place in the economic growth race. (This dynamic probably explains part of why individually developed economies' growth rates tend to revert to the trend growth line for all OECD economies over the long term.)

The more general point here is that markets, like any environment, select for and reward specific institutional structures and behaviors. Thus some actors will always appear to have made the "correct" strategic response to their environment, even if they chose their strategy somewhat randomly, because there are always some winners in any given market. But this might not necessarily be the "optimal" response or strategy, nor was it necessarily the "correct" choice before everyone else chose their

own strategy. Furthermore, once actors respond to the environment they experience, they change that environment, eroding the degree to which any prior "best" response to a given environment fits the environment in the next time period, and presenting other actors with a new environment. At any given time, environmental changes rather than intentional action may endow a success upon Weber's "individual case"—an actor studied in isolation—making its policy look like an "optimal" or "best" response to that environmental change. But in this situation causality will be located in the system, in the environment created by other actors' behaviors, and not in the choices of the specific actor.

By contrast, "stuck" and "pluck" are easier to understand within the confines of literature on institutions. Stuck corresponds to the normal development of a given institutional complex and its related policies. All institutional complexes experience incremental change that does not affect actors' core calculations about what other actors will do, and thus what the outcome of strategic interactions will be. (Or to put it in the language of the sociological institutionalists, core notions of appropriate behavior do not change even if some new routines and goals are assimilated to those notions of appropriateness.) This kind of change is generally captured in the expression: path dependent change. This kind of normal development is of course pervasive, although it can lead to both policy success and failure depending on the degree to which fit with the larger environment increases or decreases.

The criterion for distinguishing between stuck and pluck on the one hand, and luck on the other, is whether policy actually mattered in ameliorating the specific problem at hand. With luck, environmental changes working through unrecognized mechanisms produce the success that is then retrospectively and erroneously attributed to some policy routine. With both stuck and pluck, policy actually does produce the successful outcome. The criterion for distinguishing between stuck and pluck is whether or not policy aimed at changing the existing institutional complex so as to change the "path." Pluck involves path-changing policy: an effort to change actors' mind-sets and the set of organizational incentives that reinforce those mind-sets. This generally requires a high degree of entrepreneurship, because even if an individual agent experiences a "crisis of shared belief" (Aoki 2001, 232), that sense of crisis must be sold to other actors. Many of those actors will have a stake in the existing set of beliefs and their associated payoffs.

Pluck is thus quite rare, by contrast with luck. Necessarily so: most of the time, muddling through (stuck behaviors) will be rewarded as minor perturbations in the environment fail to dislodge the majority of economies from their trend rates of growth, and as the inertial weight of prior physical and mental investments reinforces old behaviors. In any given "play," around half of the institutional complexes constituting discrete national or regional economies will be rewarded by being above average with respect to the whole set of economies.

To foreshadow the findings, luck and endogenous change consistent with local logics of appropriateness played only minor roles in the Australian miracle. Rather, intentional, strategic reform of Australian political and social institutions did much to ameliorate Australian macroeconomic problems and an unfavorable export structure. Australian political actors deliberately recast old institutions largely in new molds. The Australian actors making these changes naturally enough pursued their own interests in their reconstitution of institutions—this, after all, is what politics is about. But they did so in ways that comported with the external environment. As a result, the Australian economy not only stabilized but also grew rapidly. Australia thus presents one of the few recent “miracles” where pluck made a difference in stabilizing the macroeconomic basis for a welfare state.

The Structure of the Analysis

Put simply, this analysis must account for the varying influences of luck, stuck, and pluck as competing explanations for Australian policy success in the 1980s and 1990s with respect to the current account balance, employment outcomes, and fiscal balance. This means we must work through nine competing explanations—three for each of three areas. Before doing this, I present the criteria for assessing each kind of explanation with respect to this case.

Luck explanations start from the usual assumptions about institutional stickiness and inertia, and argue that while Australian institutions have been relatively constant over the postwar period, the external environment has changed in ways that (dis)avored Australian production and public sector institutions. Stuck arguments suggest that endogenous dynamics made formerly dysfunctional Australian institutions change in ways that fit well with a static environment. Finally, pluck arguments in contrast assume that actors in the production or the public sectors consciously remodeled their own or others’ institutions to make them fit better with the external environment.

What, then, would we expect to see if luck caused Australian policy successes? We would look for continued bad habits (institutionally generated behavior) whose consequences were ameliorated by factors exogenous to the Australian economy, or at least not in ways intended by policymakers. We would see the persistence of the old dysfunctional combination of import substitution policies and raw materials exports that led to excessive wage gains in sheltered sectors, a weakening capacity to export, and high (imported) consumption in the 1960s and 1970s. Despite this, the fortuitous acceleration of heavy industrialization in Korea and China during the 1980s and 1990s would bail Australia out of its problems. Increased Asian tourism would help offset interest payments on Australia’s rising foreign debt. And a relatively flexible housing market, widespread homeownership, and the tax deductibility of inves-

tors' mortgage interest would combine with disinflation to release purchasing power into the economy in the 1990s, helping to reduce unemployment through an adventitious Keynesian demand stimulus. But this housing related expansionary impulse would not have been a policy goal.

What would constitute evidence for a stuck argument? Here we would look for evidence that Australian institutions evolved incrementally according to logics of appropriateness held by actors in those institutions, and that the institutional outcomes were either better than prior configurations or at least less dysfunctional than those into which the competition stumbled (Aoki 2001; March and Olsen 1989). The evidence would show that actors' conscious policy choices were conditioned by embedded notions about the social purpose of their activity and what could be attained given the institutional landscape in Australia. Stuck arguments would stress three core continuities in Australian economic institutions and practices: the continued reliance on raw materials exports and thus growth impulses external to Australia; continuities in the way the state controls and guides collective bargaining using the judicial system to set wages and conditions (i.e., the arbitration process); and continuity in the targeted provision of relatively low levels of welfare by the state. In particular, we would look for evidence that Australia's collective bargaining system retained a minimum wage that continued to set a high floor under incomes, and that the Arbitration system was used to restrain wage growth, just as it did before 1969. Finally, we would look for evidence that these incremental changes brought Australian institutions into conformity with an external environment in which other countries' institutions performed less well than Australian ones, making Australian policy drift look "good."

Pluck arguments are inherently more complex and difficult to sustain. A convincing pluck argument has to show that Australian political and economic elites assessed the dysfunctionality of Australian institutions and changed them in ways that deviated substantially from prior practices. Pluck arguments would generate evidence that actors comprehensively changed state industrial policy away from 60-year-old import substitution policies and toward export promotion for more complex manufactured goods and nontraditional services. Pluck arguments would stress that political parties and parts of business and the labor movement substantially changed collective bargaining practices by abandoning the 70-year-old core principle of comparative wage justice—what Europeans call horizontal wage equity—and by reducing the role of the highly centralized Arbitration system in favor of a more decentralized and market-oriented determination of wages. Finally, pluck arguments would stress a departure from traditions of public ownership of enterprises providing infrastructure services reaching back into the nineteenth century, and of control over finance dating from World War II, in favor of far-reaching privatization and market-based regulation of public bureaucracies and

finance. Pluck arguments would then causally connect these changes to the rapid gains in productivity that occurred in the 1990s. In short, pluck arguments would stress substantial deviations from many of the institutional structures of the Bretton Woods period, and connect this change causally to Australia's recent economic success.

Each of the following sections thus will lay out the problem facing Australian policy elites in the 1980s and early 1990s, evaluate the nature of their (non)response, and try to connect that response to outcomes in the 1990–2004 period. None of these finds conclusive evidence that one pattern of change alone accounts for success—nor would it be reasonable to expect this. But each section does find a predominant trend.

Exports and the Current Account Balance

The Problem

Australia's current account deficits arose from the misfit between its reliance on raw materials exports and the evolution of developed country import demand away from raw materials, and from the interaction of its collective bargaining system with its system of trade protection, which tended to raise the cost of inputs to the export sector. Australian raw materials exports faced volatile prices and rising protectionism in agriculture, especially after Britain joined the Common Market (see Table 2).

TABLE 2
Export Structure and Destination

Goods Exports (% of Total)	1961	1970	1997
Raw materials	80.6	63.7	58.9
Animal products	63.9	35.8	13.3
Metals, ores, aluminum	7.3	10.0	17.1
Coal, oil, fuels	neg.	5.8	19.3
Cereals	9.4	12.1	7.5
Manufactures:	18.3	26.0	33.6
Commodity based	18.3	11.0	10.0
Noncommodity manufactures	neg.	15.0	23.6
Export Destinations	1961	1971	2001
United Kingdom	23.9	11.2	3.9
Europe (except UK)	15.9	9.4	7.8
United States	7.5	11.9	9.7
Japan	16.7	27.1	19.9
Rest of Asia	—	—	38.5
Rest of World	36.0	40.7	20.1

Neg. = negligible.

Source: OECD, *Economic Survey: Australia*, various dates.

The collective bargaining system tended to transmit wage increases from the sheltered sector (which included not only the usual services but also manufacturing) to the exposed sector (largely agriculture and minerals), producing relative unit labor costs (RULCs) substantially above the OECD average.³ Thus current account deficits expanded after the 1960s. But by the 1990s, Australia was exporting more manufactures, RULCs were at OECD average levels, and current account deficits were at sustainable levels.

Australia's use of *trade* policy as a substitute for *employment* policy created weakness in its export competitiveness as OECD countries reduced the raw materials intensiveness of their production. Australian institutions protected manufacturing to generate jobs. The effective rate of protection for manufactured goods—that is, the share of value-added accounted for by tariffs—averaged 46% in postwar Australia, reflecting the Tariff Board's attitude of "You make it and [we'll] protect it" (OECD 1972, 29–31; OECD 1989, 39; quote from Capling and Galligan 1992, 105). Protection funded itself by inducing inflows of foreign direct investment into this large, sheltered market. By the end of the 1970s, foreign firms controlled about one-fourth of Australian manufacturing and half of mining as measured by value added (OECD 1972, 42; UNCTC 1988, 529).

Australian *social* institutions reinforced the effects of its trade policy. Organizationally, social policy operated primarily through judicial regulation of wages and the labor market rather than through taxes and transfers (Castles 1985). For roughly a century, federal and state courts set wages through judicial proceedings in which only labor and employer organizations had standing. The courts handed down judicial decisions—"awards"—that set the "basic" or minimum wage, added on skill-based wage premia for specific occupations, maintained relative wages, determined conditions of work, and mandated occupational benefits. After 1907, the federal court defined the basic wage socially as that required by a male breadwinner wage earner supporting a family of four. By the 1930s these wage awards covered roughly 85–90% of workers. Relative wage shares were set by awarding additional wages—margins—for skills and enforced via a doctrine of comparative wage justice. The Arbitration court defined comparative wage justice to mean that "employees doing the same work for different employers or in different industries should by and large receive the same amount of pay irrespective of the capacity of their employer or industry." Comparative wage justice created an almost automatic transmission of wage gains from one sector to another (CAR 1970; Plowman 1980, 85). The courts thus created a high *socially defined wage*, which, combined with full male employment, obviated the need for a European-style tax-financed, transfer and services welfare state.

This institutional configuration became unsustainable by the 1970s. Judicially regulated wages pushed up costs in the sheltered sector of the economy, in turn raising costs in the export sector. Meanwhile, the use of

trade protection to generate employment constantly expanded the sheltered part of the economy. Eventually, though, the exposed sector could not support such a large and relatively expensive sheltered sector. The raw materials intensity of the economies of Australia's major European customers declined at the same time those customers increasingly began to shelter their own domestic agriculture. What happened to set things right?

Exports: Luck. Did Australia just get lucky? Did Asian markets for raw materials and foods replace its old European markets without any positive steps by policymakers to find new markets or new exports? There is some evidence for this. Raw materials still accounted for 58% of exports in 2001. Raw materials-intensive late industrialization in Asia created new markets for old (wool) and new (ores) raw materials exports. Europe's share of Australian exports fell from 40% in 1963 to only 12% in 1996, while industrializing Asia's share grew rapidly, rising from 32% (mostly to Japan) to 60% in 1996. Asian demand also drove significant shifts in the composition of Australian raw materials exports away from foods and toward ores and coal. Finally, about half of Australian services exports are tourism related, and the expansion of tourism had much to do with rising Asian incomes. These shifts in the direction and composition of trade qualify as luck, because Australian policy had little causal influence on the presence or nature of Asian industrialization.

Australia clearly benefited from Asian industrialization. Nonetheless, the Australian Labour Party (ALP) made a strong effort to encourage manufacturing exports, and more complex manufactured exports,⁴ in the 1980s. If this policy had had no effects, one would have expected either a fairly constant share for raw materials exports or even a growing share. Moreover, the level of complexity in manufactured goods exports should also not have changed. But the 21 percentage point decline in the share of raw materials exports occurred precisely at a time when the opportunity simply to keep exporting coal, iron ore, wool, and foodstuffs to Asia emerged. Manufactured exports grew at an annual rate of 8.7% versus a 6.9% rate for all exports, from 1984 to 1995, and then slowed slightly to 8.2% (vs. 8.0% overall) after the Asian financial crisis hit in 1996–1997 (Department of Foreign Affairs and Trade 2002, 20; Productivity Commission 1996, 41). Moreover, the share of total manufacturing output that was exported went from 15% in 1989 to 24% in 2002, while manufacturing gross value-added rose faster than either gross value-added in the economy as a whole, or mining, in 1990–2003 (OECD 2003a, 20–21). This means that new manufacturing output was channeled into exports. Efforts to change the institutional logic of the Australian economy thus obviously mattered, because the outcome is not consistent with a luck explanation. Then the question is: Was change deliberate and strategic or simply an outgrowth of older policies?

Exports: Stuck. Labour Party governments 1972–1975 and 1983–1996 tried to dismantle two core institutions—trade protection and comparative wage justice—in order to boost exports of manufactured goods. Would-be Australian exporters of manufactures faced two hurdles. First, while protection had created a complete industrial base, any single industry or firm pursuing exports had to purchase expensive inputs from inefficient protected firms. Second, any given firm's own labor costs were affected via judicially set wage awards and comparative wage justice, so firms could not openly reward their own workers for increased efficiency.

The Whitlam Labour government (1972–1975) tried to undo the first half of this dilemma. Whitlam and the Tariff Board's chair, G. A. Rattigan, partly transformed the old Tariff Board organizationally, renaming it the Industries Assistance Commission (IAC), and charging it with the pursuit of efficient allocation of resources in the Australian economy rather than made to measure tariffs. The IAC promulgated a 25% across-the-board tariff reduction as a strong signal to industry that the era of protection had ended.

But three things suggest strong continuities with prior policy and the spirit of that policy. First, Whitlam made no effort to change wage bargaining in ways that would reinforce the dismantling of protection. The Arbitration system continued to award flat wage increases across most sectors. Second, the Whitlam government remained sensitive to employment levels. As employment fell subsequent to the 1973 oil shock, Whitlam deployed a variety of nontariff barriers and subsidies that offset the tariff cuts in an effort to sustain employment (Capling and Galligan 1992, 109–111). For example, the labor-intense Textile Clothing and Footwear (TCF) industry received an A\$25 million subsidy. The Fraser Liberal Party governments (1975–1983) backpedaled even more, for example, doubling the effective rate of protection in the automobile industry from 1975 to 1984 through import quotas. While policy responses in the 1970s thus changed the *modality* of protection, the original impulse to shelter domestic manufacturing and wages as a way to maintain full employment continued.

Exports: Pluck. The best evidence for a pluck argument comes from the efforts of the Hawke and Keating Labour governments (1983–1996). These governments embarked on a two-pronged industrial policy designed to phase out uncompetitive but sheltered labor-intense industries in favor of high-tech and human capital-intense industries as well as some scale-sensitive exports (Bell 1993; Capling and Galligan 1992). The 1979 Crawford Report provided the intellectual basis for this policy shift, calling for a host of new policies promoting export competitiveness in manufacturing: government support for high-tech “sunrise” industries; tariff reduction as unemployment eased; better skills formation; and easier access to equity and debt markets for smaller firms, which, in the context of high

multinational corporation penetration of the Australian economy, meant locally owned firms.

The political implementation of this policy waited until 1984, when the Minister for Industry, John Button, backed by unions and some employers associations in manufacturing, launched European-style tripartite bargaining over the reduction of protection. Button set up sector-level tripartite fora in three politically sensitive industries (steel, cars, and textile clothing, and footwear [TCF]), plus an “Australian Manufacturing Council” encompassing 11 industrial sectors. The Button plan offered carrots (research and development [R&D] tax incentives, export grants, and training schemes) and sticks (preplanned and extensive tariff cuts) to induce local firms to export. The automobile and TCF industries were partially exempted from these tariff cuts, but the state forced automobile firms to amalgamate factories to attain economies of scale and so reduce the price of Australian-built cars.

Simultaneously, the Hawke government completely inverted the entire institutional apparatus for protection. In a telling switch, the IAC was renamed the Productivity Commission. It turned its analytic skills at making made-to-measure tariffs upside down, measuring instead the productivity and price gap between Australian firms and world market benchmarks, and then suggesting ways for firms to close the gap. Contemporaneous reforms to the system of collective bargaining—discussed in the next section—created incentives for firms and unions to take the Productivity Commission’s suggestions to heart. The follow-on Howard Liberal-National Coalition governments (1996 to date) continued the policy of gradual tariff reduction and the work of the Productivity Commission. By 1996 average Australian tariff rates were half those of the European Union (Bean 2000, 95). In short, policy promoted export competitiveness, particularly for manufacturing, by removing shelter and trying to make sheltered sector firms more competitive.

Indeed, the ultimate goal was to make even sheltered service firms exporters. Labour generated a new antimonopoly Australian Competition and Consumer Commission to prevent newly privatized infrastructure firms in the sheltered sector from abusing their market position. The Hawke government also created positive incentives for services exports. In education, for example, universities’ budget expansion was keyed to their ability to attract paying foreign students. By 2000, education “exports” of A\$3.7 billion rivaled wheat, and exceeded automotive, meat, and wool exports (Victoria Auditor General’s Office 2000, 91). Overall, services exports grew faster than total exports after 1980, and by 2000, Australia had a larger share of world service exports (at 1.2%) than of world exports in general (at 1.0%), reflecting aggressive forays into educational and leisure tourism markets (Productivity Commission 2002, 69).

Does the floating of the Australian dollar in late 1983, which also ran contrary to years of policy, also provide evidence for a pluck argument? The dollar fell over the 1980s, making some Australian exports relatively

more attractive. But most Australian exports—including and especially minerals exports—are priced in U.S. dollars, so the depreciating Australian dollar merely made exporting more profitable, rather than making exports cheaper in world markets. It thus could not have induced buyers to pick Australian goods simply on price terms, although it gave exporters room to maneuver. Furthermore, Goldfinch and t'Hart (2003, 248–250) suggest that the central bank had already abandoned its commitment to fixed exchange rates. All this suggests that policy recognized new realities rather than shaping them.

Nonetheless, new policies appear responsible for the eight-percentage-point increase in the share of technology or human capital intense exports in Australia's export mix, as well as the shift within raw materials exports toward more highly processed exports (as with wine, which went from nil to nearly 1.5% of exports in 2000, or with exports of processed aluminum, which now exceed those of bauxite). These policy initiatives were based on imported models for industrial policy, and thus represented a telling departure from Australia's more usual policies of made-to-measure trade protection for manufacturing and especially labor-intense manufacturing.

Evaluation

Luck, in the form of Asian industrialization, certainly played a significant part in Australia's ability to continue to export large volumes of minerals into world markets. The majority of Australian exports continue to be "land" based. Moreover, the whole minerals sector remained untouched by trade policy changes in this period. There is less evidence that stuck generated the observed outcomes, however. Efforts to change Australia's export orientation away from raw materials and toward manufactures in the 1970s remained cramped by older policy routines and political preferences favoring continued protection. But the 21-percentage-point shift in the composition of exports away from unprocessed raw materials is hard to ignore; by the same token it is unrealistic to expect an immediate and wholesale shift toward manufactured goods.

Instead, the 1980s and 1990s brought a remarkable shift in trade policy and collective bargaining that favorably positioned new and old exports in world markets. Australian exports annually grew roughly 1.6 percentage points faster than total OECD exports from 1984 to 2001 (OECD 2002a, 242). Technology-intense exports rose to 10% of total exports, and land-based exports shifted away from rocks and toward more sophisticated products like wines, where Australian firms captured 8% of the world market. Overall, if we can trust the accounts in Bell (1993), and in Capling and Galligan (1992), there was a wholesale shift in trade policy routines. Furthermore, while Asian importers of rocks had few substitutes for Australian minerals, Asian tourists and students did have options. Australian universities' willingness to accept large numbers of students was

the result of policy changes that forced those universities to be more market oriented. Thus, changes in Australia's export structure and volumes reflected pluck more than stuck or luck, as it involved a policy-led rupture of old routines.

Employment and Collective Bargaining

One reason for the rarity of off-path change is that the functional interrelationships between different parts of a given political economy mean that institutions and organizations in different areas must change all at once in order to have effective change. Efforts at reversing the orientation of trade policy would have been meaningless without changes in collective bargaining that linked wage gains and productivity levels, and thus brought Australian relative unit labor costs in line with competitors in targeted manufactured goods export markets. These changes also aimed at preventing wage increases in the sheltered sector that were out of line with overall productivity gains. Both of these changes represented major shifts. In pre-1980s Australia the whole system of collective bargaining deliberately created high wages in the sheltered sector (which included manufacturing). This transferred rents from the export sector back into the sheltered sector in order to support employment at socially acceptable wage levels. By the 1970s this model was unsustainable, because it required politically and probably economically unacceptable levels of protection for the manufacturing sector. Job losses in manufacturing were largely responsible for the doubling of unemployment in the 1970s.

Yet after 1984 the Australian economy managed to create jobs at above OECD average rates. Australian total employment rose 48% in 1983–2002, compared with only a 23% increase in employment in Euro-land; yet at the same time Australia's working-age population was growing twice as fast as Euro-land's. In effect, Australia had to generate jobs at twice the European rate simply to break even in percentage terms, and instead it generated them at four times the European rate. Broad employment—the share of the working age population actually in jobs—increased from 63.7% in 1984 to 71.4% in 2000, converging with Danish and Swedish levels. Decentralization of collective bargaining lowered the wage share of gross domestic product (GDP), but the decline was similar to that in the Netherlands and Sweden, and considerably less than in New Zealand or Ireland (Source:OECD). How did Australian elites fix collective bargaining problems in order to price exports at the right level and make more goods potentially exportable? How did they get employment back to socially acceptable levels?

Employment: Luck. While luck arguments with respect to employment are quite straightforward, they have limited applicability to the Australian case. As in the Netherlands, one lucky source of rising employment was probably the creation of new consumer demand as disinflation

allowed homeowners to take advantage of declining interest rates. Australian home prices rose strongly on the basis of falling interest rates and rising immigration. Real prices rose 50% in the last half of the 1980s and 41% in the five years to 2002 (Reserve Bank of Australia 2002, 3). Some people undoubtedly were able to cash out part of this gain, given that about 70% of Australians own homes, and that in the early 1990s about 6% of Australians owned housing real estate for investment purposes (Castles 1998, 8). But the Bank for International Settlements (BIS) estimates that the contribution of equity withdrawal to Australian economic growth after 1996 was not significantly larger than the average OECD country, and substantially lower than in Ireland, Norway, the United States, and the Netherlands (BIS 2002, 21). Furthermore, the share of housing in gross fixed capital formation fell almost 10% in the 1990s (OECD 2003c, 12). Thus, while housing clearly was a positive factor, it alone cannot explain Australia's strong employment growth as compared with other countries experiencing employment success in the 1990s.

A second, and stronger, luck argument would suggest that as unemployment rose, labor markets worked in the normal fashion. The doubling of unemployment in Australia from 1980 to 1984 should have led to wage moderation and a rising share of income going to capital, producing an employment rebound. Real wages fell by about 7% from 1984 to 1990, part of a broad fall in compensation as a share of GDP from its 1974 peak to its 1993 trough. Perhaps this fall, and not policy changes, stabilized the employment-to-population ratio in the mid- to late-1990s after a period of growth in the 1980s?

This luck argument does not comport with either the structure or timing of employment growth. First, Australia's relatively centralized system of collective bargaining could plausibly have led insiders to push for higher wages despite rising unemployment. This, after all, was the European experience. In the extremely capital-intensive minerals sector, unions could have privileged insider wages over outsider joblessness and firms could have afforded higher wages. Centralization would then have generalized those high wages to the detriment of low-skilled workers in the service sector (Iversen and Wren 1998). Instead it was the labor-intensive private service sector that accounts for much of the job growth in the 1980s and 1990s, not the capital-intensive minerals sector. Given Australia's high minimum wage, it is unclear why there should be such strong take-up of labor at the low end of the market. In contrast, it is possible to argue that political management of wage levels and, equally important, of the connection between productivity increases and wage growth, enabled rapid employment gains as effective domestic demand rose by 2.3% per annum on average in the 1990s (Parham et al. 2000, 76, 85).

Second, a conventional argument has trouble accounting for the timing of the employment expansion, and its scale compared to other countries. A shrinking wage share in Australian GDP is associated with both employment declines and increases. Unemployment rose from 1.8% in

1973 to 6.7% in 1982, while the compensation share of GDP was falling (SourceOECD). But unemployment also moderated, falling from 9.8% to 5.9% in 1989, while the wage share fell again. Finally, the 1980s employment rebound occurred despite the double headwind of a growing labor force and rising participation rates in that labor force. Arguably, this should have driven wages down further, while raising unemployment. Participation rose from its average 1974–1984 level of 70% to 75% by the end of the 1990s, despite a 33% increase in the working-age population.

So the timing and content of the rebound can be explained as luck only if there is a long lag between the onset of rising unemployment (peaking in 1983) and its effects via falling wages to employment recovery. A “lags” explanation necessarily relies on “institutional stickiness” to have force. But luck arguments do not comport well with the pattern of institutional change, because institutions began to change precisely at the point in time when unemployment moderated, and changed the most while unemployment was low. Moreover, it is not clear why institutions had to change at all. What explains decentralization of bargaining and wage moderation in the face of rising employment?

Employment: Pluck. Many, if not all, observers consider the substantial changes occurring in Australian collective bargaining practices to be a clear instance of moving off-path. Is there a better case that employment revival reflects pluck rather than luck? Australian unions and some employer organizations all experienced internal struggles during the 1970s that eventually produced internal decisions in favor of negotiated wage restraint. In 1982 the ALP and the Australian Council of Trade Unions (ACTU) made an explicit preelection deal—the “Accord”—in which the ALP offered an expanded social wage and efforts at employment creation, while the ACTU promised wage restraint across all sectors.

The leadership of the ALP and ACTU had come to believe that the old institutional patterns that transmitted wage gains across sectors through comparative wage justice made it difficult to keep manufacturing competitive and thus to generate jobs in manufacturing. Employers had come to believe that this link made productivity gains difficult. Labor used the Accord as a way to break this link while still retaining some social definition of wages and thus social equality. The ALP believed that expanding the formal welfare state was a substitute for the informal one comparative wage justice created (Castles 1988). Successive Accords delineated the precise speed at which collective bargaining was decentralized, and the precise trade-offs between today’s wages, today’s social spending, and tomorrow’s deferred wages.

Before the Accord, the Arbitration court largely set wages in one central decision, and while productivity mattered, it mattered at an economy-wide level. But after 1987, the Accord encouraged and the Arbitration system permitted wage bargaining at the sector and firm levels, and relocated the wage-productivity equation to the enterprise level. Unions

and firms could opt out of the centralized wage system if they presented the court with a bargain exchanging wage gains for specified productivity gains. Decentralized collective bargaining and productivity-based wage increases rewarded competitive firms and cooperative unions. By 2000 roughly one-fourth of the workforce remained governed by traditional wage awards, and about two-fifths operated under Accord-style enterprise bargains (Dawkins 2000, 328). The Accord's macroeconomic effects dovetailed with the ALP's trade liberalization and desubsidization of product markets to force firms to increase productivity.

And labor productivity did increase sharply in the 1990s. The fastest accelerations in productivity growth occurred in retail trade, agriculture, and transport. All were labor-intense sectors in which old work practices had impeded the introduction of new technologies, or sectors that had been the subject of tight product market regulation (OECD 2000, 84–85). Indeed, retail and wholesale trade, together with construction, accounts for nearly all of the increase in the rate of productivity growth in the 1990s, despite accounting for only 40% of hours worked (Gruen and Stevens 2000, 39).

The late 1990s Liberal-National government also departed completely—in intention anyway—from older patterns of Australian collective bargaining. The Liberals introduced the possibility for registration of individual wage contracts (i.e., “Australian Workplace Agreements” [AWA]) in the 1996 Workplace Relations Act. Simultaneously, the Arbitration Court (now called the Australian Industrial Relations Commission) rejected the notion of a “living wage” in favor of a “Safety Net” minimum wage (Buchanan et al. 1998, 93). By 2001 there were nearly 200,000 registered individual agreements. Despite this, the penetration of AWAs remains limited. Many AWAs appear to supplement, rather than replace, broader collective agreements, and rather than being individuated, often are highly homogenous (Plowman n.d., 11–15).

Both the ALP and the Liberal-National coalition governments of the 1990s shifted from passive to active labor market policy. Active labor market policy spending increased from .25% of GDP in 1989 to .8% in 1995, settling at .5% in 1998 as employment recovered, and active spending doubled its share of total spending on the unemployed (Source-OECD). The Liberal government's programs also represented an organizational and moral break with prior policy, as they privatized employment agencies and introduced a form of “workfare.” The ALP's Working Nation coincided with the creation of over 700,000 jobs from 1993 to 1996; the Liberals' Job Network with a somewhat smaller 500,000 increase through 2000. Both plausibly helped produce these outcomes.

Employment: Stuck. Given all this, is it possible to argue that Australian collective bargaining routines replicated prior patterns? There are three reasons to believe that the Accord—though not the 1996 Workplace Relations Act (WRA)—was “appropriate” or path following. First, the Accords

explicitly and implicitly provided basic social protection through a centrally set minimum wage administered through the Arbitration Court. In 1997, Australia still had the highest national legal minimum wage, in purchasing power parity terms, of the OECD countries, and the second highest when measured as a percentage of full-time median earnings (Dawkins 2000, 330). Politically, the Arbitration system helped the ACTU to externalize conflicts over greater wage differentiation, just as it had in the 1970s. The 1996 WRA's emphasis on individuated employment contracts clearly is off-path in intent, but as noted above it has not yet led to any sea change in employment relations.

Second, while the ALP's use of the Accord to expand the social wage changed the modality for social protection in Australia, it was consistent with the ALP's long-standing orientation toward providing the bottom 60% of society—its electoral majority—with the cheapest and most robust form of social protection possible (Schwartz 1998). The ALP restored public financing for the health system Whitlam created in the 1970s, created a mandatory second-tier pension, and created a negative income tax.

Third, the Accord revived proposals the Whitlam government made in 1973 to exchange wage restraint for tax and social welfare gains, and was supported by exactly the same social actors: the core metal workers union and the core metal manufacturers employers' association federation. Even the Liberal governments of the late 1990s, which tried to gut arbitration, continued to support increases in the minimum wage. Simultaneously, the central bank head and some large unions met to discuss the details of wage policy and the nature of central bank submissions on wages to the Arbitration court (Buchanan et al. 1998, 99).

Evaluation

The Accord-driven decentralization of bargaining and especially the attempted individuation of bargaining explicit in the 1996 WRA seem to suggest that labor relations experienced pluck-driven, off-path change. There are reasons to be cautious about this assessment, although it appears correct. Other countries with similar problems, actors, and bargaining patterns experienced similar politics that generated similar solutions incorporating some parts of the 1960s status quo. Australia, Denmark, and the Netherlands all had relatively centralized collective bargaining systems in which the state generalized wage gains and cost of living increases across sectors through "concatenation" in Denmark, "Arbitration" in Australia, and "Mandatory Extension" in the Netherlands (Due et al. 1994; Hartog 1999; Visser and Hemerijck 1997). During the turbulent 1970s the state intervened recurrently in bargaining in all three to try to manage growing current account deficits. This frequent resort to imposed settlements meant that labor market actors conducted their conflicts under the shadow of hierarchy (Scharpf 1997).

Consequently, organized but market-vulnerable actors sought to reestablish their autonomy in the 1980s by behaving responsibly and using state institutions to punish or discipline potential defectors, rather than suffering indiscriminate state sanctions and an erosion of competitiveness. Politically, all three saw bargains linking wage restraint in favor of employment growth. The bargains originated from actors located in the metals industry. Arguably these actors strove to reestablish long-established bargains which exchanged wage gains for productivity gains and which then let employers and workers adjust local wages to local conditions (Due et al. 1994; Thornthwaite and Sheldon 1996). These “new” forms of collective bargaining cum wage restraint thus in some ways restored older patterns from the 1960s. Indeed, in retrospect, what seems unusual is not the “centralized decentralization” of collective bargaining, but the breakdown of collective bargaining in all three countries in the late 1960s and 1970s. Having said that, if the individual contracts made possible by the 1996 WRA were to become more widespread, this would unquestionably present a major break with prior patterns. So here, pluck explains more than stuck.

Fiscal Balance

Australia started the 1980s with large fiscal deficits and rising public debt. Australian governments reduced general government spending from 38% of GDP in 1985 to 33% in 2001. On either a percentage point or proportional basis this decline is more than twice as large as the comparable reduction in government spending in the Euro-area countries (only 2 percentage points from 47% of GDP to 45%). These reductions occurred despite secular increases in pension and health care costs that lifted the share of aggregate social expenditure in OECD and Australian GDP by roughly 4 percentage points, from 1980 to 1997. As with the fiscal deficits, the Australian increase is proportionately larger, because it came off a smaller base. Despite increased social spending, the general government financial balance averaged a surplus of just over 1% through the 1990s, slipping into a small deficit during the 2001–2002 recession and then returning to surplus again after 2003. Net Australian public debt fell from 15.3% of GDP in 1988 to 5.8% in 2002. In contrast, despite Maastricht, Euro-area net public debt rose from 32.7% of GDP to 54% in 1985–2002 (OECD 2002b; OECD 2003b, 223, 228).

How did Australian governments square rising social spending with declining overall spending and debt? Most of the answer lies in a vigorous effort to make public sector organizations that produced marketable goods and services conform to normal market disciplines. Public sector organizations were turned into free-standing firms and forced to become profitable (thus reducing the fiscal deficit). Profitability ultimately allowed privatization (thus reducing public debt). The government also disguised what would be government spending as mandatory private

spending. For example, private sector employers are responsible for paying 9% of ordinary wages into individually owned secondary pensions (earnings related pensions) as of 2002, and this means roughly 5% of GDP is categorized as private rather than public spending.

The Problem

Fiscal Balance: Luck. As with other countries, “luck,” in the form of the normal working of the business cycle and the attainment of a balanced budget in the United States, played an enormous role in balancing budgets in Australia. Falling U.S. interest rates led to declines in nominal interest rates from the early 1980s to the late 1990s, and then again in 2001 through 2004. At the end of the 1980s, real interest rates in Australia were nearly 10 percentage points higher than in the United States. But by the end of the 1990s Australian real interest rates had converged with U.S. levels, and the premium on Australian public debt relative to its German or U.S. equivalent had disappeared (Gruen and Stevens 2000, 60–61). This obviously helped reduce the fiscal burden of public debt, and the timing of the interest rate declines comports well with the reduction of the fiscal deficit. (And as noted earlier, falling interest rates also helped consumers refinance mortgage debt, creating more purchasing power and thus, ultimately, more tax revenues). Net interest payments declined from 4.2% of GDP in 1986 to 1.8% in 2001. In contrast, interest payments in the Euro area started at a similar level, 4.0% of GDP, but declined to only 3.3% over the same period (OECD 2003b, 226).

Nonetheless, even if the entire decline in interest costs arose from falling interest rates, it is important to ask why net debt did not increase over this period. Euro-area governments, after all, did not similarly stabilize net debt levels despite operating in the same benign environment. In this respect, it should be noted that Australia also endured two pieces of bad luck—a much more severe recession in the early 1990s, and the 1997–1998 Asian financial crisis. The only similar shock in the Euro area was German reunification, but rising German net debt explains only part of the increase in Euro-area debt. Luck in the form of falling interest rates clearly favored the prepared here, so the interesting question is why and how Australia stabilized debt and deficits.

Fiscal Balance: Stuck. Did policy choices replicate older routines, and did the fiscal balance respond to that? This is an even harder case to argue than interest rate-driven luck. Given that total government spending fell relative to GDP, the case for on-path change would be most plausible if the relative share of different spending categories did not change, or if pensions and health care expanded passively through demographic changes. But substantial changes occurred. The relative balance between collective consumption and individual consumption shifted toward the latter (OECD 2003a). Social expenditure’s share rose steadily throughout

the entire period being considered, and within social expenditure, cash benefits to families increased more (absolutely and relatively) than demographically driven spending areas. This weakens what otherwise would be the strongest evidence for a renewal of old routines, namely the Hawke Labour government's revival of the national health insurance scheme first proposed during World War II and later promulgated by the 1972–1975 Whitlam Labour government. Meanwhile, the biggest declines in spending occurred through the removal of subsidies for the whole range of infrastructure services, and through changes in collective bargaining that worked to the disadvantage of public sector employees. All of these suggest deliberate changes at odds with prior Australian policy routines and norms.

Fiscal Balance: Pluck. Adjudicating between pluck versus stuck as explanations for spending outcomes, however, requires more than just data on raw spending. How money was spent also matters—indeed, it might be the only thing that allows us to distinguish between stuck and pluck. Denmark and the Netherlands saw small changes in the distribution of spending that were consistent with old routines and justified by reference to existing norms (Cox 2001). By contrast, Australian welfare changes departed substantially from existing routines and norms. The Federal state increased formal social transfers, imposed tuition charges for higher education, and expanded public financing of health care services in ways that all departed from existing norms. However, it should be noted that in what is almost always the single largest area of state spending—old age pensions—the state reinforced the old system of occupational welfare through a mandatory, employer-funded second-tier pension. It similarly made training an occupational benefit through a “pay or play” surtax on businesses.

Welfare state transfers account for only part of governmental outlays. The public sector is a major employer, and source of expenditure, in its own right everywhere. The changes noted in the previous section on collective bargaining allowed public sector wages to drift downward in relation to private sector wages, reversing a decade-long compression of wage relativities in the 1970s. Australian public sector wages fell roughly 10% in real terms during the 1984–1994 decade, while private sector wages remained constant, and then grew in the late 1990s. By contrast, in the Netherlands, nominal public sector wages fell 30 percentage points relative to private sector wages and public sector employment fell by 7%, while in Denmark, public sector wage growth remained fairly close to private sector wages (Hartog 1999, 22; van Ark and de Hann 2000). As pluck explains a larger portion of changes in collective bargaining, this would tend to indicate that this part of the fiscal puzzle is explained in roughly the same proportion. Meanwhile, despite extensive privatization, public sector employment as a proportion of the working population was constant at roughly 10% in Australia from 1980 to 2000,

which contrasts with the three-percentage-point increase in the average public sector employment ratio in the other 12 small OECD countries in the same time period. This helped keep public expenditure low.

Finally, the privatization of commercially viable public entities had a positive fiscal effect. Australia naturally privatized a far greater volume of entities than many other countries because it started with a greater stock of state-owned commercial firms. Privatization departed markedly from traditional Australian practices. *Ab initio*, the Australian states had used state-owned enterprises to do infrastructure investment. But Australian federal and state governments privatized the whole range of infrastructure services in the 1980s and 1990s. For the most part, privatization was designed to prevent the replacement of public sector monopolies by private sector ones (the Argentine disease). Privatization thus took money losing operations off the states' books, generally resulted in lower prices for consumers, and allowed the direct reduction of public debt. It also facilitated the productivity "miracle." Meanwhile, the remaining government-owned enterprises became profitable. In short, a whole set of policies that departed from traditional practices reaching back between 50 and 100 years can be linked to later reductions in deficits and net public debt.

Evaluation

Luck clearly had little to do with the achievement of fiscal balance. Falling interest rates could have facilitated expanding public debt, as in much of Europe. By contrast, changes in collective bargaining and privatization departed to a considerable degree from older routines. Fiscal balance was achieved without substantial cuts in social welfare. Instead, Labour governments 1984–1996 redesigned social welfare programs to address the needs of the bottom 60% of the electorate, and promoted a gradual expansion of social spending ahead of demographic trends. Some of this followed long-established routines, like the provision of pensions through private mandates and the revival of national health insurance. But the wholesale reorientation of public enterprise and collective bargaining represent a profound break with the past that the Liberal-National governments after 1996 have only reinforced.

Conclusion

The purpose of this article has been to assess some of the subtle aspects of Australian economic success in the 1980s and 1990s that are not captured in more conventional econometric assessments, in order to reflect on the larger question of how to evaluate the sources of policy success. A search for policy-relevant knowledge only makes sense when the policies in question produce their outcome as a consequence of strategic action that addresses problems emanating from the current environment, rather

than success that emanates from the unfolding of local logics of appropriateness—stuck—or from pure good luck.

With respect to Australia, changes in trade policy, collective bargaining, and the structure of state spending all played a major part in economic recovery in the late 1980s and 1990s. These changes refashioned the institutions that arguably had helped create the economic problems of the 1970s and early 1980s, and facilitated sharp and simultaneous increases in employment and productivity. Employment gains involved not only the reemployment of the unemployed, as in most of Europe's success stories, but also the accommodation of thousands of new labor market entrants, particularly women. Meanwhile Australia's rate of total factor productivity growth went from 1.5% per year from 1960 to 1975 (below the OECD average of 2.2%) to 2.4% after 1993 (vs. an OECD average of 0.7%) (OECD 2000, 80–86). Rising productivity created a larger pie, permitting changes in collective bargaining and the distribution of fiscal resources. Both behavior and outcomes represented deviations from on-path behavior in Australia.

On the trade side, Australia's traditionally uncompetitive manufacturing and service sectors increased their exports after changes in the mechanisms for collective bargaining kept wage increases, especially in the sheltered sectors, below productivity gains. Decentralization of the collective bargaining system created conditions in which productivity grew twice as fast as wages between 1983 and 1995, allowing relative unit labor costs to fall gently. Thus, Australia's superior export performance was not so much an outcome of falling wages as it was of rising productivity that permitted export firms to enjoy higher profits, and, in the 1990s, permitted workers to capture about half of the increase in productivity. Meanwhile, the state also captured some of these gains as extra revenue for redistribution. Australia continued to have a high current account deficit, but this deficit would have been even larger in the absence of robust expansion of exports. Australian exports, in local currency terms, grew almost twice as fast as Dutch and Danish exports, and 20% faster than Swedish or New Zealand exports, from 1985 to 2001. While decentralization of collective bargaining caused a substantial drop in union membership, it should be noted that a similar drop occurred in Germany without the benefit of rising productivity (*Economist* September 6, 2003, 45).

Fiscal consolidation does not appear to have occurred at the expense of social spending. In contrast to Denmark, Ireland, and New Zealand, public and mandatory private social spending also grew in constant dollar terms during the 1980s and then more strongly during the 1990s. Social spending as a share of GDP was lower than in most countries but expanded more rapidly during these time periods. By the end of the 1990s Australia was allocating more of GDP to social spending than either Ireland or Canada (and—though the data are not strictly comparable—more than New Zealand as well).

None of this should be taken to imply that Australia is an unqualified success story, however. Australia experienced aspects of all of the problems besetting OECD economies at the century's end: falling rates of male employment, widening wage inequalities among full-time earners, and a parallel bifurcation of employment opportunities between job-rich, dual-income families, and job-poor single- or no-income families. Much of the job creation that occurred in the 1980s and 1990s involved part-time jobs. However, in the other great employment "miracle" of the 1990s, the Netherlands, the proportion of part-time jobs was even higher and involved a near zero-sum trade-off between jobs for married women and jobs for youth (Salverda 2005). In the rest of Europe, job creation was very muted over both decades, despite population growth well below Australia's. The appropriate counterfactual here is not an imagined world of full-time jobs for everyone—the full employment of the 1960s after all, rested on low female labor force participation—but rather the observed stagnation of employment in Europe and Japan.

In sum, then, in Australia the volume of change, the direction of change, and the justification for change all deviated substantially from existing logics of appropriateness. There were substantial elements of continuity in the Australian case, particularly with respect to the raw political mechanisms behind how all this was achieved. The ALP forged anew the same alliance between itself and the metals industry that had permitted Labour to govern before World War I, during parts of the interwar period, and during and shortly after World War II. Each of these periods also saw an expansion of social protection for workers. Similarly, the emergence of essentially caretaker right-wing governments after a period of intensive ALP-sponsored change follows an established Australian pattern. Nonetheless, because stuck is in many ways the default outcome, Australia presents a clear case in which policy directed at a set of export, employment, and fiscal problems led to significant changes both in the shape and direction of policies, and in the institutional terrain in which politics takes place. Deliberate action moved politics and the economy off its old path. Although one may entertain reasonable doubts about the political sustainability of this kind of project and its normative desirability (Pierson 2002), it nonetheless appears better than the alternate of hoping for a lucky break.

What about the larger question of the causes of policy change? This article has argued that Max Weber's caution about attributing the success of specific individual cases to unit-level causes should be taken seriously, even if in this particular case many unit-level actions did contribute to policy success. Thinking about policy change (and stasis) in terms of luck makes it harder for analysts to ignore system-level causes, and makes analysts more sensitive to the analytic bias in favor of crediting success to overt action and failure to passivity. It is also a caution against casting policy in terms of responses to unfavorable exogenous changes. Doing nothing is sometimes a successful policy "response," because environ-

mental change does not always present a given society with an unfavorable or unwanted shock. Environmental change sometimes brings dysfunctional institutions into conformity with the new environment.

Similarly, distinguishing between pluck and stuck might force analysts to recognize how similar the predictions of the usual distinction between logics of appropriateness and consequence are. Because rationality is bounded, logics of consequence do not naturally generate what I have called here “pluck,” nor do logics of appropriateness innately generate “stuck” behavior. Both logics of appropriateness and boundedly rational logics of consequence may lead actors either not to recognize a change in their environment, or to code such changes in ways that elicit a stereotyped response rather than a truly strategic response. In any given situation many actors will attain a “success”—a better than average outcome—simply because by definition some outcomes are always better than average. But it is conceptually wrong to code this kind of behavior under one label rather than breaking it up into “stuck” and “pluck.” This calls into question the degree to which actors can consciously engineer policy—use pluck—to assure success. Finally, even if it were empirically true that pluck characterizes the majority of policy responses to environmental change, we cannot recognize it as such without first considering and dismissing alternate explanations based on luck and stuck.

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Notes

1. Purchasing power parity (PPP) measures adjust gross domestic product (GDP) data to account for local differences in the costs of comparable goods, and thus measure the real purchasing power of local currency. This allows more accurate and stable comparisons of the scale of economic activity than comparisons based simply on (more volatile) nominal exchange rate calculations.
2. Something like this appears to have helped institutionalize congressional delegation of trade authority to the executive branch in the United States after the passage of the Reciprocal Trade Agreements Act 1934. Increased exports generated by an up-tick in the business cycle through 1937 convinced Congress of the wisdom of its legislation, even though it was far too soon for the few agreements negotiated under the Act to have had much effect.
3. RULCs measure the cost of producing one standard unit output in a common currency that permits cross-national comparisons of export competitiveness in terms of costs.
4. In Australian parlance there were more “elaborately transformed” manufactures, like automobile parts and pharmaceuticals, than “simply transformed” manufactures like aluminum billets.

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