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## SOCIO-ECONOMICS OF RADICAL INNOVATION: CASE STUDY OF AUSTRALIA

### Abstract

This article presents an example of radical social innovation. It concentrates on changes that Australia has undergone during the past forty years. They have annihilated the main pillars of the 'Australian settlement', which happened to be beneficial for the country. The article is an attempt to present the main benefits and the whole process of changes led to the final implementation of the social and economic innovation.

### Key words

Innovation, radical innovation, industry protection, wage arbitration, state paternalism, imperial benevolence

### Introduction

This article presents an example of radical innovation at the societal level. In particular, it discusses the claim that the changes Australia has undergone during the past forty years have swept away the main pillars of the 'Australian settlement' and that this has been beneficial for Australian society. Following P. Kelly<sup>9</sup>, the paper examines five institutional commitments that gained consent from the political leaders of Australia in the post-Federation period, and which he categories "under five headings – White Australia, Industry Protection, Wage Arbitration, State Paternalism, and Imperial Benevolence".

### White Australia

One of the first acts that was passed by the federal parliament was the 'White Australia Policy', aimed at maintaining racial purity through restricting non-white immigration<sup>10</sup>. Although the act was formally abolished in 1973, the last vestiges of the policy were not removed quickly<sup>11</sup>. Subsequent governments and political leaders showed their fear of non-white immigration to Australia, such as when Pauline Hanson expressed her anxiety concerning the 'Asianisation' of Australia in her maiden parliamentary speech in the mid-1990s<sup>12</sup>.

In turn, the Howard Government (1996-2007) introduced a programme of non-discriminatory immigration<sup>13</sup>. According to the Australian Bureau of Statistics<sup>14</sup>, Asian countries became an increasingly significant source of immigration over the decade from 1996 to 2006, with the proportion of migrants from Southern and Central Asian countries doubling from 7% to 14%. It is noteworthy that most of these migrants (70%) were Skill Stream entrants, which implies that it had a positive impact on Australia.

Cultural diversity contributed to the development of Australian society and enhanced the competitiveness of the Australian economy in many ways<sup>15</sup>. Migrants coming to Australia from all regions of the world have brought with them a wealth of skills, different languages and cultural understandings. They also have connected Australian businesses with companies from their homeland countries. For instance, Australia has important advantages in terms of business activity in Asia that would not be possible if the country had remained closed. What is more, thanks to multiculturalism the continent became an attractive tourist destination and an exporter of education services.

However, multiculturalism was subject to an intensive attack by conservatives from the mid-1980s through to the 21st century. J. Jupp<sup>16</sup> (2010) claims that in a sense multiculturalism has been restructured and revived. Current attitudes towards the immigrant minorities are still strongly influenced by the hope that they will

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<sup>9</sup> P. Kelly, *The end of certainty: The story of the 1980s*, Allen & Unwin, Sydney 1992.

<sup>10</sup> D. Woodward, *Australia Unsettled: The legacy of 'Neo-liberalism'*, Pearson Education Australia, Sydney 2005.

<sup>11</sup> <http://www.immi.gov.au/media/fact-sheets/08abolition.htm>

<sup>12</sup> Woodward D., *Australia Unsettled: The legacy...* op.cit.

<sup>13</sup> <http://humanrightsiinternationallunion.blogspot.com/p/mission-statement.html>

<sup>14</sup> [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C91452EF314864A8CA25732F001C92F8/\\$File/41020Migration%20-%20permanant%20additions%20to%20Australia%27s%20population%20\\_2007.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C91452EF314864A8CA25732F001C92F8/$File/41020Migration%20-%20permanant%20additions%20to%20Australia%27s%20population%20_2007.pdf)

<sup>15</sup> <http://www.immi.gov.au/media/publications/multicultural/issues97/macpape5.htm>

<sup>16</sup> <http://epress.anu.edu.au/multiculturalism/pdf/ch02.pdf>

'integrate' and 'assimilate'. This suggests that even though the White Australia policy was abolished by legal regulations, there are still many Australians afraid of losing their country's national identity.

### **Industry Protection**

The second pillar of Australian settlement was the imposition of a uniform federal tariff and the establishment of a system of 'protection all round'<sup>17</sup>. The beneficiaries of the system were manufacturers and their employees. The tariffs were the price of meeting the requirement that employers pay their workers 'fair and reasonable wages'. By the 1960s tariffs had reached their peak level and the Australian economy was unable to sustain growth in the globalising world.

Having persisted with some of the highest tariff rates in the OECD, in the 1970s Australian governments decided to dismantle trade protection almost completely and unilaterally<sup>18</sup>. In 1974, the Whitlam ALP Government rapidly cut tariffs by 25 per cent, with the aim of increasing supplies of imports in order to restrain inflation. Under subsequent governments, Australian tariffs were gradually reduced and then effectively eliminated, except in a small number of instances. From 1970 to 2001, the average level of tariffs fell from over thirty per cent to under five per cent<sup>19</sup>.

Tariff liberalisation was conducive to the significant improvement of Australian consumers' wealth, not only in the form of reduced prices. According to Centre for International Economics<sup>20</sup>, the end of industry protection encouraged domestic producers to pursue productivity gains through the use of new technologies and the innovation and adoption of new ideas from abroad. Increased domestic efficiency resulted in improvement of the competitive position of exporters and lowering average production costs.

### **Wage Arbitration**

The trade-off for high tariffs, which were guaranteeing development of Australian manufacturing, was the industrial arbitration system. The Commonwealth Arbitration Court, created in 1904, had the power to hear disputes brought by either employer or union as well as to set pay levels for the entire industry and to fix standard working week<sup>21</sup>. The basis for minimum wage was determined by cost of living, and they was not linked to the profitability of the businesses employing labour or the productivity of the work force. Wage arbitration is regarded as the 'ultimate institutional tribute to Australian egalitarianism, which was aimed at defying the anarchy of the marketplace'<sup>22</sup>.

The centralized wage fixing system was abandoned following the assumption of power by the liberal government of John Howard in 1996, who believed that it is the free market who should determine wages. Therefore, the Howard Government limited the role of unions and their right to strike<sup>23</sup>. Hence, it is reasonable to claim that Australians' jobs are now less secure than they used to be.

The transformation of industrial relations in the late 1990s was one of the determinants of the labor market situation today. J. Borland<sup>24</sup> states that over the past 30 years the distribution of hours of work has changed significantly. A substantial decline has been recorded in the proportion of workers with a 'standard' working week (35 to 40 hours). At the same time, there has been large rises in part-time jobs, and in the proportion of Australians who work more than 49 hours per week. The issue of employment quality is further developed by M. Davis<sup>25</sup> (2008), who reports that Australians spend the longest hours at work in the Western world.

On the other hand, while assessing the impact of abandoning of wage arbitration, one should consider the overall economic situation of Australia over the past 40 years, when the size of the labor force grew from about 5.6 million persons to 9.8 million between 1971 and 2001<sup>26</sup>. It is questionable whether Australia's economic

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<sup>17</sup> <http://eh.net/encyclopedia/article/attard.australia>

<sup>18</sup> <http://www.adelaide.edu.au/cies/papers/0213.pdf>

<sup>19</sup> <http://people.anu.edu.au/andrew.leigh/pdf/Trade%20liberalisation%20and%20the%20ALP.pdf>

<sup>20</sup> [http://www.dfat.gov.au/publications/benefits\\_trade\\_liberalisation/cie\\_report.pdf](http://www.dfat.gov.au/publications/benefits_trade_liberalisation/cie_report.pdf)

<sup>21</sup> H. Eisenstein, *Inside Agitators: Australian Femocrats and the State*, Allen & Unwin, Sydney 1996.

<sup>22</sup> P. Kelly, *The End of Certainty: Power, Politics and Business in Australia*, Allen & Unwin, Sydney 1994.

<sup>23</sup> <http://www.economics.unimelb.edu.au/staff/jib/documents/sshb.pdf>

<sup>24</sup> <http://www.economics.unimelb.edu.au/staff/jib/documents/sshb.pdf>

<sup>25</sup> M. Davis, *The land of plenty: Australia in the 2000s*, Melbourne University Publishing Limited, 2008. Melbourne.

<sup>26</sup> <http://www.economics.unimelb.edu.au/staff/jib/documents/sshb.pdf>

development and increase in the number of employed would be possible without the elimination of the strict system of centralized wage arbitration.

### **State Paternalism**

Before the 1970s, Australia had one of the largest shares of government spending to GDP in the developed world. By 2001, that share was one of the smallest<sup>27</sup>. The Australian government owned and operated railway, electricity, gas and water companies<sup>28</sup>. Reliance on government assistance started to decrease in the 1980s, when neo-liberals came to power.

In the mid-1990s, 'National Competition Policy' was introduced to create new forms of regulation of natural monopolies. In some essential cases, the policy led to the sale in whole or in part of significant public enterprises<sup>29</sup>. In this view, privatisation may be seen as one of the reasons why Australia's level of public debt is relatively low by international standards. Thanks to this, the government has the capacity to support the economy during possible future downturns, which is of paramount importance for the durable development of the country and the economic security of its citizens. The stability of Australian public finance has been followed by the increases in expenditure for promotion of the well-being of Australians. Between 1980 and 2001, total social spending increased from 11.3 to 18 per cent of GDP, an increase of no less than 62 per cent<sup>30</sup>.

However, the impressive numbers given by Castles & Uhr (2007) are not considered to reflect the social security of Australians. According to M. Davis<sup>31</sup>, many Australian families cannot afford basic services, such as child care or comprehensive health insurance. Since the system of public education is crumbling, the cost of sending kids to school has risen dramatically. What is more, young families have problems with entering the housing market either as buyers or renters. Students have to pay for their university education, which was free for their parents. M. Davis<sup>32</sup> claims that 'what they [Australians] share is a lament for a lost dream', suggesting that many people in Australia believe that the way life is lived does not match the prosperity of the country. One in ten is living in poverty, and many ordinary people feel abandoned by the government.

In this context, it seems reasonable to say that the times of state paternalism are gone. Although the change of the Australian approach towards state intervention was favorable for the economy and public finance, it is not found beneficial for the overall well-being of many Australians by a number of commentators.

### **Imperial Benevolence**

Until World War II, Australia's main partner in the world was the United Kingdom, which financed the development of Australian industry, bought its primary products and offered protection in wartime. In the 1950s, Britain still took approximately 40 per cent of Australia's exports and supplied a similar of Australia's imports. During World War II, some of the benevolence shifted to the United States, the main military ally of Australia today<sup>33</sup>.

The first steps leading to a significant change in the relationship between Australia and the UK took place in the 1980s. The Australia Act of 1986 ended all authority of the UK Parliament to pass laws with effect in Australia<sup>34</sup>. The act followed the general trend of shifting Australian economic interests from Great Britain to Asia. According to M. Davis<sup>35</sup>, by the end of the 1980s Japan overtook the UK as the main trade partner of Australia.

However, Australian attitudes towards British culture have not changed radically. In a 1999 referendum, 55 per cent of Australian voters and a majority in every Australian state rejected a proposal to break the constitutional relationship with Great Britain and become a republic with a president appointed by a two-thirds vote in both

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<sup>27</sup> <http://www.adelaide.edu.au/cies/papers/0213.pdf>

<sup>28</sup> D. Woodward, *Australia Unsettled: The legacy...* op.cit.

<sup>29</sup> <http://www.adelaide.edu.au/cies/papers/0213.pdf>

<sup>30</sup> [http://findarticles.com/p/articles/mi\\_go1877/is\\_1\\_53/ai\\_n29338765/](http://findarticles.com/p/articles/mi_go1877/is_1_53/ai_n29338765/)

<sup>31</sup> M. Davis, *The land of plenty: Australia...* op.cit.

<sup>32</sup> M. Davis, *The land of plenty: Australia...* op.cit.

<sup>33</sup> H. Eisenstein, *Inside Agitators: Australian Femocrats...* op.cit.

<sup>34</sup> [http://www.austlii.edu.au/au/legis/cth/consol\\_act/aa1986114/index.html](http://www.austlii.edu.au/au/legis/cth/consol_act/aa1986114/index.html)

<sup>35</sup> M. Davis, *The land of plenty: Australia...* op.cit.

Houses of Parliament<sup>36</sup>. This shows that Australians want to maintain the strategic partnership with Britons, but it does not mean that the UK is the only partner of Australia in the globalising world.

According to A.T. Kearney<sup>37</sup> Australia is the world's thirteenth most globalized country. Diversification of Australian international relations brought a plethora of benefits to the country's society, with cultural diversity, an influx of highly skilled workers, and a strengthened position in the arena of international politics, to name just a few.

## Conclusion

The changes Australia has undergone during the past forty years have swept away the main pillars of the 'Australian Settlement'. Although racially-based selection criteria have been abolished, there are still fears of losing the national identity of Australia. The second pillar of 'Australian Settlement', industry protection, was subject to the deepest changes among all foundations of Australian Settlement and does not play an important role in the Australian economy any more. The role of the main institution of wage arbitration system, the Commonwealth Arbitration Court, was overtaken by the Australian Industrial Relations Commission and the Federal Court of Australia<sup>38</sup>. The system is no longer protecting the security of Australians' jobs to the extent it used to. State paternalism was limited through privatisation and introduction of charging policies for education and social services. Even though Australia is no longer a Dominion of the United Kingdom, it still maintains mutually beneficial economic and social relations with the UK.

The policy shifts of the 1980s, 1990s and 2000s are regarded as an advantageous if not an optimal response to changes in Australia's external circumstances<sup>39</sup>. Cultural diversity contributed to the development of Australian society and enhanced the competitiveness of the Australian economy. Tariff liberalisation was conducive to the improvement of Australian consumers' wealth. It is uncertain whether Australia's economic development in the globalising world would be possible without the elimination of the strict system of centralized wage arbitration and the cutting of state paternalism. Diversification of Australia's international relations as a result of limiting imperial benevolence was beneficial too.

P. Kelly<sup>40</sup> characterises the foundations of Australian Settlement in a telling way: "Its bedrock ideology was protection; its solution, a Fortress Australia, guaranteed as part of an impregnable Empire spanning the globe. This framework – introspective, defensive, dependent – is undergoing an irresistible demolition".

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<sup>36</sup> [http://www.aec.gov.au/Elections/referendums/1999\\_Referendum\\_Reports\\_Statistics/Key\\_Results.htm](http://www.aec.gov.au/Elections/referendums/1999_Referendum_Reports_Statistics/Key_Results.htm)

<sup>37</sup> [http://www.atkearney.com/images/global/pdf/GIndex\\_2007.pdf](http://www.atkearney.com/images/global/pdf/GIndex_2007.pdf)

<sup>38</sup> <http://www.economics.unimelb.edu.au/staff/jib/documents/sshb.pdf>

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## **SPOŁECZNO-GOSPODARCZE RADYKALNE INNOWACJE: STUDIUM PRZYPADKU AUSTRALII**

**Abstrakt**

W artykule przedstawiono przykład radykalnych innowacji społeczno-gospodarczych. Opracowanie koncentruje się na zmianach, jakie zaszły w społeczeństwie Australii w ciągu ostatnich czterdziestu lat. Opisanie zostały główne filary "australijskiego rozliczenia", których obalenie okazało się być korzystne dla kraju. Artykuł jest próbą przedstawienia głównych korzyści i całego procesu zmian, wynikających z wdrożenia innowacji społecznych.

**Słowa kluczowe**

innowacja, radykalne innowacje, ochrona przemysłu, arbitraż płac, paternalizm państwa, imperialna życzliwość