

FACTIONAL ALLIANCES, TRADE UNION BARGAINING POWER AND SOCIAL POLICY IN AUSTRALIA

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ABSTRACT

In explaining why party leaders may alter social security policy, the globalization literature highlights the limits governments face in implementing programmes supportive of social protection. This article calls for greater attention to the role of agency and political leadership in manufacturing social policy changes. Although international competition may set new and complex parameters within which party leaders interact, agency choice is crucial for explaining policy changes. The aim in this article is to introduce the strategic element to analysis of the redistributive impact of ruling parties. To this end, Australia is focused on as a case study and two factors are explored. First, the Australian Labor Party (ALP) is analysed as a multidimensional variable, particularly in terms of ideological coherence, the structure of competition and party organization. The argument rests on the assumption that party leaders enjoy a degree of freedom to act according to their own criteria. Second, the evolution of the bargaining power of trade union leaders and party leaders is examined. The article indicates that discretionary changes to social policy may also be the outcome of strategic considerations.

KEY WORDS ■ asymmetric power ■ coalition potential ■ party leaders ■ party organization ■ social policy

Introduction

It may appear that research on income inequality is intimately connected with policies to redistribute income, yet the bulk of scholarly work focuses on market forces, especially international trade and technological progress (Davis, 1999; OECD, 1997; Ray, 2000). In this view, the trend towards rising income inequality in the Western world over the past 20 years is

attributable to fierce competition from low-wage, newly industrialized countries.

The main problem with this opinion is that upward inequality trends have not been universal (Brandolini, 1998; OECD, 1995). In some countries, such as the United Kingdom and the United States, there has been unparalleled growth in inequality, while in others, including Canada, Norway and France, the inequality trend has declined or has been stable. This is *prima facie* evidence that inequality movements have had a variety of causes, and that international forces may sometimes be invoked too often for issues that may be domestic in origin (Glyn, 1998; Swank, 1998).

There are a variety of national factors that may affect income inequality. Government cash benefits, economic climate, social services and demographic environments, as well as exposure to international trade, may be important causes of inequality movements (Castles, 1998; Fligstein, 1999; Gustaffson and Johansson, 1999). Distinct national experiences may spring from national policy profiles, the tax-transfer system, the impact of national institutions and the distribution of political power within a nation (Boix, 1998; Burkhart, 1997).

In this article, I analyse some of the political reasons behind discretionary changes in cash income, and therefore I do not examine inequality trends directly. Although the dependent variable is social security spending (measured in real terms), readers should keep in mind that government cash benefits can modify inequality outcomes because they affect the take-home pay of many individuals (Atkinson, 1996). It is therefore interesting to inquire about the causes inducing active changes in cash benefits.

In explaining discretionary variations in social security spending, the globalization literature highlights the limits that governments face in implementing programmes supportive of social protection.¹ The point being made here is that this approach overplays domestic constraints, while the nature of national political dynamics remains out of sight or poorly analysed.² What is more, in the few attempts to reconsider domestic arrangements, policy changes invariably mirror voters' preferences.³ Electoral considerations apparently prevail because party leaders seek to expand their share of the vote or to respond to the interests of their social constituencies;⁴ some authors look at the influence on policymaking of administrative or economic elites, others at changing the ideological climate (Quiggin, 1998). A common trait of these approaches is that political parties are exogenous to the policy process.

In this article, I advance a rather different theoretical explanation, one resting on the assumption that party leaders enjoy a degree of freedom to act according to their own criteria. These criteria may reflect the individual interests and concerns of politicians rather than the preferences of the electorate or of the administrative and economic elites. My line of inquiry builds upon research that centres on factional politics as a key influence on policy outputs (McCubbins and Thies, 1997; Mulé, 1997, 2001; Roemer, 1999).

It thus differs from scholarly work on the redistributive impact of ruling parties that insists on examining a political party as a unitary actor, a monolithic entity characterized by preference homogeneity among party leaders (Castles, 1982; Hibbs and Dennis, 1988).

I depart from established theoretical views for the following reason. If we consider preferences among party leaders as if they were all the same, we rule out such fundamental questions as: What is the range of strategies that intra-party elites can play? Is the mobilization of resources a response to the actual or expected bargaining position of internal players? In short, by assuming away any discussion of internal governance, the unitary model treats as *parametric* what is instead *strategic*.⁵ My aim is to reintroduce the strategic element by focusing on the political party as a multidimensional variable, particularly in terms of ideological coherence, the structure of competition and party organization.

For the theoretical concerns of this article, the formalized system of factions in the ALP offers an excellent case study. After the advent of the ALP to power in 1983, party leaders institutionalized a national system of factions, whereby three strategic groups within the party competed against each other as parties would in the political system. National factions acted like parties in miniature with a fee-paying membership, regular conferences and elected party officials. Party and political offices were apportioned to particular factions in accordance with their strength (Bean and McAllister, 1989: 80).

At the same time as a national system of factions evolved, Labor set out to defy the stance which had been adopted under previous Labor governments by scaling down social security benefits (Johnson, 1996). Similar pressures towards retrenchment were encountered in other OECD countries, but enthusiasm for those policies mostly came from the political Right, from Reagan in the USA, Thatcher in Britain and Mulroney in Canada. What is surprising is that in Australia the manager of change was a Labor government.

In seeking to understand this anomaly, I chiefly examine factional alliances and the influence of trade unions on Labor policymaking. More specifically, I look at the incentives for making and breaking coalitions within the party as well as examine the relative bargaining strength of trade union leaders and Labor leaders. In this manner, my argument focuses on domestic strategies of conflict and cooperation within the limits set by global forces.

By emphasizing domestic strategic effects, I advance a corrective to an argument that international forces are the determinants of trends towards market liberalization and income inequality in contemporary democracies. This is not to say that international trade and technological progress are irrelevant. There can be little doubt that external forces impinge on national politics in significant ways. Australia, for example, has been particularly vulnerable to international economic forces because the structure of her

trade is based on a small economy dependent on a narrow range of exports (Gregory, 1991: 103–23; Higgott, 1994). What I suggest, however, is that within the parameters set by global pressures, policymakers can opt for different choices and that sometimes those choices derive from self-interested motives.

My approach is couched in nested terms rather than in relative terms: it is not a question of whether international market forces are more or less important than national politics; rather, strategic considerations evolve within changing external environments. Following these lines, some authors examine how ideology guides national party politics within the constraints of globalization (Cusack, 1999; Garrett and Lange, 1991; Iversen, 1998).

To widen the debate over the role that agency plays in shaping social policy, I explore strategic effects. First, I briefly describe the political context within which strategic games in the field of social security policy unfolded over the 1980s. Secondly, I argue that the coalition potential of the Centre–Left faction was a powerful weapon against right-wing leanings towards radical social policies. Factional games thus acted as a brake, mitigating the retrenchment pull of Labor rightwingers. Thirdly, I suggest that one reason why trade unions accepted Labor social policy changes lies in the erosion of trade union bargaining power. Finally, I summarize the conclusions and main findings, and discuss the importance of agency in the restructuring process.

Political and Economic Context

When Labor took office in 1983 under the leadership of Bob Hawke, the economy had been struck by the most severe recession since the 1930s; inflationary pressures were mounting and unemployment was soaring. The perceived economic imperatives were to improve international competitiveness, restructure Australian industry and reduce the size and scope of government intervention (Higgott, 1994). During the 1980s, government outlays fell by about 4 percent of GDP and social security expenditure growth declined.

This slowdown partly stemmed from economic developments, most significantly a growth in employment that was impressive by international standards. The trend was reinforced, however, by redistributive policies directed specifically at containing expenditure by improving the targeting of transfer payments. In a detailed and careful study, Saunders (1991) compares social security spending growth in real terms between 1968–9 and 1988–9 in Australia. Drawing on data from the Australian Department of Finance and the Department of Social Security, the author points to the extent to which the Hawke government succeeded in restraining the growth in real social security spending while continuing to provide average real benefit growth.

Table 1. Trends in real social security spending and average real benefit levels. Australia 1968–89 (annual average percentage changes)

Category	<i>Real social security spending</i>		<i>Average real benefit levels</i>	
	<i>1968–9 to 1988–9</i>	<i>1982–3 to 1988–9</i>	<i>1968–9 to 1988–9</i>	<i>1982–3 to 1988–9</i>
Age pension	5.9	0.5	2.4	1.0
Invalidity pension	9.6	7.6	3.8	1.2
Sole parent's pension	12.4	2.7	2.4	1.0
Unemployment benefit	24.9	-1.3	6.5	2.6
Special benefit	16.3	5.2	6.7	2.2
Sickness benefit	17.0	5.6	4.7	0.7
Family assistance	-1.1	-3.3	N/a	N/a

Source: Adapted from Saunders (1991).

Table 1 indicates that the growth in average real benefit levels has slowed for all categories since 1983; however, in the case of age pension and unemployment benefit, the period after 1982–3 saw average benefit growth exceed real outlay growth. The general significance of these trends is that reduced outlay growth, combined at times with the protection or enhancement of average real benefits, implied that growth in recipient numbers had to be curtailed. One obvious reason why the government attempted to constrain outlays by constraining the growth in recipient numbers was that the alternative of reducing benefit levels was probably seen as more politically damaging.

Hence the Labor government's approach to social policy was aimed at greater targeting of those most in need. To be sure, this selectivity relied on a well-established tradition in the Australian social security system. As the comparative social policy literature has long recognized, Australia's welfare system is highly residual and heavily reliant on means-tested assistance and modest universal transfers (Esping-Andersen, 1990; Mitchell et al., 1994).

Yet Hawke's perspective on social security contained elements of discontinuity with previous Labor governments. These governments introduced social security policies that were an advance on those of their conservative predecessors and devoted an increased proportion of government expenditure to them (Johnson, 1989: 101). Under Hawke, the social policy context became more contractual and managerial, with greater emphasis placed on the responsibility of individuals for their own welfare (Ramia and Carney, 2001). In explaining this policy change, some authors hold that the economic recession led Hawke to place redistribution of wealth second to wealth production (Duncan, 1989; Quiggin, 1998).

Labor's social policy over the 1980s must be viewed in the light of its economic strategy, and especially against Australian vulnerability in

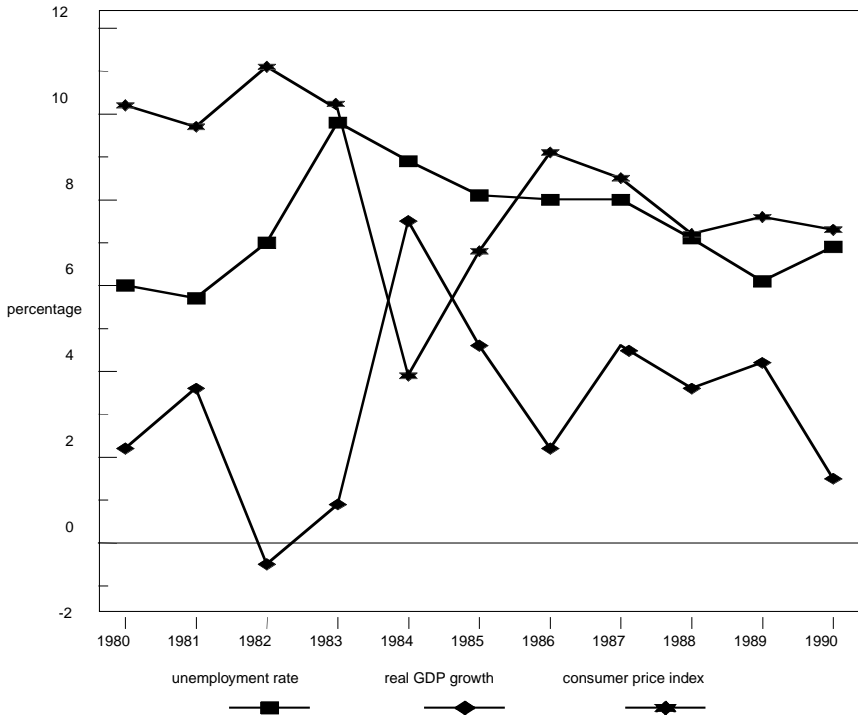


Figure 1. Trends in unemployment rate, real GDP growth and consumer price index. Australia 1980–90

Source: OECD Historical Statistics, 1977–90.

international trade, the deterioration of the terms of trade in the early to mid-1980s and the massive budget deficit it produced. Figure 1 illustrates that the dramatic drop in real GDP growth in the early 1980s was associated with sharp rises in unemployment and inflation rates.

From the mid-1980s onwards, however, a worldwide economic recovery was under way and Australia gained from favourable terms of trade. Figure 1 shows an impressive surge in real GDP growth in the mid-1980s, rising employment rates and a relative slowdown in inflation. By 1987 these developments meant that government expenditure was heading back towards the level that had prevailed in the early 1970s.

The point to note is that expansionary redistributive programmes did not accompany positive prospects of economic growth after the mid-1980s. On the contrary, the 'Hawke government . . . became one of the most fiscally conservative governments that Australia [had] had' (Parkin and Bade, 1990: 637). Note that tight fiscal policy was not a consequence of Labor's flirtation with monetarism. In the mid-1980s the Reserve Bank abandoned monetary targeting because structural changes in the demand for M3 made

interpreting the growth rate of that, or any other monetary aggregate, too difficult. In the wake of deregulation and financial innovations, monetary aggregates became unreliable indicators of the money supply. The abandonment of monetary targeting was a conscious decision not to use the money supply as an instrument for curbing inflation (Argy, 1992: 202). These observations suggest that explanations of social policy changes under Hawke based exclusively on the economic cycle are rather limited.

Another view contends that elected representatives followed the advice of senior public servants (Quiggin, 1998). It may well be that a high degree of convergence in outlook, philosophies and cultural style melded the Labor government and senior civil servants; but this proximity of approaches is a long way from proving the compliance of elected representatives to administrative elites, and in any case underplays strategic effects.

As mentioned above, with this article I am contributing to understanding Labor's social policy by looking inside the black box of party politics and by exploring the relationship between the ALP and the trade unions. I argue that redistributive policies under Hawke can better be understood by viewing the Australian Labor Party as a multidimensional variable, particularly in terms of ideological coherence, structure of competition and the distribution of power within the party organization. This approach seems to be especially appropriate in the Australian case, where an institutionalized system of national factions developed in the early 1980s.

There are good reasons to believe that redistributive policies under Hawke reflected a fundamental process of internal realignment unparalleled in Labor history, which saw the once-dominant left-wing group displaced by the right-wing group.⁶ By the early 1980s, rightwingers had dislodged leftwingers in most of the party's policy committees (Wheelwright, 1983: 47–50). Internal realignments had momentous consequences for Labor's redistributive policies because the differences in the social policy aims of the Left and Right were fairly sharp. Leftwingers had sustained Whitlam's expansionary redistributive policies, while rightwingers endorsed free market principles.

The diffusion of neoliberal policies in the Western world and the economic crisis of the late 1970s strengthened the position and credibility of Labor rightwingers. Intra-party warfare propelled the redefinition of social policies partly because rightwingers were consolidating their internal position by devising redistributive policies in stark contrast to those espoused by leftwingers. As one observer noted at the time, by 1980 'the party leader could even declare in the heat of an election that Labor was the party of low taxation' (Jupp, 1982: 127). Hawke and Keating embarked on a new programme of radical social policy change and sought to use that change as an instrument of political renewal (Castles et al., 1996).

This rebranding of the ALP is consistent with theoretical developments in the party politics literature which indicate that when circumstances trigger a profound change of a party's dominant coalition, the first target of the

Table 2. Factional distribution of 1986, 1988 and 1994 national conferences. Australian Labor Party

	<i>Left</i>			<i>Right</i>			<i>Centre-Left</i>			<i>Non-aligned</i>			<i>Total</i>		
	<i>1986</i>	<i>1988</i>	<i>1994</i>	<i>1986</i>	<i>1988</i>	<i>1994</i>	<i>1986</i>	<i>1988</i>	<i>1994</i>	<i>1986</i>	<i>1988</i>	<i>1994</i>	<i>1986</i>	<i>1988</i>	<i>1994</i>
New South Wales	7	7	10	17	17	14	-	-	-	-	-	-	24	24	24
Victoria	9	8	9	8	8	10	-	-	1	3	4	-	20	20	20
Queensland	5	5	6	5	7	9	5	3	-	-	-	-	15	15	15
South Australia	5	4	4	1	1	2	5	6	5	-	-	-	11	11	11
Western Australia	4	5	5	3	3	4	3	3	3	1	-	-	11	11	12
Tasmania	5	4	4	2	2	2	1	2	3	1	1	-	9	9	9
Australian Capital Territory	1	1	2	1	1	1	-	-	-	-	-	-	2	2	2
Northern Territory	1	1	1	-	1	-	1	-	1	-	-	-	2	2	3
Federal parliamentary leaders	-	-	1	2	3	3	-	-	-	2	1	-	4	4	4
Young Labor movements	1	1	-	-	-	1	-	-	-	-	-	-	1	1	1
Total	38	36	42	39	43	46	15	14	13	7	6	-	99	99	101

Source: Columns 1 and 2 from McAllister et al. (1990); column 3 from McAllister et al. (1997).

new elite is usually effacing the party image connected with the dislodged leadership (Harmel and Janda, 1994). In this perspective, the engagement with neoliberal globalization helped to embrace a distinctive redistributive strategy, which was instrumental to reshaping 'New Labor' as the party of wealth production led by the rightwingers.

One other factor which merits at least some mention is the role of inter-party competition. The electoral success of the ALP over the 1980s was facilitated by the weakness of party competition. Tensions between the Liberal Party and the National Party, stemming from the desire of the National Party to go its own way, prevented the coalition partners from forging a credible alliance against Labor. 'The Liberals were battling to keep the more traditional Nationals on side' (Simms, 1988: 433). Internal wrangling culminated in a further loss of support during the electoral campaign of 1984, when the Liberal-National alliance 'failed to impress even its usual media supporter' (Galligan, 1985: 175). Most analysts are agreed that the lack of a credible alternative to the Labor government rendered unpopular redistributive policies under Hawke more palatable (Adams, 1987; Kelly, 1992: Part 3; Warhurst, 1988).

Making and Breaking Alliances: The Coalition Potential of the Centre-Left Faction

The intended social policy changes accelerated the formation of a new faction, the Centre-Left, which was chiefly supported by individual members rather than unions (Maddox, 1989: 9-20). Although the ALP has never been a doctrinaire or revolutionary party, each faction, to some extent, represented a distinct ideology. At one ideological extreme was the Right, led by Bob Hawke and Paul Keating. Rightwingers were committed to neoliberal policies and espoused the free market economy, deregulation and competitiveness. As Hawke stated 'restructuring the economy, creating a more competitive, diversified, productive and export-oriented Australian economy is the only sure way towards lower unemployment and higher standards' (*Labor Times*, 1983: 2). At the other ideological extreme, the Socialist Left defended Labor traditional socialist objectives and rejected the capitalist system. Between these two groups, the Centre-Left appealed to socio-economic equality through democratic means.

In a sense, the Centre-Left was Labor's power broker because it had the numbers to give victory to the Right or to the Left. The extent of this coalition potential is evident from Table 2, which sets out the factional distribution of the national conference from the mid-1980s to the mid-1990s.

The table shows that during those years factional polarization within the ALP national conference progressively increased, with the Left gaining four seats, the Right seven and the Centre-Left losing two seats. What is more, the number of non-aligned leaders first declined between 1986 and 1988

and then disappeared altogether by 1994, implying a growing relevance of factional politics within the party.

It would be surprising if the Centre-Left leaders did not take full advantage of their pivotal position. In fact, there is evidence to suggest that the Centre-Left switched alliances between the Left and Right with great ease. The report of the Centre-Left National Conference in 1986 stated that: 'The stand taken by the Centre-Left on economic questions reflected above all our determination to maintain the credibility of the Hawke Government on this most critical of all matters' (p. 1); but on the next page the document reports how 'The Left and the Centre-Left co-operated and jointly sponsored an amendment which restored . . . traditional economic commitments to the platform' (p. 2). These traditional commitments included 'a system of income redistribution which could eliminate poverty and ensure a living income for all, and the maintenance and implementation of living standards' (p. 2). It is evident that the Centre-Left could readily deploy its coalition potential to tilt the balance from one side to the other. These observations support the claim that the institutionalization of party factions ruled out the sudden introduction of undebated radical policies, and this may have saved the ALP from the fate of the Lange-Palmer-Moore government in New Zealand (Vowles and McAllister, 1996: 208-9).

The coalition potential of the Centre-Left was enhanced by the fact that it was a new faction. By definition, newly organized factions do not enjoy a traditional and strong organizational identity. Moreover, for the Centre-Left the weakness of its organizational identity stemmed from tenuous ties with the trade unions and from its inability to penetrate the larger states. Table 2 illustrates that the predominance of the Right and Left factions in the large states of New South Wales and Victoria meant that the Centre-Left could only establish itself in the relatively small states of Queensland, South Australia, Western Australia and Tasmania.

The weak organizational identity of the Centre-Left eventually turned into strategic advantage in power games within the party organization. First of all, it afforded the Centre-Left considerable flexibility in membership recruitment. As Cook, a leading Centre-Left figure, declared, the Centre-Left had 'an open attitude to membership'; another prominent leader, Cross, suggested 'that anyone who was not a member of another faction should be eligible' (Minutes of the First National Centre-Left Meeting). Secondly, a weak organizational identity hindered the formation of stable coalitions between the Centre-Left and the Left. It is reasonable to assume that small and weak factions act like small political parties, which typically avoid forging alliances with ideologically similar but stronger parties for fear of being absorbed by their ally (Panebianco, 1988). Against this background, it is easy to understand why the Centre-Left frequently formed a coalition with the Right to defeat the Left. As stated in *Reason and Reform*, 'During the [1984] Conference a great deal of attention focused on the fact that when it came to a vote resolutions were almost always

determined with the Left in a minority of 10–12'.⁷ Coalescing with an essentially conservative faction achieved the twin goal of helping the Centre–Left to build a distinct image from the disreputed Left while contributing to sideline the leftwingers.

When looking at games within games, we could take one step further and examine the game within the Right faction. Someone wanting to challenge Hawke from within the Right had only one way to go, i.e. in the market direction, because all the ideological space on the other side was occupied by the Left and the Centre–Left. Observers have noted that Keating's endorsement of the consumption tax in 1985 was a disguised power play, an early test of strength between Keating and Hawke (Gruen and Grattan, 1993: xiii). These remarks indicate that the dynamics connected with the distribution of power within the ALP pushed some rightwingers further to the Right. In the event, Hawke opposed the consumption tax and Keating perceived this opposition as a betrayal (Gordon, 1993: 127).

Role of the Trade Unions and the Power Asymmetry View

In seeking to understand the political incentives shaping social policy under Hawke, factional strife can only explain part of the story. No account of Labor governments should neglect the fundamental role played by trade unions. Like many other Labour parties in the Western world, the ALP was created to represent the interests of the union movement in the parliamentary arena. Consequently, the legislative actions of Labor MPs should in principle have echoed the wishes of the extra-parliamentary organization. The reason is that trade unions wield considerable influence on the decision-making process through the pre-selection of parliamentary candidates as well as controlling most of the funding to the party and securing the loyalty of affiliated members. Historically, friction between the Australian Council of Trade Unions (ACTU) and the ALP often erupted when Labor took office because the interests of the two wings typically diverged (McIntyre, 1991: 21).

A remarkable feature of the 1980s was that unions raised little or no opposition to Hawke's redistributive goals. The ALP–ACTU relationship was unexpectedly smooth and largely constructive (Kelly, 1992). A widespread view holds that such harmony lay on the hallmark of Labor's economic strategy, the so-called Accord, an incomes policy which provided broad consensus among business associations and trade unions (Hampson and Morgan, 1999; Singleton, 1990). Analysts believe that the roots of such unprecedented cooperation rested on the recognition of mutual dependence sanctioned by the Accord (Manning, 1995; Stutchbury, 1990). The incomes policy created more jobs because the ACTU guaranteed wage restraint in exchange for increases in the social wage and commitment to tax reform to

achieve greater equity. Its main achievement was the reduction in long-term unemployment, which had been a major concern in the mid-1980s (Flatau et al., 1991: 135–61).

Whilst this interpretation has some force, there is another approach that has received far less attention than it perhaps deserves. Instead of emphasizing consensus between Labor and the unions, the approach, which I shall call ‘the power asymmetry view’, points to the unbalanced relationship between the two partners. A strong advocate of the power asymmetry view was Lindsay Tanner, the Victorian secretary of the Federated Clerks Unions. Tanner wrote that over the 1980s the gap between the interests and obligations of the two wings of the movement had progressively widened (1991). One example of this gap can be found in the discrepancy between the central tenets of the Accord and the government’s social policy stance. As reported in the *Statement of the Accord*, the partners aimed ‘to foster social equity by striving to improve the relative position of the most disadvantaged’ (1983: 24). Thus, underpinning the Accord were redistributive concerns towards non-income earning groups, which were flagrantly defied by the tighter eligibility and entitlement rules introduced under Hawke.

Seen in this perspective, interpretations that stress harmony and convergence between the Labor government and trade unions perhaps pay insufficient attention to their bargaining power. In particular, I refer here to the lopsided relationship between the trade unions and the Labor Party. One expression of this asymmetry was the incipient organizational decline of trade unions on the one hand, and the string of electoral successes accumulated by the ALP on the other. Under Labor rule, union apathy was high, especially among individuals employed in casual and part-time work (Petz, 1997). Several factors affected the drop in union density rates, most notably the expansion of jobs in traditional non-unionized sectors, such as non-manual service, female employment and part-time and temporary work. Throughout the 1980s, international economic pressures deepened labour market dualism in most Western countries. But lower trade union density rates acquired special significance in the Australian context, where the working class had historically played a key role in the formation of the welfare state (Castles, 1985). In these circumstances, Labor’s commitment to neoliberal globalization helped to erode the politics of class compromise which had been the foundation of social reformism in Australia since the early 1900s (Bell, 2000; Lambert, 2000). The salient issue for the purposes of this article is that lower trade union density rates offered compelling evidence that unions were losing the monopoly of workers’ representation, the most powerful resource they could deploy in bargaining games with the electorally successful ALP.

Divergent fortunes were expressed in the rising percentage of votes gained by the Labor Party and in the declining percentage of trade union officials in Parliament. Between 1971 and 1983 the proportion of union officials in Parliament almost halved, falling from 20.9 percent to 10.5 percent (Kemp,

1988: 344). Hence, not only trade unions were losing the monopoly of workers' representation but also their relative influence within the Parliamentary Labor Party was declining. It is therefore reasonable to assume that the growing asymmetry in the resources of power controlled by the ACTU and the ALP encouraged the acquiescence of trade unions to Labor's redistributive policies.

We can clarify the dynamics that led unions to accept Labor social security reforms by looking at Figure 2.⁸ The left-hand column of Figure 2 describes the social security policy choices of the Labor government – expansion or contraction. The top right-hand side of the figure illustrates two strategies of wage policy pursued by the unions – moderate or aggressive.

From the unions' point of view the best solution would have been cell (b), where an aggressive wage policy combined with generous social security benefits increase real wages, abate de-unionization and reduce poverty. From the government point of view, cell (b) would have been the worst outcome because it undermines its strategy of promoting an image of financial discipline as opposed to Whitlam's profligacy. The Labor government would therefore have preferred to choose cell (d), in which the unions end up with the worst possible outcome because the reputation of fiscal responsibility Labor seeks to build translates aggressive wage policy and stiffer entitlement rules into higher unemployment, poverty and wage dispersion, thus fuelling de-unionization. Unions would be better off by shifting to wage restraint in order to mitigate job losses, ending up in cell (c). This cell offers the best outcome for the economic beliefs binding the Hawke–Keating partnership, and so the government has no reason to deviate. Cell (c) represents the bargaining equilibrium, being a point of stability for both partners.

This result might seem puzzling. We could ask, for instance, why the Centre–Left faction is not a key pivotal player in this game with the trade unions. After all, we saw in the previous section that its coalition potential

Government	Trade unions	
	Moderate	Aggressive
Expand	a) 2,2	b) 4,1
Contract	c) 1,3	d) 3,4

Figure 2. The preferences of government and trade unions

within the ALP significantly shaped the social policy stance of the Labor government. The answer lies, I believe, in the extremely tenuous ties between the Centre-Left and the extraparliamentary organization, because this faction recruited individual members rather than sought union affiliation. By contrast, Bob Hawke had strong personal ties with the ACTU. He had been its president during the Whitlam government and was Labor's first federal parliamentary leader to have held high office within the trade unions. Hawke's grasp of the unions and the wage system was far superior to that of any of the other Centre-Left leaders.

Another puzzling feature of Figure 2 is the union's strategy. In principle, declining membership should have pushed union leaders to see an aggressive wage policy as a recruitment mechanism. ACTU leaders instead settled for social wage in exchange for real wage. The puzzle is solved by considering Labor's strong commitment to tight fiscal policy. In this scenario, an aggressive wage policy carried the risk of higher unemployment rates, wider wage dispersion and increased poverty. Such factors foster apathy and de-unionization, and consequently self-interested trade union leaders undertook wage restraint.

There were also long-term interests that convinced ACTU leaders to compromise over the Accord. An aggressive wage strategy could have backfired by alienating the moderate members of the right-wing faction or by creating industrial unrest, which could have paved the way for an opposition victory. Any serious hostility unions nourished towards the Labor government was assuaged by the policy proposals of the coalition parties. Their greatest single challenge to the status quo was to replace the centralized industrial relations model with a decentralized system where market forces would set wage rates (Kelly, 1992). The extremism of the coalition opened a vacuum in the Right-of-Centre policy space, which endowed ALP leaders with greater strategic flexibility. Such wider room to manoeuvre expanded Labor's issue space, strengthening its bargaining power with respect to trade unions.

What clearly emerges from this analysis is that Hawke had restored a workable balance to the complex relationship between ACTU and ALP, but the fulcrum of that balance was the asymmetry of power between the two partners. Labor leaders had a dominant strategy, that is a strategy preferred irrespective of the choices of the ACTU, which induced the unions to accept the government's social reforms as the least bad solution. The choices of union leaders were a function of ALP redistributive policies.

Needless to say, asymmetry meant that the power of the unions was lessening not subsiding. Comparative research shows that the pace of social reform was slower in Australia than in New Zealand over the 1980s because of the different relationship between the two Labor governments and trade unions (Bray and Neilson, 1996). In New Zealand the virtual exclusion of a union role in policy formation yielded much more radical social policies. This says that the bargaining strength of trade unions with respect to the Labor Party mattered for social policymaking.

The ALP paid off the cooperation of trade unions with tax cut concessions and by improving the social wage. In the 1984 budget, for instance, the Labor government accepted the unions' proposal of a tax cut of \$7.60 a week for incomes between \$12,000 and \$25,081, which presumably benefited unionized workers. Party leaders were probably responding to ACTU's concern with membership decline by protecting unionized members. Agreements between Labor and the trade unions were a factor partially defusing labour movement militancy regarding declining standards of living.

In sum, the alliance stipulated between ACTU and ALP over the 1980s was a manifestation of a twin process: changing patterns of allegiance for the two wings of the Labor movement and the loosening of organizational ties between them. The main implication is that trade unions raised little opposition to Hawke's social reforms because the ACTU-ALP alliance was increasingly lopsided. My approach qualifies the conventional view that the ACTU-ALP cohesion under Hawke was merely the outcome of a balanced, mutually supportive relationship. I argue that the power asymmetry view throws considerable light on the behaviour of trade unions.

Conclusions

In this article, I claim that greater attention should be given to the role of agency and political leadership in manufacturing social policy changes. I have argued that much theoretical debate fails to capture the role of political leadership in the restructuring process. To the extent that social policy is declared to be driven by exogenous or historical forces, it has largely been devoid of serious analyses of its political context. There is therefore a distinct theoretical void concerning the incentives and disincentives leaders possess to alter eligibility and entitlement rules. In this way the literature is de-politicizing the forces for change and is less adept at explaining the choices that do occur. While politicians are constrained by exogenous variables and policymaking is certainly shaped by non-governmental influences, political choices still require an appreciation of agency pressures in the restructuring process.

In exploring some of the reasons behind discretionary changes to government cash benefits that might have affected income inequality trends in Australia under Bob Hawke, strategic effects within the ALP and between the ALP and trade unions have been brought sharply into focus. I examined the redistributive impact of strategic interaction within the ALP, stressing the pivotal position of the newly established Centre-Left faction. This faction was able to deploy its coalition potential to tilt the balance of power in favour of the Left or the Right. In this manner, the Centre-Left mitigated the rightwing pull towards welfare retrenchment because it compelled rightwingers to enter into a process of compromise and exchange.

Whether these results can readily be applicable to other countries is an open question. The ALP has a formalized system of factions and so the sequence of factional interaction is more easily detectable. However, it is reassuring that my findings are consistent with both theoretical developments and empirical results, especially those of McCubbins and Thies (1997), who highlight the budgetary implications of shifting factional control in Japan's LDP.

A further contribution of this article has been to propose the power asymmetry view in examining the interactions between the political and the industrial wing of the labour movement. Weak trade union opposition to Labor's redistributive policies partly rested on asymmetric power between the two players. While the unions were losing the monopoly of workers' representation, manifested in declining trade union density rates and coverage rates, the ALP was accumulating a string of electoral successes.

The argument developed throughout this article has indicated that the capacity of the ALP to shape social policy was not merely a function of external pressures but also the outcome of strategic considerations. These considerations seemed to be connected to governance within the ALP and to the changing balance of power between trade unions and the ALP. The ability to identify and explain the capacity of national governments to shape social policy in the face of international competitiveness is at the heart of current research in public policy (Scharpf and Schmidt, 2000). While international competition may set new and complex parameters within which party leaders interact, agency choice is crucial for our explanations of policy changes.

Notes

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- 1 Weiss (1999) offers a good survey of this literature.
- 2 On this topic, see Garrett (1998).
- 3 For a critical review, see Mulé (1997).
- 4 Ross (2000) advances a convincing critique of this argument.
- 5 A more comprehensive treatment of these issues can be found in Mulé (1997, 2001). The crucial importance of intra-party dynamics for understanding the functioning of political parties has been convincingly demonstrated in Panebianco (1988).
- 6 The question regarding the forces that triggered this realignment, interesting though it is, lies beyond the scope of this work. Some authors point to the dynamics of party competition, others to structural change in the labour market and the rapid decline in the blue-collar percentage of the workforce and the continuing increase in white-collar employment. See Jaensch (1983), Duncan

(1989) and Burchell and Mathews (1991). The constraints of international economic forces may have helped the ascendancy of Labor rightwingers, but how much of this ascendancy can be traced to external pressures is difficult to quantify from the literature.

7 *Reason and Reform*, p. 1.

8 This model is a variation of Fritz Scharpf's (1997) monetarist coordination game. It differs from Sharpf's model in that the key for the bargaining outcome is the organizational decline of the trade unions. A variant of this model can be found in Mulé (2001).

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