
REVIEW ARTICLES

New Forms of Dependence? Mark Latham's 'Third Way'

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Mark Latham, Civilising Global Capital: New Thinking for Australian Labor, Allen & Unwin, Sydney, 1998

MARK LATHAM is the Member for Werriwa in the House of Representatives; in the 1996-98 parliament he was Shadow Minister for Education and Youth Affairs. It is not surprising that his book has received a great deal of attention. Less attention has so far been paid to discussing the strengths and weaknesses of Mark Latham's arguments. This is unfortunate both because of the importance of the Australian Labor Party in Australian politics and because the book undoubtedly is the result of wide reading, careful thinking and genuine concern about the welfare of Australians.

Beyond Left and Right

As I understand it, Latham's argument is as follows. The policies offered by the right and left of Australian politics do not answer the nation's real needs. The policies of the right provide no effective answer to the problems of increasing inequality and insecurity which are now so important in Australian politics. By contrast, the policies of the left have led to overloaded and ineffective government.

Over time, left of centre thinking has accumulated a vast range of goals and values: material equality, classlessness, democratic socialism, state ownership, social justice, equality of opportunity, gender equity, social tolerance, national identity, international cooperation and so forth. Each has been associated with new layers of state activism and the growth of public outlays. Taken as a whole, the social democratic project has become unsustainable, given the rationing of scarce public resources and the spread of public resentment about the role of government. (p. 320)

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Moreover, the policies traditionally favoured by the left — Keynesian economics, the welfare state and the delivery of universal services by government-owned monopolies — seem no longer to be working.

Latham argues that governments should therefore scale back their responsibilities to concentrate on what is essential. In particular, governments should avoid active fiscal and monetary policies, corporatism, subsidies to and protection of industry, the provision of leisure services and 'segment of life' policies that benefit particular demographic groups. A glance at a newspaper would show just how restrictive a limitation this would be on contemporary politics.

The Three Core Tasks of Government

In contrast to the politics of the left and right, Latham argues for a 'third way'. There are, according to his view, three core tasks for government. These are: the provision of the skills and infrastructure necessary to make Australia an attractive (but unsubsidised) location for 'global capital'; the development of mechanisms to shield the majority of the population, whose skills may not be greatly in demand internationally, from the uncertainty resulting from increasing exposure to the global market; and the development in all citizens of the minimum competency (in terms of both the availability of resources and the capacity to make good use of them) to make a useful contribution to community life.

Social democratic parties need to accept that capital is increasingly mobile internationally. 'Social democracy ... needs to argue that, faced by the spread and influence of global capital, the strength of the national state fundamentally relies on its capacity to invest in and develop its remaining economic assets: its human capital and fixed economic infrastructure' (p. 47). Savings policy is also important. Latham particularly favours public spending on education and research. He also argues for regulation to protect local interests (such as franchisors) in their dealings with 'the dominant market power of multinational capital' (p. 79).

Much of the book is concerned with the increased insecurity which, Latham believes, has arisen from the increasing exposure of Australians to developments in the world economy. Latham suggests a number of remedies to address this sense of increasing insecurity. He notes that 'job security as our parents and grandparents might have known it, has been dismantled by the changing nature of work. The best today's labour market entrant can hope for is "employability security"; the certainty of knowing that if he or she falls out of employment, they have the quality skills to be offered new work' (p. 67). A system of national gain sharing through partial indexation of a basic wage is needed to protect employees whose skills are not internationally competitive. Extensive labour market programmes are needed: 'The public sector needs to ensure that the demand for labour at a neighbourhood and regional level closely corresponds to the supply of labour force skills' (p. 115). Moreover, 'governments need to revise their role as a facilitator of employment of last resort, even if this responsibility is ultimately discharged by other (community based) organisations' (p. 121). Finally, Latham proposes new forms of income support to assist citizens to cope with the increased uncertainty of life. Income security

accounts would be established with contributions from government and individuals. Contributions by individuals might be compulsory: a form of occupational super-annuation to address contingencies during the pre-retirement years. These accounts could be drawn on during periods of difficulty; equally, government assistance might be repayable if prosperity results. This system of income support could be extended to assist the finance of education.

The development of an adequate level of capability to achieve personal desires and aspirations, and to obtain recognition for one's contribution to the community, is the third major task which Latham sets for government. 'Capability' flows partly from the availability of a minimum level of financial resources and partly from education. But it also depends on how people in a society relate to one another. Latham notes that 'the best governance arises, not only from helping people, but defining the social contract in a way that also makes people responsible for their willingness to help themselves' (p. 206). However, 'social democrats wanted to do good, but they were more anxious to do good to others than to help others do good to themselves' (p. 293). Exposure to long-term unemployment and other social problems often reduces people's ability to help themselves. Moreover, large government bureaucracies tend to displace other methods of service delivery from which people can acquire capacities and gain recognition from helping each other. To address these problems, Latham advocates a case-management approach in which the efforts of a large number of government agencies would be coordinated and recipients encouraged to help themselves. He suggests that the government should adequately finance the voluntary sector to create employment. Although services such as health insurance and child care, and even the provision of income support, need to be financed by government, they can be delivered through small-scale organisations in which the virtues of mutual aid can be rediscovered.

Finally, the public sector needs an adequate source of income to do these things. Latham suggests that a personal expenditure tax — an income tax that exempts (net) savings — could do the job. He considers that a move from taxing income to taxing consumption would reduce disincentives to work.

There is much to be admired in the argument. But it suffers from two main problems. The first is the tension between what is required to achieve success in global markets on the one hand and to provide the level of security that the population desires on the other. The second is the tension between attempting to make space for non-government solutions to social problems and retaining government as the regulator of and the source of finance for these services. The main fault of the book, in my view, is that Latham does not face up to the fact that many of the things he seems to want may be inconsistent with each other. Only once this is recognised is it possible to discuss, at least in general terms, how much of one good thing must be sacrificed to obtain more of another and to decide where the compromise between competing but desirable objectives can best be drawn.

Globalism vs Security

Latham argues that the only true security a person can now enjoy comes from possessing skills that are valued by the market. On page 142 he quotes the American economist, Paul Romer, as follows:

Nations that can sustain a policy stance that tolerates or perhaps even fosters the process of creative destruction can count on sustained economic growth that will carry them into the next century. Those that are most successful in creating institutions that foster discovery and innovation will be the worldwide technological leaders. Through mechanisms like free trade and transfers of technology, nations that are less successful in the cultivation and commercial exploitation of science and technology can still follow comfortably along in the wake of the leaders. But nations that try to resist change by protecting inefficient firms, impeding flows of goods and ideas, and making a high level of income an entitlement instead of a reward will slowly be left farther and farther behind. (Romer, 1994)

As noted, Latham's recommendations for increased security include the reinstatement of the public sector as employer of last resort, especially in regions of high unemployment, a system of indexation of minimum wages to ensure that the gains from productivity improvement are shared equitably, and an enhanced system of income support. These measures, if implemented, would tend to inhibit economic change by retaining labour in areas with a low demand for it, and by reducing the returns from obtaining the skills that are valued by the market. They go a substantial distance towards providing a high level of income as an entitlement rather than a reward.

Latham notes, but perhaps does not fully appreciate, a further irony regarding security. He argues that 'one of the paradoxes of contemporary government is that everywhere it is being challenged for failing to deal with the growth of insecurity; yet the post-war welfare state was established expressly for the purpose of giving the citizenry peace of mind about the future' (p. 191). It may be that the search for security is an illusory one because the risks resulting from economic change can be shifted between groups but cannot be avoided. For example, a country might appear to be able to avoid some risks by detaching itself through protectionist measures from developments in the world economy; but, over the longer term, this course of action is likely to lead to living standards lower than would otherwise have been possible. It is reasonable, of course, to offer protection against adverse developments through safety net benefits. But some care needs to be taken not to extend the scope of protection too broadly (by providing it to all wage earners, for example) both because this reduces the reward from adjusting to economic change for members of the protected group, and because it tends to focus much of the burden of adjustment on to a relatively small group, which will be particularly adversely affected. In practice, it seems likely that the proposals for greater security which Latham advocates would particularly disadvantage those who are unable to obtain

unemployment (except, perhaps, 'employment of last resort') and (through higher domestic costs) those who compete on world markets.

Government and Civil Society

The second major area of difficulty with Latham's argument relates to the respective roles of government and non-state institutions in providing social services. Latham argues that the dominance of state institutions in Australia 'has left only a limited role for the type of social cooperation which features in non-government, civil organisations' (p. 27). Later on he observes that 'generally, history tells us that Australians have been inclined to pursue the logic of collective action through personal networks of mateship and/or the patronage of the central state rather than by spontaneously civic means at the middle' (p. 288). In summary, 'Australia cannot be regarded as a high trust, densely civic society' (p. 262). Nevertheless, Latham notes that public monopolies are simply not trusted and there are advantages if services can be delivered by smaller scale organisations. Latham therefore wishes to reinvent civil society under government patronage.

There is little doubt that Australians (and probably other people as well) are keen to look to the government for support. Latham, it seems to me, is mistaken in attributing widespread dependence on government to an absence of trust. He recognises that there is an 'active non-state public sector in Australia' (p. 287). A glance at the yellow pages should convince him of the truth of this should he doubt it. Given the strength of the expectation that the government will provide, it is perhaps not surprising that one of the first things a typical association of Australian equals decides to do is to lobby for government patronage.

Whatever the truth of this, it is evident that Latham's proposals do not provide a solution. It is unrealistic to expect government to finance a service but leave issues of service delivery to smaller-scale organisations. The need to answer for the expenditure of public money to parliaments and the desire to obtain greater value for money will increasingly lead to detailed intervention. The recent history of universities in Australia provides a good example of this process. The greater the extent of government involvement, however, the less the scope for meaningful cooperative action between equals. Indeed, Australia has a long tradition of delivery of social services by voluntary organisations in which exactly these trends have increasingly been evident.

Concluding Comments

Mark Latham sets out to find a third way between what he sees as the harshness of the right and the ineffectiveness of the solutions that have been offered by the left. In the end he emphasises redistribution, new forms of income security, and changing the relationship between the non-state public sector and government. The emphasis in the argument is, it seems to me, more on creating new forms of dependence than on promoting the capacity of individuals and civil society to respond independently to changing economic and social needs.

One must sympathise with the demands placed on a parliamentarian who is responsible for putting together a programme which is capable of gaining public support. But it is interesting that the demand for dependence, so to speak, is as large as it apparently is. In reflecting on this I have been reminded of comments that Ray Ball made over a decade ago on Australia's economic and social problems:

Australia needs to teach opportunity rather than egalitarianism and responsibility rather than dependence in its families, schools, colleges, universities and churches. It needs to experience changes in attitudes, practices and structures in its corporations and their executives, in its labour unions and their leaders, among its politicians, regulators, administrators, academics, professionals, media and opinion-makers. The required changes are detailed, extensive and slow in coming. (Ball, 1987:21)

I do not know the extent to which these attitudes are stronger in Australia than elsewhere. Nevertheless, Mark Latham's interesting book illustrates just how great the shift in attitudes needs to be before Australians can face economic and social change with confidence.

References

- Ball, R. (1987), *Beyond the Current Pessimism*, Centre for Independent Studies, Sydney.
- Romer, P. (1994), 'Beyond Classical and Keynesian Macroeconomic Policy', *Policy Options* 15(6): 20.