

SMALL STATES DOWN UNDER? AN ANTIPODEAN TEST OF KATZENSTEIN'S 1985 MODEL

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Abstract

Since its publication in 1985, Katzenstein's Small States in World Markets has been extremely influential in explaining the policy responses of small European states to their vulnerability in the international economy. The Katzenstein framework has also been important in underpinning accounts of public policy in the non-European small states. In particular, it forms the basis of the 'domestic defence' model (Castles 1988; 1989), which has become the dominant account of the policy pattern in Australia and New Zealand throughout the twentieth century. The application of the arguments in Small States to the case of Australia and New Zealand provides the opportunity to indirectly assess the generalisability of Katzenstein's model. In this paper we argue that an assessment of the domestic defence model reinforces many of the criticisms that have recently been levelled at Small States in the European context. Some of these criticisms have their basis in dissatisfaction with the institutionalist flavour of the model. This resonates with our analysis of the Australasian case, which elevates the importance of considering political-economic interests as well as institutions. We find that the institutionalist bias of much of the comparative policy literature on Australia and New Zealand skews conclusions regarding similarity and difference between the two in terms of policy processes and outcomes.

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INTRODUCTION

In the fifteen years since its publication, Katzenstein's (1985) *Small States in World Markets* (hereinafter, *Small States*) has travelled a long way. It has been profoundly influential in explaining the pattern of industrial, economic and social policies that emerged in the interwar period in Scandinavia and other small European nations. Perhaps unintentionally, *Small States* has also had a major influence on the standard explanation of the pattern of public policy that characterised two other small states - Australia and New Zealand - throughout most of the twentieth century. Castles' (1988) *domestic defence* model was developed in direct response to the notion of *domestic compensation* put forward by Katzenstein in *Small States*. Since its first appearance the domestic defence model, and the associated view that Australia and New Zealand constituted "wage earners' welfare states", has been accepted as common sense almost without question in the areas of policy studies, social theory and the historiography of the Australasian welfare state (Watts 1997:1).

The application of Katzenstein's model to the case of Australasia provides the opportunity to assess the generalisability of the arguments put forward in *Small States*. This paper asks whether the application of the framework put forward by Katzenstein in *Small States* to the Australian and New Zealand contexts provides a robust explanation of the pattern of public policy in these two Antipodean small states. We are interested both in the implications of this Antipodean version of *Small States* for the understanding the historical patterns of public policy, and also in the consequences of this model for understanding contemporary developments in public policy pattern of the two countries.

Section two of the paper outlines the main features of the domestic defence model, particularly in reference to its connections to the arguments put forward by Katzenstein (1985) on the small European countries. Section 3 traces the influence of the domestic defence model in structuring debate about social policy in the two countries. Here the concentration is on two related questions: first, the role the domestic defence model has played in redefining the nature of the Australasian welfare state in comparative perspective; and second, the impact the model has had in shaping explanations of divergence in industrial relations policy in the two countries. The fourth section provides a critique of the domestic defence model and its deployment in debates about types of welfare and the sources of divergence in industrial relations policy. The fifth and final section assesses the implications of this critique for both the analysis of social policy in Australia and New Zealand and also for recent debates about social democracy in Europe.

The Argument in Brief

Katzenstein's *Small States* model presents the pattern of industrial and social policy which has characterised small European nations in the post-World War II period as the product of a broad class compromise around an ideology of 'domestic compensation'. This class compromise was formed in response to the external economic and political pressures facing small European nations during the 1930s and 1940s, laying the foundations for an industrial policy based on economic openness but accompanied by extensive social protection which compensated those adversely affected by this openness. Katzenstein argues that it was the institutions created by this historic compromise which explain why small European countries experienced superior economic and social outcomes in the context of the generalised economic downturn that affected advanced capitalist economies during the 1970s. This in turn provided a strong impetus for the now dominant *new institutionalist* view that, in the face of common economic pressures, cross-national variation in economic and social outcomes can be largely explained in terms of institutional differences (Thelen and Steinmo 1992).

The widespread crisis of social democracy and the collapse of corporatism in the small European states has occasioned a reassessment by some scholars of the nature of the compromises that underpinned patterns of public policy in these countries in the post-war period (Pontusson 1984; Fulcher 1987; Pontusson and Swenson 1996; Swenson 1991; Iversen 1996). It has also raised questions about the primary role attributed to institutional factors in explaining contemporary patterns of public policy (see Pontusson 1995). These

scholars suggest that the origins of policy patterns that characterised small European states were less a consequence of society-wide consensus around issues of economic vulnerability, than a series of (overlapping) cross-class coalitions which reflected the interests of particular class fractions (see especially Swenson 1991; Pontusson 1994).

Seemingly in parallel with developments and debates in the small states of Europe, recent structural and policy trends in Australia and New Zealand raise questions about the credibility of the Antipodean version of the *Small States* model. On the basis of the domestic defence argument, social policy scholars have argued that the pattern of welfare provision in Australia and New Zealand represents a distinct world of welfare (Castles and Mitchell 1992). In contrast to European regimes, which relied heavily on social insurance, Australasia took recourse to “social protection by other means” (Castles 1989). However, a focus on the distinctiveness of welfare provision in Australia and New Zealand has tended to obscure rather than illuminate analysis of both the historical development of the welfare provision in the two countries and the sources and consequences of neo-liberal restructuring in the two countries in the contemporary period. Secondly, as we outline in Section 3 below, widespread acceptance of the domestic defence model has had a noticeable effect on the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s. Relying directly and indirectly on the domestic defence model, comparativists have tended to argue that Australia and New Zealand shared a common pattern of industrial relations prior to the 1980s and a wide diversion since then. As a result they have tended to dismiss historical and material factors from explaining the divergent pattern of industrial relations reform during the 1980s and 1990s.

The comparative literature has focussed on institutional and organisational differences that affect the capacity of (similarly constituted) interest groups to alter or maintain the historic compromise established at the turn of the century. We argue that, on its own, this mode of explanation is unacceptable, for the developments of the last two decades suggest the existence, since the beginning of the twentieth century, of significant differences in the constitution of interests in the two countries. The domestic defence model, which is based on a monolithic and undifferentiated view of class interests, largely obscures these historical differences in the nature of cross-class coalitions.

We draw two primary conclusions from our analysis. First, public policy scholars ought to question the mainstream view that Australia and New Zealand have shared a single historical trajectory of public policy, the origins of which are to be found in a compromise between labour and capital forged at the turn of the century in reaction to economic vulnerability. Our analysis suggests that differences in interests, and not just institutions, play an important role in explaining contemporary policy divergences between Australia and New Zealand. Second, assessment of the two Antipodean cases raises serious questions about the transferability of Katzenstein’s *Small States* model to other examples of small states.

FROM DOMESTIC COMPENSATION TO DOMESTIC DEFENCE: THE APPLICATION OF KATZENSTEIN’S MODEL TO AUSTRALIA AND NEW ZEALAND

In *Small States* Katzenstein (1985) argues that in the small European nations during the interwar and immediate post-World War II period, extreme economic vulnerability and an inability to alter the terms of integration into the world economy produced profound economic and political crises. These crises were resolved through historic compromises which preserved economic openness - ensuring responsiveness of the domestic economy to the demands of export markets - but at the same time inspired policies which compensated for this openness through protection for agriculture and relatively extensive redistribution through a universalist and solidaristic welfare state.

Katzenstein (1985: 157-72) highlights a number of factors that made class compromise possible in the small European economies. In particular, he points to the legacy of weak feudal structures, which created a weak and divided political Right and the opportunity for political compromise between the working class and sections of the Right. This was reinforced by the existence of incentives for specialisation in export production that created shared interests across different social sectors for compromise around economic openness. This policy pattern has been labelled “domestic compensation”, the central premise being that it formed a logical response by small countries trading in world markets to the harsh realities of economic

vulnerability by offering amelioration and inclusion to those who were socio-economically marginalised by economic openness.

Katzenstein's argument has been profoundly influential, not only in explaining the economic performance and policy pattern of the small European countries, but also in informing the prevailing treatment of the Australasian states, particularly in Francis Castles' *domestic defence* model (Castles 1988; 1989). Castles argues that the policy pattern that has characterised Australia and New Zealand for much of the twentieth century is one built upon four major interdependent historical planks: tariff protection; legal wage regulation through compulsory arbitration; limitations and controls on immigration; and an early but minimalist (residual) state welfare system. In explaining their interconnectedness as part of a regime, he argues that these policies functioned like:

interlocking shock absorbers designed to defend and stabilise the existing structure of economic opportunities and rewards against a rapid or excessive disturbance from exogenous forces.... Almost every section of early twentieth century Australian [and New Zealand] society was protected in some way: the exporters and the pastoralists by the very profitability of the export trade in staple commodities; the manufacturers by tariff; and the working class by a minimum wage and a mechanism for controlling labour supply (Castles 1988: 93).

Once established, Castles argues, the domestic defence model led to the development of a distinctive set of institutional arrangements that exerted considerable influence over the pattern of economic and political development in Australasia throughout the twentieth century. In particular, they shaped the subsequent development of industrial relations and welfare and social protection. Castles suggests that domestic defence produced a system under which the wage level set by the arbitration system, accompanied by high levels of employment, played the role of altering the pattern of distribution in the two countries. This pattern, he argues, acted as a functional equivalent to what in Europe were *state* welfare systems principally in the form of social insurance (Castles 1985: 82-88). Thus the prime argument in the domestic defence framework is that even though the welfare state in Australia has remained comparatively underdeveloped, the domestic defence model provided non-conventional welfare mechanisms; in his words, "social protection by other means" (Castles 1989; 1996).

Castles' concept of domestic defence is an explicitly Antipodean version of Katzenstein's explanation of the origins of open trade policy and the relatively advanced welfare states of the small European countries (see especially Castles 1988, Chapter 5). For Castles, Katzenstein's (1985) model was appropriate for Europe, but domestic defence represented a second potential response by small states to economic vulnerability. In similar fashion to Katzenstein, he argues that a "particular combination of structural conditions and political factors" were responsible for a particular type of policy adaptation by these two small nations to susceptibility within world markets. But Australasian vulnerability led to the establishment of national minimum labour standards set down by compulsory arbitration, which when combined with labour scarcity and relative full employment, manifested a strategy "remarkably akin, in purpose at least, to the welfare state [but] at a date far earlier than in the rest of the world" (Castles 1985: 85). Historical contingency was thus by definition of natural importance to Castles' schema. The alternative welfare strategy, he argues, was the outcome of an historic compromise between labour and capital at the end of the nineteenth century.

For Castles, the adoption of arbitration, which he equates with the 'living wage', reflected the ability of the working class to influence policy either directly through its industrial and political organisations or through liberal parties that relied on working class votes (Castles 1985: Chapter 3). Working class influence was underpinned by the relatively early extension of manhood suffrage in the colonies and the comparatively early mobilisation of labour organisations. Furthermore he argues that the economic conditions that existed in the Australasian colonies in the late nineteenth century favoured the development of a reformist outlook amongst the working class, in turn making it easier for labour to form alliances with other groups in society. Reformist activity under the domestic defence schema was also seen as realistic because the colonial state was substantially equipped with a number of powers of interventionist economic direction and leadership. On top of this, Castles argues, relatively strong labour market power through high demand for labour provided economic muscle for the union movement's political wings to push effectively for reformist

legislation. He suggests that the economic downturn of the late nineteenth century only served to push labour further towards the need for reformist political action.

As a corollary, while Castles argues that there were auspicious conditions for working class organisation behind a reformist political platform of social protection in the Australasian colonies, he regards the conditions for political mobilisation of the Right as less favourable (Castles 1985: 62-69). The lack of an entrenched ruling class, he argues, both created fewer impediments to working class organisation and also resulted in divisions between rural and urban capital. It was this division which created the conditions for an historic class compromise in the two countries at virtually the same time around the turn of the century. In Castles' own words, "[i]n economic and social terms the division on the Right was the immediate and decisive factor in social reform" (Castles 1985: 65).

Overall, Castles' domestic defence model can be seen as an explicit attempt to generalise the arguments put forward by Katzenstein in *Small States* to the cases of Australia and New Zealand.¹ The cases of Australia and New Zealand provide an excellent framework within which to assess the validity of the *Small States*' model. It is well known that, in a broad international focus (see Bray and Haworth 1993). Indeed, in technical terms the two countries represent almost perfect real-world examples of 'most similar cases' (see Wailes 1999). Like the small European countries, they are both small countries dependent on world markets and have faced the types of pressures Katzenstein associates with economic vulnerability (see Schwartz 1994 for explicit comparison in these terms). In particular, the Australian and New Zealand economies have historically relied on international trade in commodity markets in which they are price-takers, principally in wool and dairy products. Indeed, given that commodity exports experience greater short-price volatility than the manufactured exports which formed the main source of export income for small European nations, it might be argued that the impact of economic vulnerability on Australia and New Zealand has been greater than in Sweden or Denmark. Thus an assessment of the domestic defence model in its ability to explain the historical pattern of social protection in Australia and New Zealand, as well as contemporary developments in policy, represents an important means of testing the validity of the arguments put forward in *Small States*. A necessary step in this test is first to discuss the influence on comparative scholars of the domestic defence framework.

THE INFLUENCE OF THE DOMESTIC DEFENCE MODEL

Since its first appearance in Castles' (1988) *Australian Public Policy and Economic Vulnerability*, the domestic defence model has been almost universally accepted as a framework for understanding the Australasian pattern of public policy. The analysis here focuses on two particular areas of its influence: first, its implications for where Australia and New Zealand belong in international typologies of welfare state regime; and second, implications for questions of divergence between Australian and New Zealand industrial relations policy during the 1980s and 1990s.

On the first of these points, the domestic defence model has been widely adopted in attempts to accommodate Australia and New Zealand in international typologies of welfare provision. For example, based on the assumptions of the domestic defence policy pattern, Castles and Mitchell (1992) argue that Australia and New Zealand formed part of a "radical" world of welfare capitalism (alongside the United Kingdom, and Canada and Finland on some criteria). This "fourth world", they contend, was characterised by minimalism and residualism in state welfare, but this was compensated for by progressive taxation and efficient "targeting" of social security programmes for the most needy.² This classification was in response to Esping-Andersen's (1990) categorisation of the two regimes as "liberal" welfare states, which placed primary reliance on the market and the family as social safety-nets, with the welfare state being a last-resort, "social assistance" system. Yet, despite this point of disagreement between Castles and Esping-Andersen over classification, Esping-Andersen always accepted the domestic defence premise that the pattern of

¹ See Schwartz (1998) for an attempt to turn Castles' attempt on its head. While presenting a critique of the Castles' model, Schwartz also attempts to explore the implications of a modified domestic defence model for understanding the options available for social democracy in small European nations in the face of mobile capital.

² This was a point also made by Mitchell, Harding and Gruen (1994) in relation to Australian welfare.

welfare in Australia and New Zealand was the result of relatively monolithic - and precocious - working class interest representation expressed primarily in trade unionism (Esping-Andersen 1990: 68; see also Shaver 1995). And the main institutional conduit for channelling trade union interests, the arbitration system, has for long also been seen as central to the Australian and New Zealand patterns of policy in cross-national analyses of corporatism (Calmfors and Driffill 1988; Bruno and Sachs 1985; Freeman 1988).

The most transparent acceptance of the domestic defence model, however, has been seen in the public policy literature emanating from Australasian authors themselves. Since the late 1980s a small but significant group of scholars have compared the policy responses of Australia and New Zealand to international economic pressures. This literature has included influential accounts of economic policy (Easton and Gerritsen 1996; Castle and Haworth 1993), state-sector reorganisation (Boston and Uhr 1996), and social policy (Castles 1996; Castles and Pierson 1996). The most interesting and detailed analysis has compared industrial relations developments in the two countries (see for example the articles in Bray and Haworth 1993; see also Bray and Neilson 1996; Bray and Walsh 1993; 1995; 1998; Gardener 1995). These analyses have attempted to exploit evidence of a major divergence in industrial relations policy in two countries which face common economic pressures and which share a common heritage in the pattern of labour market regulation.

The resulting literature has stressed the importance of institutional and organisational variables in accounting for cross-national differences in industrial relations policies and outcomes. For example, in their analysis of the 'differing fates of corporatism under Labo(u)r Governments in Australia and New Zealand' Bray and Walsh (1995: 12) attribute the low level of corporatism in the two countries historically, in part, to the combination of arbitration, which provided the working class with a minimum standard of employment, and industry protection, which provided employers with more stable markets, cushioning the latter in a way which their European counterparts were in most cases not. In a manner highly consistent with domestic defence, in Bray and Walsh's perspective this was conducive to the two union movements' focus on "distribution issues".

On this basis, Bray and Walsh argue that the "surprising" development of a corporatist incomes policy between the Australian Labor Party and the Australian Council of the Trade Unions (ACTU) in the mid 1980s, and the failure for a similar arrangement to develop in New Zealand at the same time, reflected the influence of institutional factors on the organisational capacity of the labour movements in the two countries. These differences related to the levels of centralisation in the two union movements; differences in the formal and informal relationships between the industrial and political wings of the labour movements, which were otherwise virtually identical to each other; and differences in the capacity and autonomy of the two Antipodean states (Bray and Walsh 1995; see also Bray and Neilsen 1996; Bray and Walsh 1998).

This focus on institutional factors and its effect on the mobilisation of similarly constituted interests has formed a central theme in the comparative literature on industrial relations reform in Australia and New Zealand. As Bray and Neilsen put it:

Central to the explanation offered... is the organisation of and interaction between interest groups.... In Australia, organised labour was more effective and capital less united than their New Zealand counterparts, which allowed the emergence of a bilateral corporatist arrangement that slowed and moderated the withdrawal of the state from direct involvement in industrial relations policy (Bray and Neilsen 1996: 67-70)

In this sense it can be argued that there is an intimate connection between the deployment of the domestic defence model and the application of new institutionalist explanations to the comparative analysis of industrial relations reform in Australia and New Zealand.

A CRITIQUE OF THE DOMESTIC DEFENCE MODEL

In both the social policy and industrial relations areas, the adoption of the domestic defence model has not been unproblematic. Rather, it can be argued that the domestic defence model has tended to distort the analysis of both the nature of welfare provision and also the range of variables that have impacted on the

development of industrial relations policy in Australia and New Zealand. The limitations of the domestic defence model relate both to its lack of historical grounding and its assumptions about the nature of working class power in capitalism.

In a noteworthy exception to the wide acceptance of the domestic defence model, Watts (1997) argues that Castles' domestic defence framework, and his characterisation of the Australian welfare state as a wage earners' welfare state, is historically and empirically poorly grounded.³ For Watts this reflects the structural-functional bias of Castles' model and his use of a positivist methodology.⁴ In particular, Watts' contention is that Castles' work on Australia's⁵ welfare state regime is based on "his already settled [theoretical] conviction that there is a significant 'causal connection' between social democratic and working-class mobilisation and extensive welfare state provision with the problem which the Australian case presents for this thesis" (Watts 1997: 7).

The dilemma presented by the Australasian cases was the coincidence of a strong working class and a comparatively underdeveloped welfare state. This, for a labour movement theorist, poses a fundamental challenge. Castles' scholarly contribution to comparative public policy had, before the mid-1980s, been largely in the area of "labour movement strategy" or "power resources theory" (on which see for example Castles 1978; Korpi 1978; 1981; Esping-Andersen 1985; Higgins 1985; Stephens 1979). Though they have varying focal-points, the labour movement theorists are at one in adopting the premise that welfare state development over time was mainly the result of labour movement agitation for social amelioration. According to this line of thinking, different levels - or more to the point, differing *institutional means* - of social protection should stem from differences in the strength, unity and structure of working class interest mobilisation. Watts' argument is that Castles has brought the positivist methodological tools of structural functionalism and the theoretical assumptions of labour movement theory to bear upon the interpretation of social protection as adopted historically in Australia and New Zealand. As we argue in the final section of this paper, Castles' explicit adoption of Katzenstein's *Small States* model reflects not just the fact that it deals with the relationship between smallness of state and policy pattern, but also because Katzenstein himself relies on many of the premises of labour movement theory.

As a framework for comparative public policy, labour movement theory has been criticised on various grounds (see for example Fulcher 1987; Pontusson 1984; Swenson 1991). First, it has a tendency to present a uni-dimensional view of labour's power resources. Second, it tends to assume that labour is a single unified body which can exercise relatively unencumbered strategic choice. Finally, labour movement theory often equates the strength of working class movements with the relative weakness of capital (Pontusson 1984; Swenson 1991).

The domestic defence framework reifies these key shortcomings of labour movement theory. Castles argues that the Australasian each of labour movements was highly unified, and more importantly that they were both able to utilise this unity to make strategic political choices which would further the interests of their (largely undifferentiated) working class membership. He posits that the relatively strong industrial organisation of workers in Australia, when combined with a solid heritage of labour scarcity, helped to provide the working class with a strategic edge over capital in the late nineteenth century, translating into political concessions, which in turn resulted in the comparative early advancement of social protection

3 Indeed, as we have noted elsewhere, Castles' overwhelming concern to explain the anomaly presented by the Australasian pattern of social protection for labour movement theory has caused him to exaggerate the role played by the labour movement in shaping the pattern of welfare development in the Australian Commonwealth. As a consequence Castles' model attributes a number of motivations to the Australian working class - sexism and racism in particular - which to a large extent reflected the intervention of social liberals in welfare development (see Ramia and Wailes 2001).

4 It is noteworthy that Castles' reply to the charge of structural functionalism was, "I simply plead guilty", emphasising that his work was in no way intended to contribute to welfare history or historical studies. Rather, he has always seen himself as a comparativist, since the mid-1980s with a keen interest in Australasian public policy. And comparativists, he argues, should not follow historians, who "tend to assume the inherent distinctiveness of contingent sequences of events, whereas the job of the comparativist is to report on and account for similarities and differences between nations" (Castles 1997: 16).

5 And implicitly, given the common framework applied to both countries, that of New Zealand.

(Castles 1985: 57-8). In coming to this conclusion Castles ignores the impact of economic downturns on working class organisational power and the development of what turned out to be a minimalist welfare state (see Ramia and Wailes, 2001 for a more detailed critique).

Another feature of the domestic defence framework which places Castles' work within the category of labour movement theory is his tendency to view the Australasian labour movement as a generic analytical unit able to exercise strategic choice. For example, in a manner similar to Korpi's (1978) thesis on the Swedish labour movement and the decline of industrial conflict after the 1936 Saltsjöbaden Agreement (a long-term industrial and policy compact between capital and the labour movement), Castles treats the introduction of arbitration in Australia as the result of a political turn and a tactical compromise by the labour movement. This presents an oversimplified picture of the level of unity within the movement, implying that the relationship between the industrial and political wings and between the union leadership and the rank-and-file, was largely unproblematic and linear. Similarly the domestic defence account of the establishment of Australian social protection does not adequately capture the differences between the labour movements of New Zealand and Australia. For instance, the Labor Party in Australia was first formed in the Colony of Queensland in 1890, spreading to national status upon Federation in 1901, whereas New Zealand's Labour Party was not formed until 1916, and the New Zealand Party was far less effective in winning government and influencing social protection. Indeed Labour in New Zealand did not win Government until the 1936, marking 'a turning point in [New Zealand] history' (Sutch 1969: 230).

New Zealand social protection was less the product of "labourism", at least in the formalistic sense of this term, the main early period of innovation in social policies within the labour market policy occurring under the populist Liberal Government of 1891 to 1912 (Hamer 1988). In addition, the institutional support for the central social protection instrument of arbitration – Castles' functional equivalent for state welfare - was always significantly stronger in Australia than in New Zealand. Otherwise stated, the state welfare system in Australia relied more intensely on the survival of arbitration. First, since Federation the Australian Government had strict Constitutional limitations on its direct involvement in industrial relations. Its influence in the area was indirect, occurring only through the arbitration system. Arbitration in that country accordingly took on a relatively solid institutional presence. By contrast, in New Zealand there were no limitations placed upon the Government in setting of national minimum labour standards outside of the arbitration system. The New Zealand system was thus, from its inception, more precariously placed historically. Second, the Australian union movement was always more securely wedded to the use of arbitration as a dispensing mechanism for labour market protections. The Australian peak union body, the ACTU, was far more supportive of the system. For instance, it kept an arbitration agency, which represented the movement before the central arbitration body (Donn 1983; Hagan 1981). Its New Zealand counterpart could not act in this manner, operating in a more autonomous manner (Sandlant 1989; Roth 1973; Holt 1986). The final institutional factor which pushed New Zealand toward a lower reliance on arbitration was the establishment of a significantly more comprehensive welfare state than Australia in the 1930s, indeed the most comprehensive in the world at the time⁶ (Sutch 1969; Davidson 1989). As discussed further on in this paper, the historical record shows that, in light of such characteristics, labour movement theory becomes an unreliable means of explaining the pattern of social protection in the two countries.

In addition to Castles' tendency to treat the Australasian labour movement as a relatively homogeneous body, his model takes a functionalist approach in equating the power of labour with the weakness of capital. The importance of this contention is underlined by his vehement argument that the division and weakness of the Right was decisive in producing favourable social protection outcomes for the Left (Castles 1985: 65). Castles proffers that the conservative forces in late nineteenth century Australasia faced major difficulties in uniting around resistance to social reform. This, he argues, included divisions between the rural and urban Right (Castles 1985: 63; 1988: 123). In turn, he assumes that the division between conservative interests within Australian and New Zealand society was due to the lack of existence of an entrenched ruling class. Finally, the domestic defence model ignores the importance of the lower level of industrialisation, and the

⁶ New Zealand's leadership status in welfare statism was altered over time, however, innovations being significantly eroded in the post-World War II period, and ultimately reversed in the 1990s (see for instance, Castles 1985; 1996; Davidson 1989; Ramia 1998).

greater influence of the agricultural interest, on the policy process historically in New Zealand as compared with Australia. As Bremer (1993) notes,

Industrialization [in New Zealand] has never occurred on a large scale and, while manufacturing and the service sector have grown in importance, they have only recently challenged agriculture as the major earner of overseas exchange. It comes as no surprise, therefore, to find that at least until the 1980s, State economic policies exhibited a clear bias in favour of the farming community (Bremer, 1993: 108).

This affects the reliability of Castles' thesis significantly because it challenges his argument that uniform strategies across the Tasman geared toward the extension of social protection were mainly the result of labour movement agitation, and tactical "support in return for concessions" (Castles 1988: 109).

In sum, it can be argued that the domestic defence model represents an attempt by Castles to explain away the apparent anomaly presented for labour movement theory by the concurrence of a small welfare state and an historically strong labour movement. As a consequence the domestic defence model is strongly functionalist and attributes a set of motives and a pattern of causation to actors which are not born out by the empirical evidence. In this way Castles distorts the historical record of the development of welfare provision in Australia and New Zealand. Furthermore, as we argue here, the domestic defence model also downplays, and obscures, important differences between in the pattern of material interests that have existed in Australia and New Zealand.

This tendency to obscure differences in the patterns of material interests, and the nature of the cross-class coalitions that formed around similar institutions, is particularly evident in the comparative literature on industrial relations in Australia and New Zealand. We identify two particular problems with the comparative literature on industrial relations reform in Australia and New Zealand. First, while this literature identifies a number of important institutional and organisational differences that have helped explain the divergence of industrial relations policy over the 1980s, it is largely unable to explain how and why these institutional and organisational differences developed. Secondly, the literature is largely unable to explain the *convergence* of industrial relations policies in the two countries that has occurred from the mid 1990s.

While the presentation of a detailed analysis of the debate about reform of industrial relations policy in Australia and New Zealand is clearly beyond the scope of this paper, it is important to make the argument here that these two shortcomings in the comparative literature are intimately connected to the domestic defence model. In relation to the first point, relying on domestic defence assumptions, comparative scholars have largely ignored historical differences in the pattern of economic development and industrial relations in the two countries. As a result, while they identify issues like employer and union organisation as important determinants of policy divergence they are unable to explain *why* the two patterns of organisation differed. The classic example is the tendency to attribute higher levels of authority of the Australian union central in comparison to its New Zealand counterpart during the 1980s, to a series of ad hoc events in the late 1970s and early 1980s.⁷ In a devastating critique of this view, Briggs (1999) argues that the authority exhibited by the ACTU during the 1980s was a product of factors stretching back to the origins of the union movement in Australia. The implication is that differences in organisation and capacity of the union movements in Australia and New Zealand to engage in corporatist arrangements reflect important historical differences between the two which are obscured by the domestic defence model.

A second weakness of the comparative literature on industrial relations reform in Australia and New Zealand is its inability to account for the recent *convergence* of industrial relations policy in Australia and New Zealand during the 1990s. While the introduction of the Employment Contracts Act, 1991, in New Zealand marked a high point in the divergence of industrial relations policy between Australia and New Zealand, subsequent developments in the former country have meant that since the mid 1990s the pattern has been one of convergence. Starting with the introduction of enterprise bargaining in 1991, industrial relations policy in Australia has been through a process of decentralisation and deregulation towards a neo-liberal model that

⁷ The argument was originally made by Griffin (1994) in the context of Australian debates but was subsequently adopted in the comparative literature on industrial relations reform in Australia and New Zealand.

resembles earlier changes in New Zealand. This convergence culminated in the dismantling of the corporatist mechanism between the government and the union movement and the subsequent introduction of the Workplace Relations Act in 1996 under the current conservative coalition Government. The comparative literature has been largely unable to explain why institutional differences between the countries mattered in one period but ceased to be important in another period, and has continued to focus on differences between the cases. For example, Bray and Walsh (1998) view the Australian and New Zealand policy trajectories largely in terms of “different paths to neo-liberalism”.

Although there is not the space to flesh out this argument here in full, we would argue that the inability of the comparative literature to account for this convergence reflects its tendency to attribute analytical primacy to institutional variables and its subsequent inability to incorporate an assessment of the role that material interests play in shaping national patterns of industrial relations.⁸ The domestic defence model, which identifies the origins of policy patterns in a turn of the century society wide class compromise, reinforces this tendency to downplay the role of material interests in shaping policy patterns.

EPILOGUE: A PROBLEM WITH THE ORIGINAL STORY, OR IN THE RETELLING?

This paper has charted the Antipodean adventures of the arguments originally outlined by Katzenstein (1985) in *Small States in World Markets*. While Katzenstein’s concern was to explain the origins of the policy pattern which characterised a number of small European economies in the post war period, his model also provided a framework which could be readily used to account for the equally distinctive policy pattern that has characterised two other small states - Australia and New Zealand - for most of the twentieth century. This paper has demonstrated the explicit connections between the arguments in *Small States* and Castles’ domestic defence model. It has also demonstrated the central role attributed to the domestic defence model in a number of debates about social policy in Australia and New Zealand. In particular it focussed on the critical role played by the domestic defence model in attempts to theoretically accommodate the Australasian pattern of welfare protection in international typologies of welfare state type and in the comparative literature on industrial relations reform in the two countries during the 1980s and 1990s.

In this context the paper set out to explore the validity of the domestic defence model. In the fourth section we argued that the Castles model provides a distorted picture of the development over time of welfare state provision, which owes more to his need to square the Australian experience with labour movement theory, than it does to the empirical and historical record. We also argued that the important role played by the domestic defence model in the comparative literature on industrial relations reform in Australia and New Zealand undermined the ability of this literature to explain the reasons for policy divergence in the two countries during the 1980s and left it largely unable to account for the convergence of industrial relations policy during the 1990s. On this basis, we argue that there are strong grounds to question the value of the domestic defence model as a basis for policy analysis and debate.

However, our aim has not been merely to contribute to a critique of the status attributed to the domestic defence framework in the context of policy debate in Australia and New Zealand. We are also interested in using the close connections between the domestic defence model and Katzenstein’s views outlined *Small States* to assess the generalisability of the Katzenstein’s views to non-European small states. By way of a conclusion we would thus like to briefly reflect on the implications of our critique of the domestic defence model. Given the connection which we have drawn between the domestic defence and *Small States* models, are the problems identified with the former related to the latter?

Our answer to this question is slightly equivocal. On the one hand our view is that given the strong connections between the domestic defence model and the arguments made in *Small States*, and the excellent context which Australasian countries provide for assessing the generalisability of Katzenstein’s arguments,

⁸ Elsewhere, we have attempted to address this issue in more detail, by arguing that there is a need to incorporate a role for interests in the comparative analysis of industrial relations reform (see Wailes and Ramia 2002). A good example of the analytical framework we have in mind is the one used by Pontusson and Swenson (1996) to explain the collapse of centralised bargaining in Sweden

the limitations identified in the Antipodean version raise questions about the original. Indeed, similar criticisms to those levelled at the domestic defence model in this paper have been directed at Katzenstein himself in (see for example Swenson 1991: 516 in relation to employer organisations). As Iversen and Pontusson (2000: 2) have recently noted “the Swedish experience of the last 15 years does not exactly bear out Katzenstein’s (1985: 198) thesis that ‘the more severe international constraints would make the domestic politics of the small European states more cohesive.’”

The historical record in Australia and New Zealand certainly reveals that the two regimes have undergone major change in the way that their policy regimes respond (or not) to vulnerability in global markets, and that the domestic defence model has not proved to be as durable as might be expected from Castles’ presentation. Indeed, in both countries change has been fundamental, albeit not uniform. The arbitration system in New Zealand was abolished, and the industrial relations system revolutionalised in 1991 with the introduction of the Employment Contracts Act (Harbridge (ed.) 1993). Despite its radical nature, the Act was the culmination of a gradual long-term trend toward less reliance on the arbitration mechanism since the 1970s. Though arbitration in Australia remains as an institution, its centrality as an arm of social protection has been compromised, not least by the decentralisation of bargaining to the enterprise and individual levels, which has brought it closer to the New Zealand model since the mid 1990s (Wailes 2000; Wailes and Ramia 2002). In addition, immigration has for long not been used as an arm of social protection in either country, if indeed restriction of entry for people of certain racial and ethnic backgrounds could ever have been genuinely used as a tool of social protection. Both regimes have gradually whittled away any major reliance on the protection of industry, and the tying of protection to arbitration has for long not been a feature of social protection arrangements. State welfare in New Zealand has been scaled back significantly, particularly in the early 1990s, taking it further down the residualist path (Boston 1993; Kelsey 1995: 29-31). Though some arrangements in Australia represent the same basic trend in terms of increasing the marginalisation of the socially disadvantaged – in particular, unemployment benefits and employment service clients (Carney and Ramia 2002, in press) – less major cutbacks have been seen there. In this sense, just as the arguments put forward in the *Small States* seem to be unable to capture contemporary developments in the small European countries, so too there is little left of the domestic defence model.

However, we would not be too hasty to tar Katzenstein with Castles’ brush. As was noted at length in this paper, the domestic defence model can be said to reflect an effort on Castles’ part to accommodate Australia and New Zealand within the strictures of labour movement theory. We would argue that Castles’ use of *Small States* framework reflected his view that Small States was consistent with labour movement theory. But the arguments in *Small States* are not merely a repetition of those advanced by Korpi and other labour movement theorists. This would constitute a misreading of Katzenstein, and to some extent Castles is guilty of just such a misreading. While delineating the relationship between Katzenstein and labour movement theorists could be the topic for another paper, it is clear that unlike the labour movement theorists, Katzenstein does point out that the corporatist settlements reached in the small European states were precarious.

The general economic climate facing the small European states has become harsher. From the vantage point of the mid-1980s this turn of events looks to be structural rather than cyclical. In the long term these adverse international pressures may affect the corporatist structures of the small European states in ways that are largely unpredictable today (Katzenstein 1985: 193).

For this reason we are circumspect in the extent to which we are prepared to generalise our critique of the domestic defence model to the original version of the argument outlined in *Small States*. Nevertheless, we would argue that there are a number of important insights to be gained from following the travels of Katzenstein’s *Small States* down under and that problems associated with the application of this model to Australia and New Zealand reinforce the criticisms that have been made of *Small States* in the European context.

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