

PUBLIC ENTERPRISE DOES PAY

*A Story of Successful Government Industrial
and Financial Enterprises in Australia 1911-1944*

by

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Sequel to

THE RICH GET RICHER

Melbourne
Rawson's Book Shop
February, 1945.

BOOKS BY THE SAME AUTHOR

GEORGE ALLEN & UNWIN LTD., LONDON
British Imperialism and Australia, 1783-1833

MELBOURNE UNIVERSITY PRESS

The British Empire in Australia: An Economic History, 1834-1939
(Second (Students') Edition in preparation)

RAWSON'S BOOK SHOP

A Short History of the Australian Labor Movement
(Second Edition, 1944, 4/6)

The Rich Get Richer (10d.)

WHOLLY SET UP AND PRINTED IN AUSTRALIA
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1. AIRLINE TO SOCIALISM?

THE Labor Government of the Commonwealth announced in November, 1944, its intention of expropriating "on just terms" the privately owned airlines of Australia and operating them as public undertakings. The announcement was made in parliament suddenly and without notice even to federal caucus, consisting of all Labor members of the House of Representatives and all Labor Senators. About the same time, several of the Associated Banks circularised their customers warning them of a prospect of federal government action to remove control of credit from private hands. Ministers made clear that legislation was under consideration to maintain, after the war, at least some of the wartime extensions of functions of the publicly owned Commonwealth Bank of Australia.

What was the significance of this unexpected flicking of the Ministerial duster over planks of the long-neglected Labor Platform? A movement towards socialism, at this time of all times? It was only three months since the Curtin Labor Government's Referendum proposals for post-war extension of Commonwealth powers had been rejected by a majority of the 4½ million Australian voters and a majority of voters in four of the six States. And we cannot have even the beginnings of socialism, constitutionally, without such an extension of national powers. The adverse vote on August 19 was brought about, I think, mainly by the failure of many voters to understand what the proposals meant, by the indifference or hostility of influential sections of the Australian Labor Party leadership, and by propaganda promoted by employers' organisations. This propaganda cost hundreds of thousands of pounds. Most of the money was laid out in newspaper and radio advertising by mushroom organisations wearing various titles hastily assumed. The most favored was "Australian Constitutional League." With the rejection of the Referendum proposals, these flimsy facades for Reaction were put away as expeditiously as they had been put up. The "Constitutional Leagues" had served, it seemed, the current purpose of Capital. But within two days of the announcement by the Acting Prime Minister, Mr. F. M. Forde, of the Government's intention to nationalise airlines, the "Australian

Constitutional League" had reappeared in 6 in. x 18 in. newspaper advertisements harping on the theme:

"On August 19 the people voted No against Socialism in our time . . . AND NOW . . . here IS Socialism in our time—'Socialism Seen in Airline Move: Surprise Federal Decision'."

The Prime Minister, Mr. John Curtin, who had taken small part in the Referendum campaign in July and August, was absent through illness from the Cabinet meeting which decided unanimously to nationalise the airlines and conduct them under public management from 1945. His colleagues' proceedings with regard to the airlines, and their proposals with regard to public control of the private banks' management of credit, were quickly attacked as harbingers of "socialisation," or "controlled capitalism," or some other modification of the economic system. The portents were the more remarkable, to socialists in the rank and file of the Labor movement, because evidence had previously been lacking of any zest for experimentation on the part of Labor's political leaders.

After all, more than twenty years had passed since the ninth federal conference of the Australian Labor Party decided that the aim of the party should be to socialise industry—production, distribution and exchange. That was in October, 1921. And nothing whatever had been done in this direction. The two decades succeeding the conference were barren of "socialist" movement by Labor governments. Indeed, what little had been done earlier had subsequently been undone. More than thirty years had passed since the Fisher Labor Government of the Commonwealth established the Commonwealth Bank, in 1912, as a publicly owned and operated bank in competition with the score or so of private banks. A dozen years later, the Bruce-Page Nationalist-Country Party Government had given control of the Bank to a board of directors mostly drawn from private industry and finance. Of the banks operating when the Commonwealth Bank started, half had since been swallowed by the other half, and with the 1924 serving of "the People's Bank" to the full-fed survivors, any prospect of social control of credit was sent reeling back into remote perspectives. Other public business undertakings had not been given better shrift. Government-owned woollen mills were sold in 1922 by

the Hughes Nationalist Government and Commonwealth passenger ships and freighters in 1928 by the Bruce-Page Government.

In 1921-44, there was small opportunity for Labor to make towards its socialist "objective," for the only Labor governments to take office at Canberra were engrossed by crises of the national affairs, not admitting of a socialist on-the-spot solution. The Scullin Government of 1929-32 had to meet a crisis of public and private finance in a world-wide economic context, and the two Curtin Governments of 1941-43 and subsequently were governments charged to organise at speed an anti-fascist war.

Political Labor has not hitherto, therefore, been at any time in a position to begin socialising Australia on the required national scale. A piecemeal method in the alternative was not practicable. Labor could not in the nature of our country's political and economic make-up try to carry out its socialisation policy within the limits of any one state or group of states. It is true that there have been and are relatively large state industrial and other business undertakings. But although some of them were organised by Labor governments, and conducted successfully in competition with private undertakings, they do not form parts of a socialisation pattern. They are important, for reasons to be discussed. But as C. Hartley Grattan, the best-informed commentator on Australian affairs, has written (*Australian Quarterly*, September, 1940, pp. 76-77), "The experiment with state-owned industries . . . was not really a planned advance towards socialism but rather an unplanned foray into a hazardous field." It is not to be forgotten that the number and variety of these "forays" by Labor governments in New South Wales and Queensland in the quarter-century up to 1936 were unique in the world of their time, and that the enterprises have their continuing value as experiments, carried far, in the social laboratory. Moreover, the commercial success of many of them is a demonstrable fact which it has been the anxious care of private capitalists and their spokesmen to obscure and push out of mind. However, there is no obvious link between these public undertakings of the recent past and the present developments which may herald a new government role in business. To-day, as for a dozen years past, there is revealed in the Democracies generally a tendency for government to accept more and more a direct responsibility

for efficient operation of the capitalist economy. Examples are the New Deal in the United States of America from 1932, and British government expropriation of the private airlines in 1939, and since then, war organisation of private industry in all belligerent countries by the governments.

It was otherwise thirty years ago. In those days, Holman and McGowen and Griffith in Labor-governed New South Wales, and near-contemporary Labor governments in Queensland, tried by setting up a "curious miscellany" of state industrial undertakings, to temper the wind of capitalism to the shorn lamb, the exploited consumer. It was "consumer-socialism" (to twist a term), if any socialism, that the state entrepreneurs had in mind. They were not challenging the capitalist mode of production. They were trying to soften its impact, at some points, on the consumer. They did not concern themselves with the means of production in order to try to substitute a system of production for use for production for profit. But they did try to ensure that prices to the consumer, and incidentally profits to the capitalist producer, should not be inordinate.

The nature of the enterprises which the governments undertook illustrates this consumer-protection motive. The bulk of the New South Wales state industrial undertakings were started as almost the only outsiders to the cartel systems which dominated the building trades in the state; government brickworks, blue metal quarries, pipeworks, timberyards, sawmills were established to compete with combines and provide materials at prices below those charged by private dealers. Apart from this group of building undertakings, and some undertakings designed to relieve the state itself of the obligation to pay tribute to private producers, the main New South Wales undertakings were the state trawling industry and the state bakery, direct consumer-services. The notable Queensland enterprises, in a category with these last, were cattle stations, butchers' shops and fish supply. Cushioning the consumer was the object of the state entrepreneurs in both "Labor states."

So much, for the moment, for the Australian state industrial undertakings born a generation ago. It is not long since the former Premier of New South Wales, B. S. B. Stevens (later Sir Bertram), and his accomplices in Sydney sold the last of them to the private combines which the state undertakings had held in check, come economic weal or woe,

for a quarter of a century. But, highly profitable as they were, low-priced as their products were, greatly as their workers benefited by their distribution of tens of thousands of pounds of shared profits, sabotaged vainly for years as they were and then sold by politicians who were sworn to safeguard the public interest, these public business enterprises were steps towards a socialist society in a limited sense only. It is true that in their time "it was soon shown," as the New South Wales Auditor-General reported in 1927, "that state enterprises, under capable management, could survive, notwithstanding even unsympathetic official action." The profitably operated Commonwealth woollen mills and the Commonwealth steamships were giving a similar demonstration about the same time. And in theory it is true that had governments persisted with their restraint of private monopolies by public competition, they *might* have modified the character of capitalism in Australia. It is true, too, that those who work for nationalisation of key industries in the post-war period can be forewarned, and perhaps forearmed, by learning of techniques of official sabotage which were used in the quite recent past to stop the development of government industrial competition. These considerations make it worthwhile to recall now the history of the state enterprises of 1911-36. But, looking to the past with the object mainly of finding lessons to fit to the future, we need to recognise that these were enterprises of a dead era. They were out of the main stream of Australian economic development, and we cannot move towards socialism nowadays by baking state bread, providing cheap fish as private enterprise will not do, selling state sirloins, and checking the rapacity, by invading the markets, of racketeers of the building and allied trades. Grattan writes sensibly (source quoted above, p. 75), "It has not proved to be the case that state enterprise brought Australia to the point of teetering on the edge of socialism; . . . the curious miscellany of state enterprises put into operation by Holman and McGowen seems now to be characteristic of a pre-industrialised economy." Our modern Australian economy is an industrialised one, and our solutions have to be sought in terms of it and not in terms of a pre-industrial model.

Nevertheless it is of curious interest to reflect now that thirty or forty years ago there was some half-hearted disposition, on the part of Labor leaders in both Commonwealth

and the principal state, New South Wales, to go to the root of the matter. Certainly, Andrew Fisher and his Labor majority in the Commonwealth Parliament did not open their Bank to overwhelm and displace private controllers of credit. But the Commonwealth Bank was soon a great commercial success, and it *could* have been used to put down the monied mighty from their seats. Again with steel, the basic structural substance of modern industry, there did seem a possibility, a generation ago, that government would create a monopoly of blast furnaces, and place itself in a position to control the directions and tempo of other industrial activity. Thus in 1908 the Manufactures Encouragement Act of the federal parliament laid down that production bounties should be paid, until a date in 1914, to those iron and steel producers who would indicate their willingness to hand over their works to the government of the state in which they were operated, on demand! And in 1912 Arthur Griffith, Minister for Works in J. S. T. McGowen's Labor Government of New South Wales, felt confident enough of the Big Business future of his government to tell parliament, "We shall soon have £2,000,000 invested in ironworks." But, instead, what happened "soon" was that the Labor Government abandoned plank 6 of the New South Wales policy platform (establishment of a state ironworks), rejected the recommendation to similar effect of a 1911 Royal Commission, dropped the State Ironworks Bill which the Legislative Assembly had passed by a large majority, and incurred the strong censure of the 1913 state conference of the Australian Labor Party by leaving the open hearth to the Broken Hill Proprietary Company Limited. This company entered the steel production field for the first time, with New South Wales Labor Government encouragement and subsidy, in 1915, and within twenty years achieved a complete monopoly.

Dr. Evatt's judgment on p. 511 of his *Australian Labour Leader* can be endorsed: "It may be proved that, unless founded on iron and steel, state industrial enterprise is apt to be too occasional and trivial to be completely successful." Grattan says of the Labor Government-B.H.P. steelworks negotiations just before the 1914 war, "There is no evidence that any of those concerned realised the crucial importance of steel in an industrial economy. If they did, then they concealed their insight. To our *ex post facto* vision it is perfectly plain that in aiding in setting the Broken Hill Pro-

prietary Limited on its feet for steel production, the Labor exponents of state enterprise as a road to socialism struck a powerful blow for private enterprise capitalism in Australia."

At any rate, that is all over now. Labor helped to establish B.H.P. in its private control of Australian heavy industry, and there is as yet no sign of action after Mr. F. M. Forde's 1939 declaration, as deputy leader of the parliamentary Labor Party at Canberra, that when Labor came to power it would nationalise B.H.P. But in case it should be again proposed to act in this way, the "just terms" given by the government of Victoria twenty years or so ago, when it established the State Electricity Commission and took over the undertakings of the privately owned Melbourne Electric Supply Company, might well be studied by federal legislators as a model. To-day the publicly owned State Electricity Commission of Victoria enterprises are more highly capitalised, and show higher earnings, than even the B.H.P. and all its subsidiaries. The S.E.C. is the largest industrial enterprise in Australia. But its cost to the people of the state has been small. Final transfer of the Company's works to the Commission was made in 1930. Government made a cash payment of £1,350,000, and further payments amounting to £1,500,000 were contracted for to meet debentures falling due at various dates up to 1946. The company's profits had been so great, since the renewal of its franchise for Melbourne electric supply in 1925, that the excess above 7% on its ordinary and 8% on its preference capital went a long way towards paying for the company's assets taken over by the state. The S.E.C. could report in 1930:

"While nearly half the purchase price in a transaction involving over £3,000,000 has been met by moneys already transferred from the undertakings, there had, concurrently, been substantial reductions in domestic and industrial tariffs in both Melbourne and Geelong, and in the charges for public lighting in Melbourne."

In other words, five years' *excess* profits of the company, during a period of government-reduced charges for lighting and power, had sufficed to meet nearly half the cost to the public of the company's assets. Nationalisation carried out over wide fields of industry, on similar terms, should not be a very costly operation. On the S.E.C. example, the price of private enterprise would be no more than ten years' *excess*

profits impounded. As the key industries with which advocates of nationalisation concern themselves are in general the best earners—having usually eliminated competition—this “just price” could soon be met out of the private firms’ own surpluses. For example, on recent accounts the impounding of ten years’ profits above 7% of the Australian metals, power supply, motors, rubber and shipping industries would provide a fund sufficient to expropriate the private owners. But B.H.P., Collins House and the like might not be so ready as the Melbourne Electric Supply Company shareholders were, to leave expansion of their industry to public enterprise.

This outstanding Victorian example of a successful public industrial undertaking was established by non-Labor governments, and certainly not with the object of stepping towards socialism. (On the contrary, when the S.E.C. began to operate successfully a sideline of the sale of electrical apparatus and equipment, the Argyle tory government quickly prepared and put into force legislation to exclude it from this preserve of private enterprise). The S.E.C. was publicly promoted to do, and it does, a basic industrial task at which private enterprise balked. So also it was, from nearly a hundred years ago, with the railways necessary to reticulate a huge, empty country for industry. It was not so with shipping, or coalmining, or air transport, in the ownership and management of which private capital could earn high profits. (Low dividends of the coalmining companies do not invalidate this reference. Profit of B.H.P. Collieries Pty. Ltd. is not the less profit because it may be convenient to count it in the books of B.H.P. rather than of B.H.P. Collieries, and Caledonian Collieries profit is still profit though it appears in the accounts of the shipping company with which it is associated). Private enterprise has left essential but low-profit industries, generally speaking, to government, and has reserved to itself essential high-profit industries, from which at length it has usually excluded real private enterprise and substituted monopoly or something resembling it.

This is the most interesting feature of the economic structure of Australia, which for various reasons shows, and has long shown, a greater representation of the people’s money, drawn by government from direct and indirect taxation, and public loans, than has been usual in capitalist economies. In Australia the capitalist economy depends on public invest-

ment to a greater extent than is usual. This is because of the special nature of Australian resources and their geographical distribution. Big Capital takes big profits from industries that are capable of yielding them, and the community as a whole pays the piper for the rest—without which Big Capital would be at a loss to get its products to market, or even to obtain the power to operate its machines. There is no moral reason why this sort of exploitation of the many for the few should be allowed to continue. Nor is there any reason to believe that governments are less capable than private firms of enlisting in their service efficient technical and administrative personnel. On this latter point, there is no cogency in arguments attributed to the chairman of the Secondary Industries Commission, Ministry of Post-war Reconstruction, in newspaper reports of November, 1944, of a document drawn by him. Mr. Jensen was reported as saying, in discouragement of proposals that the Commonwealth Government should engage in competitive industry (in case it could obtain constitutional authority to do so), “Government employees have no knowledge of the technique of manufacture of commodities outside the engineering and chemical industries.” “The engineering and chemical industries” amount, it would seem, to a considerable part of basic manufacturing industry, mostly still reserved to private monopolistic organisations. But, outside them, there is a good deal in past experience of publicly operated woollens, building materials, shipping, banking, and a variety of other complex business undertakings to encourage a belief that experts are as ready to serve governments as private firms.

With airlines, railways, the most important sources of power, and—as could be—coastwise shipping, coalmines and the metals industries, under public ownership and control, a large step could be taken towards socialism. In the meantime, it is desirable to bear in mind that nationalisation of airlines has not necessarily anything at all to do with a Canberra-sponsored movement towards socialism. Nor need continued Commonwealth Bank holding of a certain proportion of private trading banks deposits mean more than a step towards making the Commonwealth Bank into a private banks’ central bank. It may well be that the airlines are to be taken over because the Commonwealth Government wishes to enhance its bargaining power at the Peace table, or because after the failure of the Chicago international air

conference it is believed only an Australian government monopoly of all internal airlines could hope to stand up against overseas competitors, or because Defence advisers have recommended it, or for some other reason having nothing to do with ideologies. After all, the conception that public utilities ought to be publicly owned and operated is gaining ground even in the United States of America, the world's last stronghold of *laissez faire* capitalism; and with the fast development in Australia, as elsewhere, of Monopoly still using the shibboleths of Competition for propaganda purposes, no more virtue inheres in state capitalism, for the socialist, than in private capitalism.

We do not want the state and the nation to be used as instruments by Monopoly Capitalism. We want the state and the nation, and not the local representatives of big overseas capitalist organisations, to direct the policies of the basic industries—metals, coal, power and transport—and thereby, the policies of the fabricating and finishing industries. And we want the profits of industry to go to the state and nation, that can provide its own capital, and the excess to the workers in industry, who would then have in sufficient measure the "profit incentive" without which, we are told, men will show neither enterprise nor application to their tasks. It is in the light of these possibilities, in the circumstances of an Australian economy now relatively highly industrialised, that we can usefully examine the existing and even the destroyed public business undertakings of our pre-industrial recent past. The short history of the Commonwealth Bank under public control shows governments in Australia have managed Credit very profitably to the Bank's shareholders, the Australian people. The history of the New South Wales state brickworks or pipeworks shows that governments can pay high dividends, charge low prices, allocate large sums for renewal and extension of plant, accumulate great profits—and all this, after paying bonuses to employees, over a period of years, on a scale never approached by private enterprise or monopoly.

The sections following are arranged in what seems an appropriate order. First, the New South Wales "consumer-protection" state undertakings are given a good deal of space, for they illustrate vividly the difficulties which face any attempt to graft socialist enterprises to the living body of a capitalist economy. Then the similar, but slighter, Queens-

land state undertakings are mentioned. The survey passes from these Labor attempts, dictated by some sort of vague ideology, to the power-enterprise of the State Electricity Commission of Victoria. Going to the basis of the economy, as the Labor experiments did not, this undertaking of non-Labor governments shows public enterprise attacking perforce, and accomplishing, an urgent task from which private enterprise had retreated. Finally, the potential role of the Commonwealth Bank, at the credit basis of the Australian economy, is noticed in the light of its early government-directed phase and its subsequent direction by and for "private enterprise."

2. NEW SOUTH WALES STATE INDUSTRIAL UNDERTAKINGS 1911-36

Most public enterprises undertaken in Australia have "paid," in the sense that private firms "pay"—by showing a profit on operations. Some have shown a loss on operations, just as, every year, a proportion of private firms have to admit to a profit-and-loss deficiency. But some New South Wales state industrial undertakings did better, over a period of many years, than simply pay a handsome dividend. They excited a lively apprehension among private business operators, who were forced to visualise a possibility that government competition would take the sting out of cartel arrangements for flaying consumers, and impede the "normal" advance of the strongest private firms towards domination of their industry. That is why private interests, in New South Wales, used pliable governments, first to embarrass the conduct of state enterprises, and then, when that failed of sufficient effect, to put an end to state competition that was providing good and cheap service to consumers. There were a dozen state industrial undertakings in New South Wales when the 1914-18 war ended. Sir George Fuller, the breaker of the 1917 railway and general strike, disposed of eight of them in 1923. He closed the state bakery, sold the trawlers, the Gloucester sawmill and its Newcastle sawyard, the timber yards and its neighboring power station at Uhr's Point. He de-registered—i.e., removed from the competitive field and absorbed into state departments in whose accounts their useful and profitable operations would be unobserved—the state clothing factory, motor garage and drug depot. Only four under-