



**Inequality and Incentive: Don Quixote to Mutual
Obligation**

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Introduction

“The pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors.”

(Adam Smith, cited in Campbell, Skinner & Todd, 1981, p.388)

For most citizens, the lofty works of long-dead economists make unlikely reading, but supporters of the deregulation policy regime have long been fond of quoting Adam Smith as legitimation for prescriptive policies. Familiar to most would be the theory of the invisible hand of the market; and the regime’s unending opposition to collective bargaining by labour has its basis in an interpretation of Smith’s thesis on monopolies. Monopolies distort the market price mechanism, though both Smith and Karl Marx showed that such distortions were not confined to the labour market. Declining use of the classics in school literature almost certainly contributes to a narrowing appreciation for such works. Among the classics, Cervantes tale of Don Quixote shows the futility of struggle, even with strong incentive, when the adversary is misidentified. For Quixote, the incentive was personal glory, a discursive theme for simpler times; but how many citizens today, economically marginalised or even socially excluded by various categories of unemployment and the discourse of Mutual Obligation, could clearly state their aim, their incentive, and where to meaningfully direct their struggle?

In the Cold War discourse, incentive provided a convenient difference between the socialist and capitalist economic systems – under the benevolent state, we were told, there was no incentive to work. Since the end of the Cold War, the issue of incentive has gained prominence in the politics of unemployment, particularly in the discourse on Mutual Obligation. In tracing the rising prominence of incentive, this paper will give consideration to contesting values or ideologies and the political support they have received; the rise of the deregulation policy regime; and institutional change that has occurred or is pending. The purpose is to identify the struggle and its adversaries, and to highlight the inequality in that struggle. For the history of deregulation, the paper relies on the work of Briggs and Buchanan (2000), and the analyses rely upon Bernholz’ (1995) work on the causes of change in political-economic regimes, George’s (1997) *Winning the War of Ideas*, and Brennan and Pincus’ (2002) study of change to Australia’s economic institution.

Deregulation: institutionalising incentive

The history of deregulation in Australia is the story of dismantling majority participation in governing the workplace, and of removing the positive incentives to work that sustained three decades of full employment defined as a job for everyone wishing to participate in paid work (Crombie, 2002). A policy regime is defined as the combination of public policies and institutional arrangements that govern a major issue. As the principal concern of this brief study is incentive as it pertains to the area of unemployment policy, the deregulation policy regime is considered here as the policies and institutional arrangements dedicated to deregulation of the labour market as governance of unemployment. Incentive, similar to Brennan & Castles (2002), is considered as “rewards and punishments, often understood in a rather narrow ‘economic’ sense” (p.4), or, in the blunt words of the member for Warringah, “carrots and sticks” (Abbott, 2003-09-25, Para. 11).

Briggs and Buchanan (2000) provide a useful chronology and assessment of the stages of labour market deregulation that occurred between 1975 and 2000. Their story begins with the early successes of the tripartite arrangement of the Prices and Incomes Accord following the 1983 election of the Hawke Government. This generated rebellion on the part of some employers over what they saw as the undeserved political power of unions, bias on the part of the Industrial Relations Commission, and the maintenance of high wages. These managerial militants saw the Commission and Government as having been captured by so-called special interest groups and advocated replacement of the arbitration system with individual workplace agreements enforced by common law and civil courts. Prominent among the coalition of groups comprising this movement was the H.R. Nicholls Society, whose founding members include the Howard Government Treasurer, Peter Costello, and Charles Copeman of Peko Wallsend, who later distinguished himself in the lockout of 1000 workers at Robe River. The movement was able to generate sufficient political pressure for change to begin in 1987 with the introduction of a two-tier wage increase incorporating an enterprise component. The Commission extended these options in 1988, and by 1989 flexibility as a principle had taken firm hold (*ibid.*, 2000). The Business Council of Australia (BCA), an exclusive employer organisation (Marsh, 1995), carried out its own study of the labour market and advocated structural reform by which no single workplace would be represented by more than one union. This would ensure enterprise bargaining relative to that workplace. At the insistence of the BCA, a two-stream system providing employees with an option to bargain individually was included in the Industrial Relations Act of 1988 (Briggs & Buchanan, 2000).

BCA's intellectual leadership provided momentum for the "new right" (Briggs & Buchanan, 2000), as this movement was dubbed by Labor Minister Mick Young (Hyde, 2002). Paul Kelly is cited by Briggs and Buchanan (2000) as saying that by 1990, the radical extremists of the free market had become the mainstream of the Liberal Party. In its 1990 electoral platform, the Coalition, in opposition, included a third optional stream that was totally outside the jurisdiction of the Commission. Briggs and Buchanan state that this had a major impact in garnering support from bureaucrats and media commentators. Bipartisan support maintained the momentum. Brennan and Pincus (2002) note that similar shifts in policy regimes occurred throughout the West. In 1991, New Zealand abolished their arbitration framework, leaving workers without the protection of awards, tribunals or the legal status of unions (Briggs & Buchanan, 2000). At state level, the new Kennett Government of Victoria abolished compulsory arbitration in 1992. Further reforms during 1992-1993 shifted the role of the Commission from one of acting in the public interest to that of a facilitator of workplace agreements (*ibid.* 2000).

The Coalition is the only group of people in this nation who offer a real alternative of incentive and opportunity to get this nation moving again.

(O'Chee, 1992)

In 1992, Australia was experiencing unemployment of 11.3% and the Coalition in opposition was arguing for the introduction of Jobspack, the unemployment policy component for the more comprehensive economic package known as Fightback (*ibid.* 1992). While policies of the Labor Government attempted to provide incentive for employers to hire the long-term unemployed, its white paper, Working Nation, introduced elements of what was to become Mutual Obligation (Finn, 1997). The new

Coalition Government's Workplace Relations Act of 1996 further curtailed the powers of the Commission and created more incentives for non-award agreements, as union access to the workplace became more complex. The Coalition had long argued that deregulation, following Adam Smith, would allow the price of labour to fall and clear the surplus of labour. With institutional change to the arbitration system all but complete, it was time to shake loose the unworthy recipients of welfare.

Mutual obligation is the policy of ensuring that only the worthy receive a welfare benefit; and they will be deemed worthy because they give something back for what they receive. In 1997, work-for-the-dole (WFD) was being engineered to provide incentive for the young. As a prelude to this, the Government had expanded on the incentives previously supplied to small business, by abolishing the unfair dismissal laws. These, it said, were a disincentive to employment.

The government recognises that ... low skilled jobs that young people used to take on leaving school have gradually disappeared and those jobs that remain are increasingly being taken by ... more experienced job seekers (Kemp, 1997).

The Government proposed to provide that missing experience in the form of WFD.

For Australia to advance as a productive and internationally competitive nation, we must instil in our children a sense of mutual obligation (Entsch, 1997).

In his address at the Australia Unlimited conference, Prime Minister Howard (1999) outlined his government's approach to the issues facing Australia. This, he said was founded on liberalisation in economic policy and modern conservatism in social policy. It is an approach to social policy that aims at supporting the institution of family as the source of stable values such as self-reliance and obligation to other members of the community. The main defining factor, however, is the principle of Mutual Obligation. Contrasting this with an older conservatism of supporting the disadvantaged until they found work "of their choosing", modern conservatism, he said, would provide incentives to encourage such an outcome. But WFD, or Active Labour Market Programs (ALMP), are not new. They may be modern, for certainly they were around at the start of modernity. There is evidence in Ireland, for example, of roads that go nowhere and bridges that are not located on roads, constructed by the poor recipients of welfare at that time (McMahon, 1996). As early as 1601, the Elizabethan Poor Law entrenched the culture of work-for-the-dole and, in fact, categorised the able bodied as people who could work but wouldn't – and required that they be beaten severely until they saw the error of their ways (The Peel Web). In the 20th century, the modern welfare state had progressed beyond such a history. Does WFD provide the necessary experience as an incentive for employers? After six years of expansion of WFD, Saunders & Tsumori (2003) are succinct on this question. It is not intended to function as a stepping stone to employment, but rather as an incentive for the unemployed to find paid work. Fortunately for many, this regressive policy has not included the physical beating integral to its parent model.

Mitchell (2003), writing for *The Age* Newspaper, argued *There are simply not enough jobs*. His was a creative analogy with farmers suffering because of drought. Since there are now technological advances to limit the impact of drought on farming in areas where conventional farming has suffered badly, should we now penalise farmers for their lack of motivation to provide for bad seasons? Mitchell suggests that this is an inappropriate analysis because the "root cause of the problem is clear – not enough rain is not enough rain", but it is also inappropriate to "arraign our most

disadvantaged citizens with accusations that they are lazy and unskilled” when the problem is a lack of jobs.

Mitchell is a Director at the Centre of Full Employment and Equity (CofFEE), a centre that provides a forum for both sides in the debate on unemployment. Amanda Vanstone, Minister for Family and Community Services, addressed a centre audience with a speech entitled “Passive Welfare – Killing Them Softly?” (Vanstone, 2003). Vanstone praised Indigenous leader Noel Pearson for his support of the Government attitude to welfare reform. This argument was used earlier by Tony Abbott, perhaps the most vociferous motivator of the unemployed, as he was *Bridging the Incentive Gap* at the Australia Unlimited Conference (Abbott, 1999). Aboriginal people had been leading the way on WFD for over twenty years. He was referring to the Community Development Employment Projects (CDEP). While neglecting to mention the poor employment outcomes of that scheme for Indigenous people, he claimed that “[a] government with the best interests of all its citizens at heart will try to create a climate of incentives which re-inforces people’s instincts to be active and successful” (ibid., Para. 10). This heralded expansion of WFD, which Abbott legitimated with the case of New Zealand where recipients can be placed on work programmes from the first day.

Gathering support

In 2002, Abbott was motivating the H.R. Nicholls Society with *Losing the Legislation Fixation* (Abbott, 2002). The Howard Government had introduced a raft of legislative reforms to make the Industrial Relations Commission more amenable to the national interest but business executives were not utilising this resource. He pledged the government’s support for the rule of law and urged executives to tackle their industrial relations challenges. Citing holiday loading as a disincentive to potential overseas investors, and a “quixotic attempt by the National Farmers Federation nearly two decades ago” (ibid., Para. 22), he urged them to be proactive.

...managers...ought to know that the Government is on their side and will do everything in its power not to let them down (ibid., Para. 25).

In a parody of Chifley, Abbott warned the Labor states that freedom under the law was the Howard Government’s “light on the hill” (ibid., 2002, Para. 20). If the government was shaping that law to suit a particular interest, one could ask whose freedom that would be.

Abbott has maintained a high public profile. On 16 July 2003, he spoke at the Employee Share Ownership Launch (Abbott, 2003) of defusing class tension without revolution. Employees who also share in the profits of a company would not unreasonably pursue wage increases that might cost jobs. On 8 August 2003, he was addressing the Centre for Independent Studies Consilium on *The West and its Challenges* (Abbott, 2003) - essentially an appeal to conservative values. On 25 September 2003, he addressed the Mission Employment Launch on *Taking Obligations Seriously* (Abbott, 2003). Under new changes to the Job Network, no-one would be forgotten, neglected, or ignored. Having outlined the various ways of making the unemployed active, he continued with the OECD’s estimate of the non-accelerating inflation rate of unemployment (NAIRU), claiming it to be the unemployment rate when the economy is doing well. Given the Reserve Bank’s targeting of inflation, the NAIRU is the lowest rate of unemployment that policy changes would seek (Crombie, 2002). The difference between the actual rate of

unemployment (5.8%) and the NAIRU (5.5%) means that the target of placements for the new Job Network is around 30,000 of an unemployed body of around 600,000. He spoke, however, of 720,000 registered job seekers and a problem with vocational profile interviews of which 900,000 of 1.6 million were not attended (Abbott, 2003).

Barns (2003) links the minister to the Centre for Independent Studies (CIS) where Peter Saunders responds to much of the argument in opposition to the Howard Government's policies. Saunders explains the seemingly contradictory numbers as follows in an editorial from the Sydney Morning Herald (2002). The Australian Bureau of Statistics 2001-2002 shows that 13% of the workforce was unemployed at some time during the year, but only 1.4% was unemployed for the whole year (ibid., 2002). With an aggregate of around 6%, this means that there is a churn rate of around 3 times per year for the 4.6% sporadically unemployed. Abbott claimed in his address to Mission Employment (op.cit.) that around 60% of the unemployed were disincorporated by misleading pseudo-statistics claiming about seven job seekers for every job advertised. Certainly, this is an argument supported by the research of CoffEE among others (see Mitchell, 2003). Saunders refutes this with a claim that most jobs are not advertised, questioning the figures without offering an alternative, and thereby leaving open the possible explanation, stemming from the problem of inexperience acknowledged above by David Kemp, that job advertisements are targeted at the employed with relative experience, rather than the unemployed who have none; another potential churn.

Barns (2003) described Tony Abbott as a hit with the right-wing liberal think tanks such as CIS and the Institute of Public Affairs (IPA). Peter Costello is a founding member of the H.R. Nicholls Society. David Kemp's father formed IPA in 1943, predating Hayek's Mont Pelerin Society by 4 years but later became an affiliate in the network of dry liberal think tanks that spread from that historic meeting (Cockett, 1995; Marsh, 1995). From Hayek's invitational meeting in 1947, the Mont Pelerin Society has obtained a strong and developing hold on the UK through the Institute of Economic Affairs (IEA) and spread throughout the USA under the guidance of one of its founding members, Milton Friedman (Cockett, 1995). John Hyde (2002) claims that the IEA provided the ideas that sustained the Thatcher revolution. Hyde is the Director of the IPA and his 2002 book, "*Dry: In defence of dry liberal think tanks*", provides a comprehensive account of the right-wing think tanks in Australia along with their claims of influence. Along with Professor Michael Porter's Tasman Institute and Gerard Henderson's Sydney Institute, the CIS, the IPA and the H.R. Nicholls Society comprise the Australian arm regional network. Apart from the role of the H.R. Nicholls Society in initiating labour market deregulation, the IPA and the Tasman Society cooperated on Project Victoria, the re-creation of Victoria under the Kennett Government (Hyde, 2002; Parkinson, 2000). Industrial relations aspects of this project fed into the federal deregulation program of the 1990's (Hyde, 2002).

The Australian think tanks have gained increasing recognition in what Uhr (2000) has analysed as a shift towards a deliberative democracy, one that invests in structured public deliberation to aid decision making. Uhr differentiated between policy-active interest groups, such as non-government organisations (NGO's), and policy research bodies. The former, as well as governments, may use the research data of the latter. There are also different categories of policy-research bodies, differing mainly in relation to funding sources. University-based research centres receive direct government support while others, such as the dry liberal think tanks, rely on corporate sponsorship, subsidised in turn through taxation concessions. While Marsh (op.cit.,

1995) states that funding for Australian think tanks has not been as generous as that in the USA, they still attract resources that are simply not available to welfare advocacy groups. A recent development in the field has been the foundation of the Lowy Institute for International Policy with an initial cash injection of \$30 million from Westfield founder, Frank Lowy (McKew, 2003). The think tanks claim independence because of the lack of direct government support. Sustainable credibility depends on the veracity of that claim (Uhr, 2000). However, their corporate sponsorship, dedication to free market economics, and support of the principles of mutual obligation (Hyde, 2002) make them highly partisan. The rules of sustainability of dry liberal think tanks require that they influence political policy trajectory by strength of argument alone and this requires extensive publication of ideas. Their publications are as widely circulated as the generous funding permits and are written in layman's language so that all may understand. There is nothing novel. It is a matter of frequency and no media format is ignored. The mantra is broadcast through books, magazines, newspapers, radio and television (Hyde, 2002; Warby, 2000).

In opposition to the dry liberal think tanks, Warby (2000) of IPA nominates only The Evatt Foundation, while Uhr (2000) opposes BCA with the Australia Institute on environmental policy alone. ACOSS (Australian Council of Social Services) would seem to most citizens to stand in opposition to the ideology espoused by the dry liberal think tanks. It has become the political representative of the welfare sector comprising myriad community welfare organisations that include every interest level from religious charity groups, to professional care groups and up to the state and territory councils of Social Services formed in the 1940's and 1950's (Mendes., 2003). Its collective aims, in contrast with those of the dry think tanks, are equity, the elimination of poverty, and to improve the access of the poor to government services and facilities. Its final aim is where it seemingly attracts the most ire from the think tanks. It seeks a recognised role for the non-government welfare sector in policy making. Its influence with governments is not comparable to the likes of BCA or the ACTU (Australian Council of Trade Unions) because it has no economic bargaining power, but its various member bodies retain a collective influence through their memberships by way of educational publications to the extent of their limited budgets (ibid., 2003). This and the continual lobbying have prompted the American think tanks to initiate a program known as NGO Watch (American Enterprise Institute), whose rationale is detailed by Gary Johns of IPA (2003). He argues for limited democracy, contingent upon utility and opposed to the morality of the more liberal social democracy favoured by welfare organisations and mainstream non-government organisations (NGO's). His attack on the credibility of what he calls trade-name NGO's is based mainly on questioning the motivation of their professional staff in relation to funding. When the Howard Government commissions IPA to research reform of funding arrangements for organisations under the ACOSS umbrella, it would seem to confirm their role as protectors of welfare. A search of the ACOSS website, however, reveals that some of these organisations are the same ones who administer the mutual obligation policy prescriptions through the Job Network, organisations such as Mission Australia mentioned above.

Entrenching the regime

What if we lived in a society in which the system of justice rested on the postulate that only two-thirds, or nine-tenths of its members were fully human; the

remaining third or tenth not deserving of the same rights, except when arbitrarily granted? (George, 1997, para.50)

Susan George (1997) provided an account of the war of ideas that has been waged since the 1940's around the issue of welfare. Her analysis, based on Gramsci's theory of hegemony, outlines the program of ideological domination pursued by the dry liberal think tanks in America. In using the term neo-liberal, she begs forgiveness from such great liberal thinkers as Adam Smith because, while the propaganda may pretend to be following liberal principles, the doctrine of the neo-liberals denies the spirit and ignores the moral and social teachings. George (1997) expands on the notion of unequal funding in this war of ideas by itemising sources in big business whose interests are served by the broadly circulating doctrine. In Australia, Lowy was keen to point out that the magnitude of his entry (\$30M) had tipped the scale. McKew (2003) suggested that, while the focus of Lowy's new think tank will be on foreign policy, with presence on the board of the Reserve Bank Governor, Ian McFarlane, and economist Ross Garnaut, economics are unlikely to be ignored. The Prime Minister congratulated Mr. Lowy on his venture to improve access for Australians to "the international marketplace of ideas" (Howard, 2003, para.3), an interesting association of the market and the way people think that tends to support George's argument. George lamented the Left's lack of representation in this arena. Without an effective opposition, there is no debate – just a one-sided barrage.

The apparent bipartisan support for deregulation denies a role for ideology according to Brennan and Pincus (2002). Furthermore, since similar changes were occurring throughout the West, such institutional change was an optimal response to common external factors: increased competition, declining commodity prices, reduced transportation costs and increased mobility in labour markets. Their argument is a rejection of Michael Pusey's views that economists are responsible for the changes and it explicitly ignores judgements about the quality of outcome of the policy changes. They define policy regime as the economic institutional settings in place and claim that this will reflect an imperative to serve the interest of the dominant political group. They then shift the focus of influence from Pusey's 'private interest' to the 'special interest' more familiar in the arguments espoused by George's neo-liberals. This argument comprises a comparison of the electoral systems for the lower and upper houses of parliament. Because of the spread of geographically centred single-member electorates in the lower house, capture by special interest groups is unlikely. This, of course, presumes that politicians represent the consensus of their electorate, a presumption covered, one supposes, by the economic term *ceteris paribus*, but hardly the norm in representative democracy. The upper house, however, with its proportional voting system allows for more extensive representation of special interest and so is susceptible to capture. This implies the more likely case that Senators, as distinct from MHR's, must represent the views of their supporting vote. Within the single member electorate system, special interests need the right kind of geographic concentration to be politically potent (ibid., 2002). Under this account, Melbourne, with its manufacturing base and tradition of protection would be expected to be pro-welfare policy. Perhaps, given Hyde's (op.cit., 2002) rule of not wasting energy and resources on the converted, this explains the concentration of think tanks in that major city.

This discursive account of the operation of Australia's political institution and who it serves is serious in the context of the current 2003 debate on constitutional change. In 1975, Constitutional crisis resulting from the Senate's blocking of supply earned it the

ire of the Labor Party. In 2003, the Senate has blocked a raft of legislation on major structural reform for which the Howard Government claims a mandate. In a move to avoid the double dissolution election, two models of reform are being negotiated by the major parties (Coonan, 2003); the first, proposed by the Prime Minister is for a joint sitting once the Senate has twice rejected legislation; the second suggests that after a general election, if the Government is returned, such bills twice rejected in the previous Parliament would be put to a joint sitting. Minor parties object to both on the grounds that there would be no incentive for the Government to negotiate contested legislation and the Senate would become, in effect, a rubber stamp (Bartlett, 2003). According to Kingston (2003), the Senate provides a system for balance in the last major democracy that does not protect its citizens with a bill of rights. Removal of the power to reject legislation would disincentivate the media to cover Senate debates, thereby removing the trigger for detailed public debate on potentially contentious issues. It provides a way for government to limit democracy and citizens' rights without their permission (Kingston, 2003). Her warnings resonate with the above words of Gary Johns' on limited democracy.

In Bernholz' (1995) analysis of the causes of change in political-economic regimes, the tendencies of unlimited democracy pose a threat for the free market in the erosion of individual rights and limitation of freedom. The voting power of the shifting majority is in tension with the influence of minorities. Since the majority are rarely affected by single issues, they have little incentive to be well informed and theoretically, as in Brennan and Pincus (op.cit.2002), this benefits minorities in their influence of political parties. However, it is the education of the majority, their conversion to a state of well-informed, which provides stability over time. Limited democracy, adherence to the rule of law, and creation of a well-educated but biased majority are the keys to success for the free market economy. Bernholz' analysis highlights the importance of ideology in the process of stabilising the majority, which seems to support the contention of George (op.cit., 1997), and dovetails with the rules and objectives of the think tanks as provided by Hyde (2002). In this fashion, the minority, with government support, can influence and hold the majority.

Conclusion

Uhr's deliberative democracy, with a majority of citizens who contribute more than just a casually informed vote, who contribute a spread of explicit preferences for a government seeking to make policy for the good of the people, and with a civil society that does more than just stay out of the way of politics, stands in sharp contrast to the limited democracy espoused by Johns on behalf of the dry liberal think tanks, that required for market dominance in Bernholz' analysis. Leaving aside university-based research centres – themselves under threat of institutional change - where is the forum for such a debate? Both the history of deregulation provided by Briggs and Buchanan, and the analysis of institutional change provided by Brennan and Pincus show convergence of partisanship on the part of the major political parties. Deregulation has simultaneously eroded the power of collective bargaining for workers and their unions, and boosted corporate power. Full employment is redefined to contain high levels of unemployment. Despite this, the unemployed are set the quixotic task of endlessly looking for jobs that don't exist; kept at it by the fear of being punished by members of the umbrella organisation that is supposed to champion their cause. For the unemployed, there is little more than negative incentive, the idea that a job would at least get the Job Network off one's back.

For those who espouse the cause of limited democracy, the world is a rosier place. Governments invest in public deliberation – in think tank research that purports to provide specialised input to the decision-making process; and corporations contribute to partisan research that will support mutually beneficial policy. The importance, for credibility's sake, of determinable separation between policy-maker and adviser, noted by Uhr, pales when there is little effective opposition to question that credibility; and the dry liberal think tanks credit only the Evatt Foundation and the Australia Institute as a concern here. There seems little separation between the dry liberal think tanks and some policy makers in the 2003 cabinet of the Coalition Government. Contrary to Uhr's optimistic analysis, NGO Watch would ensure that civil society and its institutions are forced to stay out of the way of politics. Curtailment of the Senate's power of veto would almost certainly bring about a reduction in the potential of citizens to contribute more than their vote.

The funding inequality and the same dearth of Left think tanks, observed by George in America, occurs in Australia, and the question remains of a source of competitive levels of funding. The tax carrots for corporate donations to research do not stack up against the sticks that are expected to incentivate the unemployed. Brennan and Pincus deny a role for ideology, arguing bipartisanship. Warby calls them values. Abbott calls them conservative values. Howard refers to stable values and obligation to the community. Entsch would instil in the nation's children a sense of mutual obligation. Abbott likens the Job Network to a system of carrots and sticks to ensure the unemployed get the message. Aside from children and the unemployed, there is no program of instilling equally in all a concept of mutual obligation. Entrenchment of this regime that domineers the powerless removes the obligation "to condescend to persuade...inferiors" (*op.cit.*).

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