

## The Neo-Liberal Revolution and the Regional State in Canada and Australia

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### **Abstract**

This paper explores the role of regional governments in implementing radical neo-liberal reforms during the 1990s. The Harris government in the province of Ontario, Canada, and the Kennett government in the state of Victoria, Australia, are used as case studies. In 1992 the Kennett government was elected to office in a landslide victory, and over the next seven years it cut 10% from government spending, embarked on Australia's largest privatisation experiment that yielded more than A\$30b in proceeds, deregulated the labour and property markets and retrenched over 75,000 public sector workers. In 1995 the Harris government was swept to office with a mandate to implement its manifesto for government: the 'Common Sense Revolution'. This document, which was described in the *National Post* as a 'chamber of commerce wish list' (May 4, 1994: 15), consisted of a radical reform program of spending cuts, tax cuts and public service retrenchments. Over the next seven years Harris proceeded to implement this agenda, along the way redefining the role of the regional state in Ontario in much the same way as the Kennett government was doing, albeit on a more substantial scale. The question addressed by the paper is this: what are the social and political conditions that have made these sweeping reforms possible? Of particular interest to us is the explanation implicit and

sometimes explicit in the existent literature that would have us believe that the rise of neo-liberalism is accompanied by a change in the mode of regulation: people's values and beliefs shift decisively in ways that render the new regime of accumulation legitimate in their eyes. We ask the question: was this so? We show that in the case of Victoria, at least, it was not. This in turn begs the question of how, then, was the transformation achieved? We suggest that the answer is to be found in a theoretical approach that combines regulation theory with regime theory.

## Introduction

This paper examines the role of the regional state in facilitating the establishment of a post-Fordist regime of accumulation. There has been a global economic shift in accumulation practices over the last two decades and much work has been done on the supranational, national (Amin, 1994) and local responses (Lauria, 1997; Judge et al., 1995) to this shift, but little theoretically informed work has been done at the regional level in the federated nations. A recent literature which does investigate the regional state's role is that which draws together regulation theory and urban regime theory. This literature provides a theoretical framework for understanding the state's role in the neo-liberal 'revolution'. Central is the concept of the 'entrepreneurial city' as the potentially dominant force within a regional economy.

The empirical focus of our paper is on two regional governments: Ontario in Canada, and Victoria in Australia. Our interest is in the role they have played in facilitating the transition to post-Fordist regimes in their respective countries. In both cases, radical neo-liberal administrations were elected to office in the 1990s following decades of conservative governance very much of a classic Fordist variety; the policy transformation occurred in very large jurisdictions, with economies focused around 'old economy' industries, particularly manufacturing; a series of radical policy measures were put into place that helped transform their respective regions into leading 'post-Fordist' regimes within their respective nations; and the administrations were re-elected for a second term with a renewed mandate to continue on with their neo-liberal handiwork (Costar and Economou, 1999; Albo and McDermid, 1998).

In this paper we plot the extent and significance of the policy changes these administrations wrought during their time in office. We show that both were radical,

but that the Kennett government oversaw the most sweeping changes. We also try to identify their specific political strategies for putting their policy platforms into effect. How did they remain in office while treading on so many institutionalised toes? Of particular interest to us is the explanation implicit and sometimes explicit in the existent literature that would have us believe that the rise of neo-liberalism is accompanied by a change in the mode of regulation: people's values and beliefs shift decisively in ways that render the new regime of accumulation legitimate in their eyes. We ask the question: was this so? We show that in the case of Victoria, at least, it was not. This in turn begs the question of how, then, was the transformation achieved? We answer this question tentatively in the last section of our paper. We begin by locating our study in its theoretical context.

## **Regulation Theory**

Arguably the most significant contribution of the regulationist literature has been the explanation it has offered for the rise and fall of capitalism's 'golden age', stretching from the end of World War II through to the onset of recession in the early 1970s. The gold of this era was delivered by 'Fordism', a contingent and almost fortuitous union between production and consumption which brought wage labour fully into the capitalist system as both producers and consumers (Elam, 1994: 63). Fordism was built on the twin pillars of mass production and mass consumption. This approach to capital accumulation required a disciplined and compliant work force with a regular disposable income, and a politico-social setting which supported the accumulation process through an extensive social infrastructure supported by labour, capital and government. This move away from a concentration on the renewal of capitalist forces of production to a concentration on the reproduction of capitalism per se distinguishes the regulationist approach from others (Elam, 1994: 56).

This approach to understanding the forces which shape capitalist reproduction has brought together economists, geographers, political theorists and others to develop regulation theory into a rich, but highly diverse, school of thought (Painter, 1997: 277). Painter and others have concluded that we are not dealing with a unified theory any more but a broad approach to the complexities of modern capitalism. However, we can distinguish between three principal camps: the flexible specialisation school most closely associated with the work of Piore and Sabel (1984); the French regulationist school; and the neo-Schumpeterian approach developed most clearly by the prolific Bob Jessop. Of these, our interest is with the latter two.

### *The French Regulationists*

The French regulationists, inspired by a combination of neo-Marxism, institutionalism (Elam, 1994: 57) and the Gramscian notions of Fordism and Americanisation, identified the 'growth compromise' which sustained the long postwar boom. They described this as a period of intensive accumulation which not only necessitated a vigorous production-goods process but an equally and complementarily vigorous consumption-goods sector. In order to sustain this method of accumulation, a monopolistic form of regulation was required. The compromise for the capital accumulators was: an enlarged state role; the payment of higher wages; regular wage rises; specified working hours; increased taxes and charges to support what was to become known as the Keynesian welfare state or welfare capitalism (in regulationist terms, the Keynesian mode of social regulation); and the accommodation of worker representation through unions which supported collective bargaining. The compromise for wage labour was: the 'nuclearisation' and isolation of the family; a single family wage; a loss of autonomy and involvement in the production process; the introduction of Taylorist production methods which mandated

function and isolated the wage labourer to a single input function in a highly mechanised production process; and indebtedness through credit which became an increasingly important component in the compromise, as wage labour was recognised as 'an outlet for expanding capitalist production' (Elam, 1994: 63). In a broader sense this saw a decommodification (Esping-Andersen in Elam, 1994: 63) of wage labour and the increased commodification of consumer goods. Wage labour became an essential component in the sustained success of Fordist accumulation because of its dual role as producer and consumer (Elam, 1994: 63). The system was driven by the evolution of productivity and real wages (Boyer, 1988: 82) and thus the 'growth compromise' was consolidated.

Central to the French regulationists' (Aglietta, 1979; Boyer, 1988; Lipietz, 1987) approach are the concepts of a regime of accumulation and a corresponding mode of regulation. The former refers to a macroeconomically coherent production-distribution system, whereas the latter refers to the ensemble of state forms, social norms, political practices and institutional networks which help secure long-term political stability (Peck and Tickell, 1994: 284).

### *The Neo-Schumpeterian Approach*

The other major theoretical understanding of the transition from Fordism to post-Fordism is based on the current re-rendering of Schumpeter's development of Kondratiev's 'long wave' theory of capitalist reproduction. The neo-Schumpeterian and regulation approaches share key points of view in their critical assessment of the effectiveness of regimes of capitalist reproduction:

There is broad agreement between the two approaches over: the systemic and cyclical nature of capitalist development; the periodation

and general dynamic of Fordism; the significance of the degree of match between, in neo-Schumpeterian language, the 'techno-economic paradigm' (regime of accumulation) and the 'socio-institutional framework' (mode of regulation); and the stability of a 'long wave' or 'long cycle' of economic development (Amin, 1994: 11).

The divergence comes in the somewhat technically determinist approach to the procession of the long waves. For neo-Schumpeterians like Freeman and Perez (1988), the beginning of a new fifty-year long cycle is presaged by a "quantum leap" in industrial productivity, which [is] secured once pioneering advances in technology diffuse across the economy' (Amin, 1994: 12). This process must then be supported by an ensemble of socio-institutional norms and regulations which reflect the direction of the techno-economic innovation to allow for an economy-wide embedding of the new wave. Freeman and Perez stress the importance the role of universal technologies which act as carriers for an economy-wide adoption of the new innovation (Amin, 1994: 12). The fourth Kondratiev (or long wave) was driven by electro-mechanical technologies, the outputs of mass production and consumption, and developments in the oil and petrochemical industries which ensured a relatively durable, cheap source of power and sustained productivity increases. These innovations were seen to result in the same capitalist reproductive process that regulation theory identifies with Fordism: standardisation, massification, scale economies, oligopolistic competition and the mass consumption of cheap goods (Amin, 1994: 12). The fifth Kondratiev is seen to be driven by micro-electronics, computers and the information revolution. Now that these technologies have become systemic, cheap and are seen to play the defining role in production technologies, it is a matter of waiting for the socio-institutional domain to shift its supportive networks in response. It is the centrality of the techno-economic paradigm in determining the

procession of waves which concerns authors such as Nielsen (1991) and Elam (1994).

Jessop (1992, 1993, 1994 and 1995) has taken up the neo-Schumpeterian cause in his arguments about the transition of the Keynesian welfare state (KWS) to the Schumpeterian workfare state (SWS) as a socio-institutional mode of social regulatory response to the shift from Fordism to post-Fordism. Jessop (1993: 8) argues that the two most important functions are securing the conditions for the valorisation of capital and helping to secure the conditions for the reproduction of labour-power; both the KWS and the SWS are state economic interventions 'characteristic of a given mode of social regulation...[and as such] are likely to correspond to different accumulation regimes'.

## **Regulation Theory: Similarities, Strengths and Limitations**

The regulationist approach has given us a methodology to track the changes in the accumulation process since the 1970s fiscal crisis, measured against the successes and failures of the Fordist regime. It has helped identify the causes of the prolonged economic instability and periodic crises in the advanced capitalist nations over the last thirty years. And it has drawn attention to the important question of how these changes have been managed politically.

However, the approach operates at a very high level of abstraction. One consequence of this is that it tends to overlook the significant contribution that is made by the institutional structures of polities, economies and societies in facilitating and resisting the transformations that are being promoted (Goodwin et al. 1993; see also Esping-Andersen, 1996). Goodwin et al. (1993) have tried to refocus regulation

theory so that it is able to accommodate the role of subnational tiers of government in facilitating the unravelling of Fordism and the construction of post-Fordism (see also Esping-Andersen, 1996). Their concern is with the local tier, in the United Kingdom in particular. But their argument applies with equal force in countries like Australia and Canada where the local and national tiers are not as strong as they tend to be in Europe. This is because of the existence of a 'middle' regional tier, with significant fiscal and public policy power.

Table 1 provides some broad data which show the significance of regional governments in Australia and Canada. The table shows provincial/state own purpose spending as proportion of total government spending, as well as provincial/state own source revenues as a proportion of total government revenues. State governments account for approximately 45% of total government spending in Australia, while the provinces account for 43% of total Canadian government spending. In Australia the states are responsible for 83% of total civilian general government employment. In Canada the proportion is closer to 60%. Clearly, the regional tier of government in both federations is significant.

**Table 1: Own Source Revenues and Own Purpose Outlays by Tier of Government, Australia (1995-96) and Canada (1998)**

	Own purpose outlays		Own source revenues		Federal grants as % of total revenues	
	Canada	Australia	Canada	Australia	Canada	Australia
Federal	38%	54%	46%	73%		
Provincial	43%	41%	43%	24%	13%	43%
Local	19%	5%	11%	4%		
Total	100%	100%	100%	100%		

Source: Australian Bureau of Statistics, cat. no. 5501.0; Canadian Department of Finance (1999)

The table also provides data showing the degree to which the state/provincial tier is dependent upon the national government for revenues. In the Australian case there is a high degree of fiscal imbalance. The states receive more than 40% of their revenues from federal government transfers, a proportion which has increased following the introduction of the federal government's new tax system in July 2000. In Canada the provinces enjoy much greater levels of independence, being dependent on the federal government for only 13% of their revenues. The regional tier in both countries is responsible for the majority of education, health and housing expenditures. The main difference between the two is that the Canadian provinces have responsibility for a significant proportion of social security payments, whereas in Australia they have no social security responsibilities. In terms of revenues, the differences are more dramatic. The Canadian provinces have a broader and more stable revenue base, primarily because, unlike their Australian counterparts, they raise income tax revenues and are unimpeded by constitutional restrictions on the nature of their tax base.

Regional states in these countries have the capacity to significantly modify – even resist – the imposition of post-Fordist structures at the national level. Of course, they can also significantly speed up this process as has been the case with the two regional states of interest to this paper, Ontario in Canada and Victoria in Australia.

## **The Case Studies**

Table 2 provides some background data comparing the relative size and significance of these regional states to their respective nation's economies. The table shows that both are significant: Victoria accounts for a quarter of Australia's economic output and population, Ontario accounts for over a third of Canada's output and population.

**Table 2: Share of National GDP and Population, Ontario and Victoria, 1998**

	Share of national GDP	Share of national population
Ontario	42%	38%
Victoria	25%	25%

Source: Australian Bureau of Statistics; Statistics Canada

Both regions have a similar political and economic history. This is in all essentials of a classic Fordist variety, featuring a succession of conservative administrations committed to establishing the physical and social infrastructure necessary for the expansion of a local manufacturing industry geared for mass production, typically under foreign ownership (Albo and McDermid, 1998; Costar and Economou, 1999; Sheil, 1997). The growth in manufacturing was made possible by nationally imposed tariffs, which made import substitution a viable, albeit inward-looking, industry. Government metropolitan policy encouraged home ownership and suburbanisation, creating the conditions for mass consumption and the reproduction of the patriarchal family. Both regions enjoyed decades of high growth in the postwar decades, followed by recession in the 1970s, renewed growth in the 1980s, punctuated by a severe recession in the early 1990s.

During the 1980s the conservative party dominance in both Victoria and Ontario was ended. In Victoria the Labor Party (Australia's social democratic party) won a large victory in 1982 and followed this up with two more victories in 1985 and 1989. Labor's mission was to modernise the Victorian system of public administration, and to borrow funds to invest in infrastructure that would revitalise the state's flagging manufacturing sector and lead to the growth of new industries. It also promoted social justice initiatives, although this was always secondary to the economic

strategy, largely because of the state's regressive and limited tax base. Ontario experienced even greater levels of political instability, with government passing from the Progressive Conservatives to the Liberals, then to the New Democratic Party. In both Ontario and Victoria, policy settings shifted decisively in favour of higher levels of state intervention with a decidedly Keynesian flavour (Considine and Costar, 1992; Albo and McDermid, 1998).

The changes of the 1980s, however, were mild by comparison to developments in the 1990s. In September 1992 the conservative Liberal and National Parties in Victoria were swept back into to government under the leadership of Jeff Kennett. Some two and a half years later the Progressive Conservative Party under Mike Harris' leadership was swept to office in Ontario (Campbell, 1999). Both governments immediately began an extensive and rapid restructuring of their respective public sectors on a scale and magnitude that is without precedent. Within eighteen months, the Kennett government had cut spending by A\$1.2b (10%), with the cuts focused on core service delivery areas of health (\$350m) and education (\$237m) (see Table 3). It also increased taxes by A\$1b, with all of the increase being directed at households rather than business. The State Deficit Levy, which required all households to pay a flat \$100 per year irrespective of income, accounted for almost 20% of the tax hike. In addition, 35,000 public sector workers were made redundant (a figure that eventually reached 75,000), including 6,000 teachers, and over 300 schools were closed. It also moved to fully deregulate the state's industrial relations system and implemented a system of contracts for public sector employment, part of which made it a criminal offence for public officials to comment on government policy. Victoria's system of local government was effectively abandoned, with all 374 local councils being dismissed and replaced by appointed commissioners. During its second term the Kennett government reinstated local democracy, albeit in a much trimmed down local government sector, and under the clear understanding that any local council

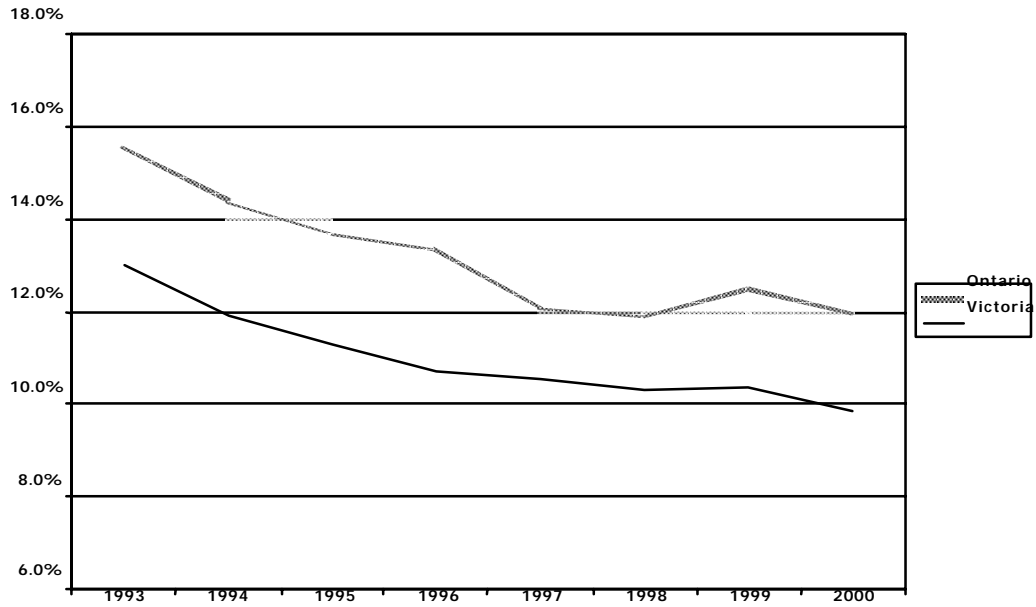
that sought to override state government policy positions would be quickly replaced by administrators (Kiss, 1999). Its attention turned to privatisations. The state's electricity and gas utilities were split up, corporatised and sold for A\$27b, bringing privatisation proceeds to over A\$30b. This is equivalent to 20% of the state economy.

**Table 3: Kennett Spending Cuts by Department (A\$m)**

	1992-93	1994-95	Cuts	%	% of total
Parliament	\$23	\$23	\$0	2%	0%
Agriculture	\$102	\$94	\$9	8%	1%
Arts, Sport	\$114	\$108	\$6	5%	1%
Business and Employment	\$167	\$125	\$42	25%	5%
Conservation and Natural Resources	\$201	\$178	\$23	12%	3%
Education	\$3,074	\$2,837	\$237	8%	27%
Energy and Minerals	\$19	\$18	\$0	2%	0%
Finance	\$158	\$135	\$23	15%	3%
Health and Community Services	\$3,202	\$2,821	\$381	12%	43%
Justice	\$1,015	\$1,013	\$2	0%	0%
Planning and Development	\$56	\$49	\$7	13%	1%
Premier and Cabinet	\$50	\$45	\$5	10%	1%
Transport	\$834	\$690	\$144	17%	16%
Treasury	\$54	\$43	\$11	20%	1%
<b>Total</b>	<b>\$9,068</b>	<b>\$8,178</b>	<b>\$890</b>	<b>10%</b>	<b>100%</b>

Source: Victorian Government (1993) *Restoring Victoria's Finances, Stage 2: Statement on Victoria's Financial Management Strategy*, Department of Treasury: Table D2

**Figure 1: Government Spending as a Percentage of Gross State/Provincial Product, 1992-93 – 1999-2000**



Source: Victorian and Ontario government budget papers, various years (for spending); Australian Bureau of Statistics, and Statistics Canada (for GDP)

**Table 4: Harris Spending Cuts by Program Area (C\$m)**

Program outlays	Expenditures 1994-95	Cuts		% of total cuts
	C\$m	C\$m	% change	
Agriculture	\$409	\$-13	-3%	1.0%
Attorney General	\$799	\$-4	-1%	0.3%
Cabinet Office	\$10	\$- 3	-30%	0.2%
Citizenship, Culture and Recreation	\$408	\$-53	-13%	3.9%
Community and Social Services	\$9,364	\$-677	-7%	50.1%
Consumer and Commercial Relations	\$150	\$- 8	-5%	0.6%
Economic Development, Trade, Tourism	\$463	\$-57	-12%	4.2%
Education, Training	\$8,461	\$-229	-3%	17.0%
Environment and Energy	\$272	\$-18	-7%	1.3%
Finance	\$930	\$-116	-12%	8.6%
Health	\$17,599	\$-111	-1%	8.2%
Labour	\$135	\$-10	-7%	0.7%
Management Board	\$337	\$-33	-10%	2.4%
Municipal Affairs	\$1,487	\$-25	-2%	1.9%
Native Affairs	\$17	\$-1	-6%	0.1%
Natural Resources	\$478	\$-30	-6%	2.2%
Northern Development and Mines	\$54	\$- 4	-7%	0.3%
Solicitor General and Correctional Services	\$1,136	\$-10	-1%	0.7%
Transport	\$598	\$-47	-8%	3.5%
Other		\$-(99)		-7.3%
<b>Total</b>	<b>\$44,653</b>	<b>\$-1,350</b>	<b>-3%</b>	<b>100.0%</b>

Source: Government of Ontario (1995) *Fiscal Overview and Spending Cuts*, Ministry of Finance

*The Harris government's reforms have not been as far-reaching as the Kennett government's, but they have been significant by any standards. Within four months of taking office, spending was cut by almost C\$1.4b, or 3% compared to 1994-95. The cuts were predominantly in community services, particularly income support (50% of the total cuts) and education and training (17% of the total cuts). Social security payments to welfare beneficiaries were cut by 20%. Four months after handing down his first series of spending cuts, Finance Minister Ernie Eves presented a second financial statement which outlined another series, which he claimed would achieve total savings of approximately C\$4.5b to C\$5.5b in 1996-97 (Eves 1995: 24), an amount which included the C\$1.4b cut announced in the July statement. The third budget (May 1998) saw approximately C\$3.5b cut from the bottom line. These cuts were focused on programs, services and public works (McClellan, 1999: 4). The public sector shrank from 15% to 12% of GDP, with over 10,000 of its jobs to be cut by 1997-98 (Albo and MacDermid, 1998). The fourth budget (May 1999) cut another C\$4b from taxes, bringing the total annual revenue loss from tax cuts to C\$10b (McClellan, 1999: 5). McClellan (1999:5) sums up the situation nicely:*

If Mike Harris and Ernie Eves had been locked in a closet the day they were elected in June 1995, kept there under lock and key and prevented from doing anything, economic growth would automatically balance the budget and wipe out the deficit by the end of 1998.

A similar claim can be made for the Kennett government, according to economic and academic critics (Hayward, 1999: 143).

*In August 1995 the Workplace Health and Safety agency was disbanded and taken over by the Workers' Compensation Board, removing worker input; the Wage Protection Fund was cut from C\$5,000 to C\$2,000 per worker and its termination scheduled; Harris at one point declared the province bankrupt and warned municipalities of a 20% cut to their grants (Dare, 1997: 21). Throughout 1995-96 the government introduced a sweeping crackdown and restructuring of welfare. In September 1995 the 'spouse in the house' rule was reinstated to cut single mothers off family benefits if they were alleged to be living with a man, a three*

***month wait for welfare benefits was imposed as a penalty for quitting a job or being fired, youth welfare was restricted, and a provincial fraud line was set up (Dare, 1997: 21). A month later welfare payments, including for those on disability allowances, were cut by 21.6% and eligibility tightened, 360 cooperative and non-profit housing projects were cancelled, an incentive program for employers to hire low income earners was abolished, twenty-five halfway houses for prisoners re-entering society were closed, chain gangs were foreshadowed for prisoners to do road work, and Bill 7 (Labour Relations Employment Statutes Law Amendment Act 1995) was introduced to allow for replacement workers to be used during strikes and during certification votes to start new unions. Employers were also allowed to mount anti-union campaigns and to initiate de-certification votes with already established unions. Finally, in October, the Ministry of Labour was cut in half, with the loss of 457 staff, including one-third of the employment standards inspectors, and the support for health and safety inspectors was essentially eliminated (Dare, 1997: 21-2).***

In a stark parallel with the Victorian experience, the Minister for Municipal Affairs was given the 'power to abolish local government and create mergers and amalgamations...[and]...the freedom of information laws [were] changed to make it more difficult to gain access to government information' (Dare, 1997: 23). This power was subsequently used in the most significant restructuring of local government since World War II. The assault began in 1995 with a massive 48% reduction in provincial grants to municipal government. Bundled in with these were cuts to road and unconditional grants of 43% (replaced by block grants), a 21% cut to transit grants, a C\$12m cut to libraries over two years, the abolition of funding for kerbside recycling, and a 70% cut to conservation authorities (McClellan, 1999: 9).

This was followed in January 1997 by Bill 26 (Savings and Restructuring Act) which gave the government sweeping powers to abolish municipalities or to force mergers and amalgamations, to introduce user fees for services, and to privatise without referral to a referendum (McClellan, 1999: 9). These powers culminated in Bill 103 which abolished all locally elected municipal governments in metropolitan Toronto. While this did not allow for the sacking of all councillors and mayors, as the Kennett government had done, they were put under the authority of a Board of Trustees appointed by the Harris government. The intention was to amalgamate all the

Toronto councils into a single-tier 'megacity' council, despite an overwhelming referendum vote against this proposal; details were not released for twelve months until they appeared in Bill 148 in January 1998 (McClellan, 1999: 8).

***The imposition of this concept was to be extended beyond metropolitan Toronto, with plans announced in November 1999 by the Minister for Municipal Affairs and Housing Tony Clement to create new megacities in Ottawa, Hamilton and Sudbury. At the same time he was considering cutting the Toronto megacity council from 57 members plus the mayor to 44 plus the mayor. In December 1999 he announced legislation that would lead to fewer politicians and lower taxes at the municipal level. It included measures to reform local government in Haldimand-Norfolk, Hamilton-Wentworth, Ottawa-Carleton and Sudbury, the result of which was to be the establishment of the megacities with 190 fewer local politicians – a reduction of about 75% (<http://www.mah.gov.on.ca:80/inthnews/releases/19991206-1e.asp>).***

## **Harris and Kennett Meet Regulation Theory**

Regulation theory tends to overlook the significance of regional states under the control of neo-liberal administrations like Kennett and Harris. But this is not the only trouble we have with regulation theory. We are also concerned by the mechanism which regulationists offer for explaining how policy changes of the magnitude just examined get implemented. For regulation theory, part of this equation is contained in the mode of regulation and the suggested change in social values following the apparent success of a new regime of accumulation.

Here the regulation approach falters once more, for there is more than a hint of functionalism in this formulation. All too often explanations for change are offered that are both functionalist and teleological in both content and logic. Consider, for example, Esser and Hirsch's (1994: 75) account of 'crisis':

[t]he crisis, which is characterised by an incompatibility between the mode of accumulation and the method of regulation, forces a new

mode of accumulation and a new method of regulation and thus a new hegemonic structure to be imposed.

Similarly, consider Jessop's account of the neo-liberal response to the crisis in Atlantic Fordism and the consequent 'hollowing out' of the state. Jessop (1993: 10 and 11) suggests that 'the "hollowed out" Schumpeterian welfare state could be regarded as the best possible political shell for post-Fordism'. As is often the case, this comes heavily qualified, being dependent on 'the structural coupling and contingent co-evolution of accumulation regimes and modes of social regulation' (Jessop, 1993: 11).

There is in addition a resemblance between the regulationists' theoretical framework and the mechanical Marxism which was strong during the 1970s and 1980s (see for example Thompson, 1978). In place of what used to be called the 'base', we now have the 'regime of accumulation'; in place of the 'superstructure', we now have the 'mode of regulation'. Mechanical Marxism was subjected to a vicious assault during the 1970s and 1980s, and these criticisms could be said to apply equally to the regulationist school of today. All too often values and beliefs – indeed, politics in general – are explained away as that which are required to meet the needs of the economy: 'The set of norms...*continuously adjust* anticipations and behaviours to the general logic of the regime of accumulation' (Lipietz, 1994: 339, emphasis added). We agree wholeheartedly with Castles (1996: 97) that 'an account which leaves out political choice and agency will always be, to some degree, flawed'.

Another of regulation theory's drawbacks is that it under-theorises the place of politics. Neo-liberalism is often explained as a 'functional' response to the needs of capitalism (see for example Lauria, 1997). But, as Peck and Tickell (1994: 281) argue, the neo-liberal response to the crisis need not be a pathway to its resolution,

but may rather be the essence of the problem. They argue that neo-liberalism has imposed upon society a market-centred, production/supply sided solution that is enforced by global capital and supported by political manipulation (Peck and Tickell, 1994; Tickell and Peck, 1995: 363-4) in favour of accumulation strategies:

Neo-liberalism is the politics of the crisis, a kind of 'jungle law' which tends to break out – along with financial instability, accelerated labour exploitation and the self-destructive dynamic of the unfettered market – when economic growth slows and when social compromises collapse. It is this process which the regulation theorists are describing when they talk of the breakdown of the 'golden age' of Fordist mass production and with it the social compromise enshrined in the Keynesian welfare state (Peck and Tickell, 1994: 281-2).

In the case of the Kennett government at least, there is no evidence of a shift in the underlying values of Victorians in favour of an unconstrained market. Rather, neo-liberalism and the privatisation policies it unleashed were always on the nose (Hayward, 1996). Not surprisingly, most Victorians were opposed to budget cuts to health, education and community services. A large majority were consistently opposed to the sale of the state's utilities, and a staggering 90% were consistently opposed to their sale to overseas owners (Hayward, 1999).

All this begs the question of how the neo-liberal revolution put in place by Kennett and Harris was achieved, if the people were and continue to be opposed to it. A key to the explanation is to be found in strikingly similar political strategies employed by both administrations upon winning office. Crucial is the concept of an alleged unforeseen fiscal crisis, which both claimed to have inherited. In Kennett's case, the budget crisis argument was employed quickly and decisively. Within a couple of days

of winning government, Kennett claimed he had discovered an unfixable mess within the state's finances. He did not mince his words:

We are not dealing with something which can be solved in a year. This is something that is going to take us forever. Forever...[The government] is trying to keep increases [in taxes and charges] down to a minimum...But the Board of Works situation; super; they're all absolutely RS...This super thing is bigger than 'Ben Hur' – it is huge, it's massive...[The public] are owed the facts and by hell they're going to get 'em (*Age*, March 30, 1993: 1).

Within a month the Kennett government had introduced a mini-budget, and within six months had brought down another. To ram the point home, the government continued to deliver an economic statement in addition to the annual budget for four consecutive years. For those who still harboured doubts, Kennett appointed an 'Independent Commission of Audit' to report on the condition of the state's finances, and to make recommendations as to how to improve the state's financial position. The Commission, chaired by the research director of a neo-liberal thinktank, duly found that the finances were in a mess and commended the government for its program of fiscal retrenchment, which it concluded was 'the minimum necessary' to restore them to a sustainable position within a decade.

Harris followed a very similar strategy. Within a month of winning office he too had brought down a mini-budget, claiming that he had discovered a budget black hole requiring immediate corrective action:

The [budget] situation is not good. In fact it is critical...[T]he previous Government left the Province in far worse shape than their April

economic statement indicated (Statement by the Honourable Mike Harris, Premier of Ontario, July 21, 1995).

Harris' Finance Minister Ernie Eves put the point even more bluntly: 'the former government left the Province with a spending crisis, which is just that: a spending crisis...Today we are taking decisive and swift action to cut government spending immediately' (Government of Ontario, *Fiscal Overview and Spending Cuts*, July 21, 1995: 1). The Harris government also played with the tactic of bringing down mini-budgets in order to heighten the impression of a fiscal crisis, and also appointed an audit commission, albeit of more limited scope than the Victorian one.

From our point of view, what is interesting in both cases is that the claims of a budget crisis were overstated. Documents were 'sandbagged' to exaggerate the extent of the budgetary troubles, which were largely cyclical in nature, rather than structural. The Kennett government milked the timing of its budgets to achieve maximum political effect. They were regularly brought down with very pessimistic assumptions, in order to justify continued austerity measures. Large sums were reclassified from capital to recurrent spending in order to make the operating budget look in worse shape than it was; large one-off payments to pay down unfunded superannuation liabilities were booked against current spending, with a similar effect on the budget bottom line (Hayward, 1999). Even with the benefit of this sandbagging, the budget was back in operating surplus within a year of the Kennett government taking office, almost a decade earlier than had been expected!

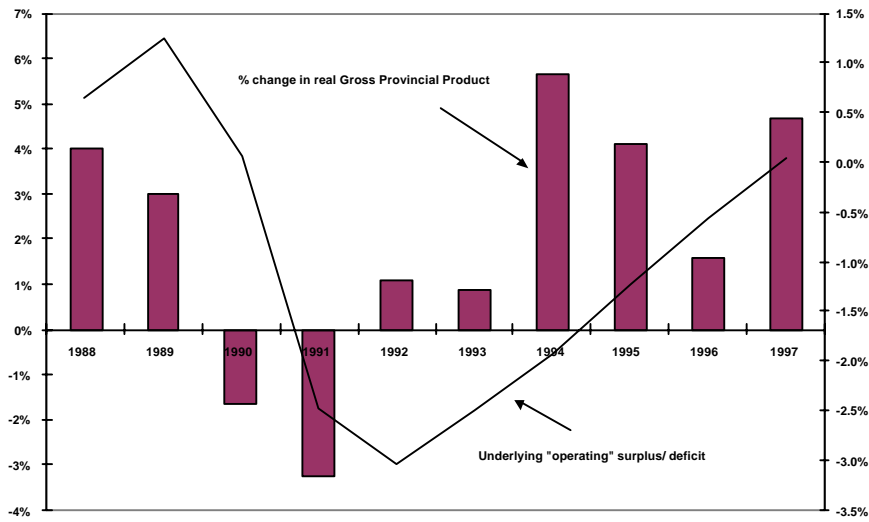
Similarly, the Harris government's 'budget crisis' (Eves, 1995: 1) had 'mysteriously disappeared' (McClellan, 1999: 2) by the time that its second budget was presented in May 1997. C\$4b of underestimated revenue over two fiscal years meant that '[t]he sole reason that Ontario still had a fiscal problem was entirely due to the C\$6b tax

cut...[m]ore than half of [which went] to the top 20 per cent income earners' (McClellan, 1999: 2). The sandbagging was also effected through a number of one-off contingency and restructuring costs, which were mischievously added to the permanent base budget for programs and capital spending, in order to inflate the expenditure side of the budget (McClellan, 1999: 5), thereby artificially inflating the size of the deficit.

The large budget deficits in both Ontario and Victoria in the early 1990s reflected the deep recessions into which both regions fell, along with most of the rest of the Western world. Ontario was hit particularly hard as a consequence of the effect of the recession in lowering income tax collections, while simultaneously increasing the demands on welfare payments (see Figure 2). Victoria's recession was much more severe in its scale and intensity than that which was experienced in the rest of Australia (see Figure 3). Once the economies began to recover, the budget deficits would largely mend themselves. The unnecessary program of cuts left both administrations with budget outcomes that far exceeded expectations. Rather than restore the services that were taken away, they preferred to pay down liabilities (Kennett) or fund large public sector restructuring programs (Harris).

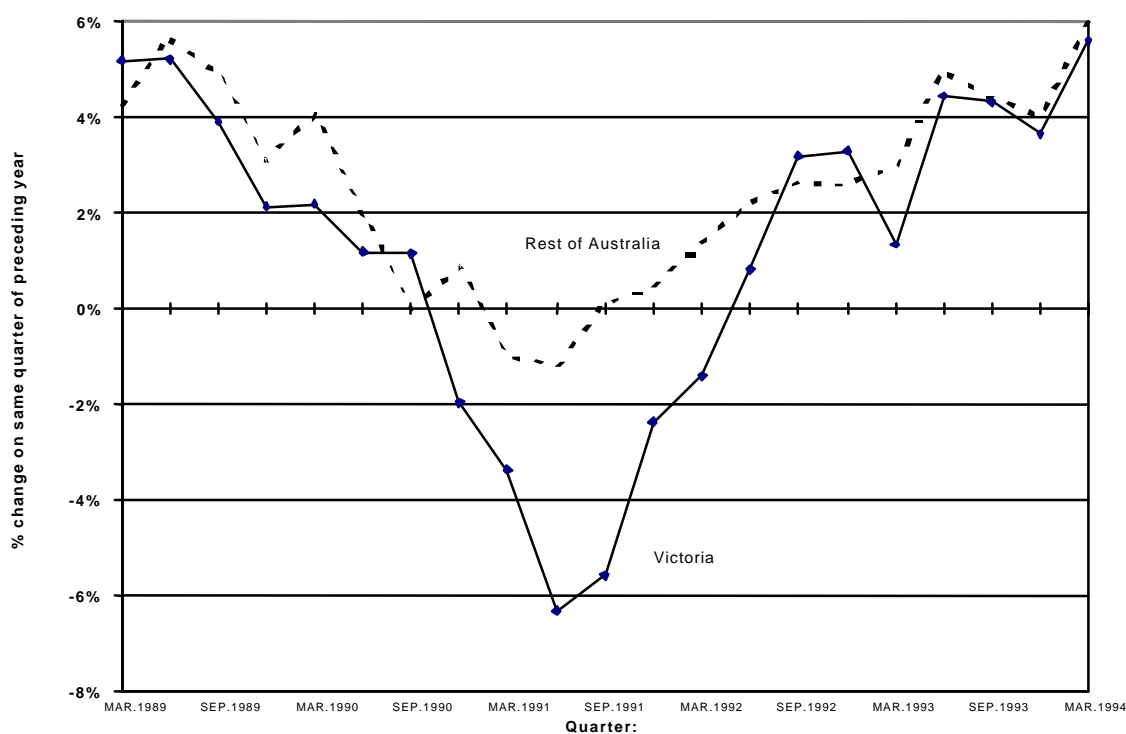
This is not to suggest that the political successes enjoyed by Kennett and Harris can be explained solely in these terms, for other material factors were at work. What we can say is that regulation theory is of little use in helping us to understand how the neo-liberal revolution in Ontario and Victoria unfolded at a micro, strategic level. We are in need of some major theoretical revision.

**Figure 2: Percentage Change in Real Gross Provincial Product and Budget Operating Deficit, Ontario, 1988-97**



Source: Government of Ontario, budget papers, various years; Statistics Canada.

**Figure 3: Percentage Change in Real Gross State Product, Victoria and Rest of Australia, 1989-94**



Source: Australian Bureau of Statistics cat. no. 5206.0

## Extending the Range: Regulation Theory Meets Urban

### Regime Theory in the City

An alternative and increasingly influential alternative approach to regulation theory to which we have turned our attention in order fully to account for the Harris and Kennett revolutions is to be found in urban regime theory. This was elaborated by American academic Clarence Stone (1989) in his study of the city of Atlanta. He defined an urban regime as:

the informal arrangements by which public bodies and private interests function together to make and carry out governing decisions. There are three elements in this decision: (1) a capacity to do something; (2) a set of actors who do it; and (3) a relationship among the actors that enables them to work together (1989: 179).

The fundamental division of labour in the urban political economy is assumed to be between the government and the private sector. The government is seen to induce economic performance through policy settings and regulations, subject to popular electoral support, and the private sector is seen to control economic outcomes through their direct control of the production process (Elkin, 1987: 18). Regime theory looks at the arrangements which bring these two actors together into a governing coalition (Stoker, 1995: 56). The notion of government in this representation focuses on a coalition's ability to act in the way it chooses, not having to deplete its resources and legitimacy on the coercion of other actors to its agenda. This approach which, Stone (1989: 227) argues, sustains power is described as the social production model of power: '[t]he capacity to assemble and use needed resources for a policy initiative'. This model relies on the assemblage of a group of players, around the elected officials, who have resources that can be mobilised to facilitate the policy outcomes they see as necessary to the process governance. This regime lends those in power a capacity to govern over and above a government's mandate to govern. Stone (1989: 229) argues that the most attractive allies are those who are organised, control essential resources, and have a capacity to engage in a dependable system of cooperation; in capitalist society, the investor or business class are the most attractive.

In terms of the electoral process, Stone (1989: 238) argues that election to office does not necessarily confer on the winner a capacity to govern, or on the electors a

right to expect policies that respond to their interests; in fact, 'an unequal distribution of goods and resources substantially modifies majority rule...and...“one person, one vote” has limited play within [this] setting’.

In his review of Stone's work, Harding (1999) acknowledges the significance and usefulness of his contribution, but also draws attention to its limitations. He cites American ethnocentrism as one of the most important. He maintains that American urban political economy does not provide researchers outside the United States with particularly useful analytic tools, especially in respect of the role of government in economic and social life (Harding, 1999: 685; see also Keating, 1991 and Stoker and Mossberger, 1994). Harding (1999: 686) argues that urban regime theory's main vulnerability, in ethnocentric terms, is that it is:

based not just on a general understanding of the relationships between politics and markets in liberal democratic societies but on the particular institutional, economic and social forms such relationships take in the United States.

The other main criticism is urban regime theory's lack of a clear methodological approach to demonstrating its efficacy as a theory of urban political economy. While Stone (1989) is the most explicit, according to Harding (1999: 688) 'even he refers only in the most general terms to his reliance on two data sources: a local newspaper and interviews undertaken as an "aid to interpretation"’.

Lauria (1997) and Judge et al. (1995) in particular have tried to address these criticisms by linking Stone's thesis with regulation theory via a focus on the regulatory influence of localised institutions (Goodwin and Painter, 1997: 22). This drawing together of the macro and the micro approaches to political economy offers an

approach built around the concept of governance: 'Both have an overarching concern with governance: regime theory with political coalitions and their capacity to govern and regulation theory with the governance of production and consumption systems' (Lauria, 1997: 8). While both have limitations, these are largely cancelled out when they are brought together. Urban regime theory, Lauria (1997: 8) argues, can only draw on the division between market and state, while regulation theory ignores how material practices constitute modes of regulation; but theoretical reconstruction can and needs to be achieved through empirical research focusing on the concrete social practices of urban politics in specific places and times.

It is our view that this attempted synthesis of regime theory and regulation theory offers the best way to understand the neo-liberal revolutions that have occurred in Ontario and Victoria – revolutions which have had a profound national effect. Regulation theory draws attention to the broader shifts in the political economy underpinning the emergence and rise to power of Harris and Kennett, in particular, the decline in traditional manufacturing, the shift to services and flexible labour markets, and the rise of global markets. It offers an explanation as to how and why some powerful political agents – from international credit rating agencies to global financial consultants – rise, while others – notably, trade unions associated with declining manufacturing industries and the public sector – fall as economic restructuring unfolds. Regime theory, on the other hand, draws attention to the significance of Harris and Kennett as powerful political actors in their own right who were not just incidental to the neo-liberal revolutions they unleashed but whose personal authority played a not inconsiderable part in enabling the revolutions to be successful politically. They share an unashamedly masculine and authoritarian political style, captured neatly by their preference for being described as 'strong leaders'. This style appeals broadly to working-class males in particular. Regime theory also offers an opportunity for investigating the carefully crafted political

strategies which enabled new networks and coalitions to be formed in ways that facilitated the neo-liberal revolution. One part of this involves the debt crisis argument we outlined earlier.

## **Conclusion**

In this paper we have examined the important role played by the regional states of Ontario in Canada and Victoria in Australia in helping to facilitate the transition to post-Fordism in their respective nations. We have shown that in both cases their role has been significant, a fact that by definition would be overlooked by approaches which focus only or even primarily on national governments. We have argued that the neo-liberal revolutions embarked upon by both administrations can best be understood by drawing on a theoretical framework that synthesises regulation and regime theories. Regulation theory provides the structural analysis necessary to understand what created the political and economic space for the neo-liberal revolutions to become politically feasible, but it is of little use in understanding the peculiarities of the historically situated struggles, networking and coalition building that enabled the revolutions to be put into effect 'successfully'. This weakness is overcome by regime theory, whose main concern is to elaborate a methodology for identifying and describing these issues.

Our paper is not intended to be definitive. It is better understood as a progress report on a project that is only partly complete. There is much that we need to do to identify the minutiae of the political and economic relationships established and nurtured by Harris and Kennett, and to see how formerly powerful groups were marginalised by them in the process of implementing their neo-liberal revolutions. The preliminary work that we have done to date highlights in Victoria a crucial role played by international agencies, including credit rating agencies and financial advisors, but it

also draws attention to an intricate set of relationships between Kennett and the owners of the Australian media (see Lavelle, 2000). A fuller analysis would also explore in more detail the way that the Kennett and Harris administrations defined themselves as entrepreneurial players and put in place policies to reflect this. Crucial in Victoria's case is the web of relationships that developed between the Kennett government and various agents associated with a newly built, enormous casino complex, as well as the Australian Grand Prix car race, and the operators of a variety of global sporting events.

One of the main concerns of our paper was to question whether the transition to post-Fordism overseen by the Harris and Kennett regimes is made possible by a shift in the values and beliefs of the electorate. It will be recalled that regulation theory suggests that this change in the mode of regulation is both a cause and an effect of the neo-liberal project. We have argued that there is no clear evidence of a shift in values and beliefs of this nature. The Kennett government earned itself the title of 'the popular government with unpopular policies', as Victoria's leading broadsheet once put it. This paradox, we would contend, can only be understood in the context of a 'fiscal crisis' argument which was used successfully to justify the neo-liberal policy settings. Interestingly, in bringing down the 2000 state budget, the Kennett government began by saying that the fiscal crisis was over – the state had been rescued from its debt trap. Three months later it lost office and Jeff Kennett resigned from parliament, bringing his revolution to a swift end. Also interestingly, in 1999 Mike Harris began to soften his government's neo-liberal line and announced his intention to significantly increase spending on infrastructure, health and education, although he also committed his government to another round of large tax cuts. This policy 'softening' was effective, for Harris was elected to a second term, albeit with a reduced majority.

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<sup>i</sup> ***This was contradicted the next day by Eugene Williams, a financial analyst from the Canadian Bond Rating Service (Dare, 1997: 21).***