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SOCIALISM AND REFORM IN CONTEMPORARY AUSTRALIA

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THIS ESSAY DEALS with two interrelated themes: the rupture of the nearly three decades of steady economic growth, full employment and rising living standards experienced by Australia since World War II; and the results of a social democrat government's efforts to change Australian society. These events occured concurrently and their relationship will be indicated. The essay does, however, make certain assumptions which, while familiar in democratic socialist circles, might require explanation for the general reader.

Australia is a capitalist society. Like other capitalist societies its essential features include: (1) Free labour; the vast majority of people work for a wage and own no means of production. Where they do own capital[1] this does not constitute their major source of income; (2) Productive labour provides the source of value; (3) The ownership of the means of production is vested in a small number of persons and that ownership has become increasingly concentrated; (4) Production of goods and services is undertaken in the main only when it can be done at a profit; (5) The major source of economic growth is the re-investment of that profit in further means of production thereby increasing productivity per man-hour (the expanded reproduction of capital); (6) The society consists of different classes reflecting essentially people's situation with respect production; (7) These classes have unequal access to the products of society both material and cultural. It is from these basic features of capitalist societies that socialists have developed analyses of their structures and operations.[2] These may vary considerably between different times and different countries. The major additional features of the advanced capitalist societies of the post war world[3] have included: steady economic growth, an enlarged public sector (the welfare state), rising living standards, increased economic inter-dependence via trade and investment. As a result it has been widely alleged that the socialist characterisation of capitalism is redundant. These charges should be briefly examined.

First, it is argued that, contrary to the prediction of Marx, the working class has not got poorer, nor have divisions of wealth in society increased, nor has society polarised into two antagonistic classes, labourers and capitalists. In fact Marx did not anticipate workers getting steadily poorer indeed quite the contrary[4] --and the ownership of wealth *has* become progressively more concentrated in advanced capitalist societies.[5] Multi-national corporations establishing quasi-monopolies on a global scale is but the most spectacular example of this trend.[6] Living standards have risen but control over production has been simultaneously narrowed in fewer hands while large minorities remain in poverty.[7] The other point - that class polarisation has not occurred - has more validity.

Secondly, it is pointed out that with the growth of the middle classes and the liberal democratic welfare state, the cutting edge of Marx's proletarian revolution has been blunted. Class polarisation between labourers and capitalists has not occurred in advanced capitalist societies even one hundred years after *Capital*. Only in peripheral countries penetrated by the capitalist states in their search for raw materials, investment outlets and further profits, has such revolution and antagonism occurred: Russia 1917, Eastern Europe in the 1940s, China 1949, Indo-China 1945-75. While such societies may have been subject to exploitation within the world market established by the capitalist states[8] they provide no evidence for the historical inevitability of an overthrow of an existing advanced capitalist society. Even sympathetic observers of Marx, such as Paul Sweezy would concede that Marx's time scale was far too short and his anticipation of reformist movement inadequate.[9]

Thirdly, it has been argued against socialists that since 1945 the features of capitalism that produce crises have been eliminated. One element in the socialist analysis of capitalist societies includes the contention that they cannot function smoothly over a long period of time (they contain 'contradictions'). They run into *crises*. These may take a number of forms: among others, there are, wars between states (inter-imperialist rivalries); depressions (from imbalances in the economy or a declining rate of profit); stagnation (due to class conflict); decline (due to uneven development). The post-war world witnessed few manifestations of such crises as, if was alleged, governments possessed the means and ability to sustain global economic growth. This was the product of domestic economic management (the Keynesian revolution) and international co-operation. These claims no longer seem quite so persuasive.

Finally, it has been claimed that the post-war failure of the socialist political movement in advanced capitalist societies confirms its historical bankruptcy. This claim deserves serious consideration. Since the 1917 Russian revolution, the socialist movement has broken into two broad streams, the embryos of which existed even before that time. They may be described as Leninism and Social Democracy. The model of the first derives from the CPSU (Bolshevik): a cadre party of trained socialist revolutionaries should penetrate the working class and in a time of crisis provide political leadership for the seizure of state power and establishment of the Dictatorship of the Proletariat.[10] The experience of the last

thirty years has indeed suggested the failure of this strategy in advanced capitalist societies. Its proponents' defences, however, include: (1) that no deep crises have occurred in that period but that they will (must); (2) that is *has* worked in societies most deeply exploited by the capitalist dominated world market (e.g. Indo-China) and that the Third World is the centre for socialist revolution in the contemporary world; and, further, (3) that successful Third World revolutions will, by cutting off that source of cheap labour, raw materials and markets, produce deep crises in the advanced capitalist states.[11] In fact the majority of communist parties of advanced capitalist states, particularly those who have most successfully penetrated the working class of their society and given it political leadership, have progressively abandoned their Leninist heritage —including the Dictatorship of the Proletariat—and assumed aspects of the Social Democrat model.[12] Lenin, and his political successors, regard these as 'revisionist'.

Social Democrat parties spring from two main sources. Some came earlier from the same 'revisionist' tendencies within Marxist parties. The German leaders Kautsky and Bernstein present the historical model of Marxist theoreticians arguing for a peaceful transition to socialism and a democratically planned society achieved through a parliamentary electoral victory. Others, as in Britain and Australia, were less theoretically inclined and were established to provide parliamentary representation for the trade union movement. The latter provide one focus for this essay in the form of the Australian Labor Party. Lacking the theorectical rigour of a Marxist tradition their focus has rarely been on abolishing capitalism and replacing it by a system of planned production and distribution for social need rather than profit. Rather they have emphasised the need to alter capitalism to the advantage of workers and other disadvantaged groups by redistributing income, improving welfare benefits and, if necessary, nationalising some industry to bring it under social ownership.[13] In a period of sustained growth, the force of the of the last point has been typically restrained since production is, in any case, being maintained by capitalists. The social democratic programme becomes 'welfarism' plus redistribution. In periods of depression it is broadly the case that they have failed to maintain output. In both Britain and Australia the 1930s depression was heralded by failed social democratic governments.

To summarise: the capitalist mode of production has certain basic features but their precise nature will vary from country to country; in the advanced capitalist societies, the period 1945-71 witnessed a widespread economic boom; during that period the socialist opposition except in the formerly colonial areas was both weakened and modified. It is within that context that the Australian experience since 1972 will be examined.

1. The Long Boom 1945-71

Historically, economic growth in capitalist societies has rarely been smooth or steady. There is no serious dispute among economic historians about this. Periods of rapid growth lasting for up to thirty years have been succeeded by 'busts' with higher unemployment levels, slower capital accumulation, increased bankruptcies and low or zero growth rates. Even when growth rates have been favourable, unemployment rates have been over five per cent of the work force, and short term economic fluctuations—trade or business cycles—have occurred. The Australian boom form the 1860s to 1890s[11] was followed by depression and concomitant political upheaval—including the formation of Labor Parties and a wave of nationalism.[15] After the brief post World War I recession economic activity boomed, only to be curtailed by a world wide recession with deeper political consequences—fascism in Europe and revolutionary activity in the depressed periphery of the colonial areas.

Various explanations have been offered for these phenomena. The trade cycle of five to seven years duration—is generally attributed to what economists term the imbalance between the production of consumer and investment goods; Marxists do not differ substantially in terming it a disproportionality crisis.[16] Since a capitalist economy is not planned or co-ordinated, overall, but output results from each capitalist seeking to maximise profits, some cut back investment and a temporary recession occurs until new machines are required. The deep depression of the 1930 occasioned more fundamental enquiry.

Socialist economists, basing their analysis on Marx, offered two major sources for the crash, both of which they viewed as originating in the essential features of capitalist society. The first involves the theory that Marx advances in Volume III of *Capital*: 'The Tendency for the Rate of Profit To Decline'.[17] Put bluntly, he argued that for capitalists to maintain their profitability they were forced by competition to re-invest their profits and provide capital (e.g., machines) for their workers. In the short term, this would increase the bulk of their profits by increasing productivity and output. But in the longer term, the percentage of profit accruing from each *additional* unit of investment would decline until it was not profitable to undertake new investment. At that stage machine producers would have no markets and overall output would decline. This process would be cumulative. While he argued that various factors might offset this tendency,[18] in the long run it would operate to produce a depression. During that 'cleansing period' bankruptcies would heighten, capital be worn out, and the wage level would be driven down until it was again profitable to invest. Secondly, derived from Lenin,[19] it was argued that each capitalist state would compete more vigorously for new markets to offset this situation. This would make international co-operation to rectify the situation difficult if not impossible. The competition could even produce war to redivide the world market. Only socialist planning could obviate these necessary consequences of anarchic capitalist production.

Bourgeois economists drew two related conclusions from the same historical experience. The first is now associated with the English economist Lord Keynes.[20] He argued that the lack of effective demand had produced a decline in production which itself—by sackings and bankruptcies—only further reduced demand and production. The role of government was to maintain a high level of demand, and by running deficit budgets—putting money into the economy—and facilitating credit, to prevent a trade cycle from nose-diving into a depression. This advice was contrary to the government orthodoxy of 1930—accepted in Australia from the Bank of England with the Premiers Plan—of balanced budgets and wage cuts. Secondly, as Kindleberger puts it, the world was lacking in leadership: Britain was too weak and the U.S.A. unwilling.[21] Since international co-ordination was lacking, competition resulted: trade wars, currency devaluations, the dumping of goods and territorial seizures. Institutions were required to regulate international production, trade and currency fluctuations.

In fact, although there had been some cyclical movement away from the most severe depths, it was only World War II that, with increased military production, ended the depression. Yet it has not recurred before the 1970s. Why not?

The period 1945-71 proved to be an unprecedented era of economic prosperity in the advanced capitalist countries. The record shows that they experienced per capita growth rates varying between 3 and 10 per cent, Britain, Australia and the U.S.A. towards the lower end, the E.E.C. states, especially West Germany, and Japan towards the upper end of the scale. While minorities continued to experienced bad social conditions[22] and certain regions fell behind,[23] for most of the population living standards improved, capital was deepened and the provision of 'social capital' was extended. (This makes no argument concerning the quality of improved material conditions, e.g., drive-in movies or hospitals, or democratic social control over their provision.)

The most vociferous proponents of their own responsibility for the unprecedented capitalist boom were those economists who inherited the doctrines of Keynes and who manned the international agencies designed to maintain global harmony or at least propagated their cause. Let us take these issues separately.

By the end of the Second World War the governments in office in the liberal democratic states were fully cognizant of the dangers of recession. In the years 1944-6 they publicly committed themselves to the doctrine of full employment as a basic public policy objective, in the U.S.A. under the Democrats as in Labour Britain. In Australia, the White Paper on Full Employment was issued in 1945 under the auspices of Ben Chifley. Keynesian demand-management policy integrated well with Labor's traditional objectives which had only been reinforced by the electoral drubbings its 1931 economic failure had produced. In addition, the more radical aspects of the Keynesian school included more direct economic management of production, and hostility towards what were seen as the 'rentiers' or unproductive 'coupon-clippers' of the world of finance capital. These were readily incorporated into the period of post-war reconstruction by the A.L.P. and were even extended to the 1947 proposal to nationalise banking. This was in order to produce more effective economic management of a capitalist economy—not to fundamentally change it. In the event, the economic controls and the nationalisation of banks were both defeated politically: the latter in the High Court,[24] the former at the 1949 election.[25] But the Liberal Country Party Coalition maintained the same responsibility for counter-cyclical demand management, deficits and cheap money when a trade cycle trough threatened.

The result, it was claimed, was that as in other advanced capitalist societies the trade cycle was ironed out. With suitable manipulation of fiscal (budgetary) and monetary (interest rates, lending) policy, economic growth could be even and sustained. The more radical aspects of Keynesian philosophy—for example indicative planning—were avoided in Australia even though they were taken up in Sweden, France and less successfully in Briatin. Following the worst recession of the period,[26] 1961, and the near electoral defeat of the Menzies government which resulted, some lip service was paid to planning. The Vernon Committee was established and reported in 1965.[27] It made some modest proposals for planning bodies. These were rejected by Sir Robert Menzies after fairly open criticism from the Treasury which—despite the vast system of tariffs, subsidiaries and grants which McFarlane has argued amounted to a *de facto* system of 'hydra-headed planning'[28]—maintained that market forces could most efficiently distribute resources. As a result of the pre-eminence of aggregate demand management, Treasury bureaucratic dominance, and a multi-levelled system of subsidies, Australia failed to develop any systematic process or institutions for the economic planning of production.

At the international level, the direction for planning came from a seemingly unlikely source, the United States Government. At the end of the Second World War only the United States economy was stronger than at the start. It also possessed about three-quarters of the world's monetary gold. The European powers were devastated—victor and vanquished alike—and Britain stood near bankruptcy. From the time it was clear that military victory was assured, late 1943, the U.S. Government carefully planned its policy towards the post-war economic order. It wanted free trade and the dismantling of both trade blocs and planned economies. The Kolkos[29] have demonstrated the efforts that it put into the attainment of these objectives. The United States provided that global direction, the absence of which Kindleberger had concluded, had been vital in permitting the 1930s depression. This direction took various forms. The closed colonial empires were dismantled with U.S. encouragement and the old mother countries replaced by the U.S. as major investor and trading partner. The European capitalist states were stabilised with Marshall Plan aid, and U.S. capital invaded Europe. The American dollar became the international currency valued at $35 per ounce of gold, and other currencies were at fixed exchange rates. Under American promptings the General Agreement on Tariffs and Trade later provided further impetus to free trade and access for superior American industry.

Recalcitrant states were policed by American agencies: the International Monetary Fund, the World Bank, the C.I.A. or, if necessary, the marines and the B.52s.[31] It was to be the 'American Century'.

Australia was not immune from this global shift in the balance of power. It is most widely noted, of course, that following Curtin's 1942 appeal to the U.S. for assistance, Australian military policy moved into tandem with that of America both in Asia and globally. Australia became involved in America's Asian wars: Korea, China, Indo-China, Indonesia. It further became the site for the most important strategic installations outside the United States.[32] In addition, the programme of rapid industrialisation begun after 1945 was heavily dependent on U.S. investment, and Australian trade moved away from the British imperial framework towards the U.S. and Japan.[33] The increasingly bizarre slogans of a series of Australian Prime Ministers—'our great and powerful friends' (Menzies), 'all the way with L.B.J.' (Holt), 'we'll go a waltzing Matilda with you' (Gorton)—were a colourful recognition of reality.[34] Australia, like the other capitalist states, accepted U.S. orchestration of the management and defence of the capitalist world. Only when American capacity in that respect faltered did Australian governments change their tune.

Within this global context, Australia experienced a similar long boom to that of other advanced capitalist states. Industrial production grew steadily and with minimal trade cycle fluctuations.[35] In Australia's case, this was associated with a high level of tariff protection, a large inflow of foreign labour and a typical growth of industrial concentration in monopoly enterprises, foreign-owned to an untypical degree.[36] The steady growth of world trade facilitated economic development, which was buttressed in the 1960s by the rapid growth of the mineral and energy industries with a ready market in fast-growing Japan.[37]

The post-war Australian boom was thus a product of foreign capital inflow; the immigration of cheap labour;[38] a steady growth in world trade providing ready markets for primary industry, agricultural and mineral; and the rapid development of the industrial sector under protected conditions.[39] Why should this situation not last indefinitely?

An alternative explanation for the long boom which Australia shared, would not discount the policies of governments, internal and international, but would regard their success as dependent on three other factors. First, the period 1930-45 had witnessed global destruction of capital, and extensive technological discoveries. As a result it was both profitable to invest on a wide front of industrial production, and a large stock of new industrial developments were in the pipeline. This impetus would prove to be exhaustible. But in two respects, until 1970 it appeared to have replaced the contradictions of capitalism with steady global growth: the labour movements defeated in the 1930s offered no political challenge to profits, and relative income shares remained static or shifted to profits; there was no evident decline in the rate of profit.[40] Secondly, the American dominance of the world market and political management of it had been maintained. Thirdly, the Third World countries provided cheap raw materials, energy and labour and despite their political emancipation from the colonial era, seemed unable to escape the structure of the world market imposed on them during that period. The terms of trade continued to swing against them—that is the price of their raw material exports declined against that of their industrial goods imports.[41] In the first half of the 1970s these conditions were altered.

The first public round of the new era was fired by the U.S. government when it unilaterally devalued the U.S. dollar and imposed import controls in August 1971.[42] This was the result of America's spending more on overseas imports, military expeditions, especially the Vietnam War, and on foreign capital investment than its exports could pay for. Further, its slower growth rate, lower level of capital accumulation and large, unproductive military-related industry[43] led to its exports becoming increasingly uncompetitive on the world market at the exchange rates fixed in the 1940s. Under the terms of the 1944 Bretton Woods Agreement, however, the U.S. had been able to print dollars which its partners had agreed to accept at a fixed value, $35 to an ounce of gold. Since 1960, the U.S. had lacked the gold to back its currency. Although the 1971, and further devaluations, checked the outflow of gold and dollars it has been variously estimated that between 100 and 170 billion dollars had entered the international money markets.[44] The stable international monetary structure was replaced by competitive floats and a massive boost to international liquidity that was difficult for individual governments to control. One of its effects was to lift inflationary pressures.[45] Over A$3 billion entered Australia in 1971-2 and contributed strongly to sparking the inflationary spiral. At the same time, the advanced capitalist countries experienced a concurrent trade cycle recession for the first time since 1945, the synchronisation and the anti-inflationary policies of governments strengthening its intensity. Two other phenomena also emerged in that global recession of 1971-72: the level of industrial strike action rose as workers sought compensation for increased prices;[46] and it was widely reported that the level of profitability was declining.[47] Finally, the commodity producers of the Third World enlarged the formation of producer cartels with the intention of jointly fixing higher prices for their commodities on the world market. OPEC won its first price rise in 1970 and provided some impetus in this respect.[48]

The global recession of 1971-2 was a dress rehearsal for the events of 1974-6 and 'stagflation' entered the international vocabulary: price rises occurring during a period of recession.

Let us summarise our argument so far. The period 1945-71 was one of fairly steady growth for the advanced capitalist countries during which their population living standards rose steadily, welfare benefits were progressively expanded and the insecurity of social life was diminished. Internal demand management maintained output; international cooperation under American tutelage ensured the growth of world trade, international investment and labour flows, and currency stability. Cold War military strategy protected the world capitalist market. In 1971-2 this system suffered several shocks: American leadership was eroded and international competition intensified; a deep (by post-war standards) global recession occurred; price stability was ended partly by the large stock of footloose dollars; the profitability of investment was in question; and the Third World was challenging the structure of the international market.[78] It was in such circumstances that the A.L.P. came into office.

2. The A.L.P. Electoral Victory

On 2 December 1972, the A.L.P. won federal government after twenty-three years in opposition.[50] The victory was a narrow one but was widely regarded as a decisive turning point in Australia's post-war political development. What was the significance of that victory?

The programme on which the A.L.P. was elected in 1972 was that of a centrist party criticising the seamier results of the long boom. Its immediate impact was contained in its attack on the coalition Government's handling of the stagflation of 1971-2. The policy speech contains no reference to the party's socialisation objective—the first paragraph in the party platform.[51] It was a programme of welfare services expansion and moderate nationalism designed to attract the swinging voter in sufficient numbers to provide, with traditional Labor working class support, a majority electoral coalition. It succeeded—barely.

Australian society during the twenty-three years of Liberal Country Party rule had, like other capitalist countries, experienced steady economic growth but under specifically Australian conditions. The overall growth rate had been at the OECD average rate, but in per capita terms it was low. Industrial development had been rapid but the industrial base was not internationally competitive and required heavy tariff protection. Further, it was like the minerals industry, extensively foreign-owned.[52] The large immigration programme had provided cheap labour but at the cost of widening rather than deepening the capital stock. As a result, productivity growth was low.[53] The corresponding growth of the urban centres, buttressed by continued rural depopulation, had been ill-planned, spawning the great 'Australian ugliness'.[54] The public sector of both productive enterprises and welfare services was among the smallest in the advanced capitalist world.[55] *Laissez-faire* government had developed neither adequate social services nor mechanisms for economic planning.[56] The fastest growing section of the population—the urban middle class—appeared to hold the key to electoral success in outer suburban seats especially in Sydney and Melbourne.[57] Mr. Whitlam, a lawyer on the Right of the A.L.P. was elected leader in 1967 with the intention of welding these elements together.

The A.L.P. policy speech for the 1972 election[58] focussed on four things: the Government's economic mismanagement; Australian nationalism; the need to expand government social programmes; and a new deal in foreign affairs. At the outset Mr Whitlam blamed the Liberals for the worst unemployment in ten years and the worst inflation rate in twenty. He later promised the introduction of 'economic planning machinery' to produce faster growth and full employment, and a Prices Justification Tribunal to deal with inflation. Nationalism was strongly expressed with relation to foreign ownership of resources:

> The Australian people shall be restored to their rightful place in their own country as participants and partners in government, as the owners and keepers of the national estate and the nation's resources, as fair and equal sharers in the wealth and opportunities that this nation should offer.

Labor would expand the Australian Industry Development Corporation (AIDC) to join in resource development. The social and welfare programmes covered a long list including pensions, education, urban transport and development, health, a national compensation scheme, consumer protection, pre-schools, housing, sewerage, and regional development plans. How was this programme to be paid for?

> 'A Labor Government will establish the machinery for continuing consultation and economic planning to restore and maintain strong growth. This is the real answer to the parrot-cry 'Where's the money coming from?' Even at the present low rate of growth Commonwealth income has nearly doubled in the past six years'.

Finally, various initiatives of a more independent character, including the recognition of China and the abolition of conscription, were promised in the field of foreign affairs.

Three years later, Mr Whitlam was to concede that the entire programme rested on a central assumption: that a higher level of economic growth could be maintained.[59] It was not then clear how this was to be achieved, though rather ritualistic reference was made to planning machinery. Since increased progressive taxation was not proposed, nor the large expansion of public ownership of production by nationalisation or other means, the programme's success depended on the success of the planning machinery. It never materialised. In fact quite the opposite: in seeking to dismantle the myriad of devices accumulated over two decades that provided effective subsidies to the private sector the Labor government restored 'market forces'. As Mr Whitlam was to put it in August 1973: 'What you are experiencing now is the impact on the Australian economy of the first genuine free enterprise government in twenty-three years'.[60] Before reviewing these developments we may consider the alternatives.

Traditional Labor party strategy for enabling greater control over economic output is generally associated with the policies of the British Attlee government 1945-51. On that strategy, sections of private enterprise were nationalised and brought under public control in the form of a public corporation. The sectors aimed at were the 'commanding heights' —particularly transport, power, and the iron and steel industry. Public control would enable the government to plan production and investment on a long term basis in accord with national needs. This was

carried out by the Attlee government with a concurrent expansion of welfare services—many means-tested—paid for by expanded progressive taxation. In fact not only did the public enterprises prove *not* to be the commanding heights in determining British economic activity in the 1950s and 1960s, they also served largely to provide public subsidy for private profit by running at a loss. They also failed to provide any social model for socialist industry by maintaining managerial prerogatives and capitalist accounting prodcedures. For example, in a most short-sighted manner the coal industry was allowed to run down severely in the interests of short term profitability. This model was rejected in 1972 by the Australian Labor Party for two reasons. It was afraid of raising the issue of nationalisation after Chifley's banking defeat, and it argued that any such act would be declared unconstitutional.[61] Further, believing the 1971-2 recession to be a product, like 1961, chiefly of Liberal mismanagement, the leadership thought a nationalisation/socialism objective was not only unnecessary but harmful for its electoral prospects with middle class swinging voters.

A second model finds use in Sweden where similar ideas to those of Keynes were developed by Swedish economists along slightly different lines.[62] Alongside demand-management policy and a large welfare service, government agencies directly regulate the supply of key factors of production, particularly labour and investment capital. A labour retraining scheme is administered in concert with a centralised trade union structure. Forward calculations of labour requirements are met by extensive retraining on a scale that by Australian terms would have cost up to $2 billion per annum. Under an investment fund system corporations can deposit some of their profits tax-free to be released at times of recession for approved projects. Further, public agencies keep a store of investment projects which compete for implementation as part of a counter-cyclical investment expenditure policy. Much of the private sector is open to foreign competition—particularly secondary industry.[63] Aspects of this system were utilised by the Labor Government but in a half-hearted fashion and not as an overall package.

The issue of economic *planning* versus economic *management* is a key one for a socialist movement. By 1972, management had come to mean essentially demand management in the belief that output would follow public stimulation of aggregate demand. Socialist *planning* would involve the community in a social process of deciding the quality and pace of economic activity: This necessarily means public involvement in ownership of supply and production for public need. In one sense socialism may be defined as the conquest by the plan of market forces. Yet that alone would be insufficient. A further step is required: the democratic control of the planners' preferences. In this respect the A.L.P. command structure appears to offer assurances. The biennial federal conference formulates policy from resolutions submitted by branches and affiliated trade unions; the Federal Executive periodically interprets these policies; the Caucus of Labor parliamentarians determines the tactics for their implementation and, in government, elects a Cabinet to administer them. As has been widely observed, however, in office the power of the government with respect to the labour movement is greatly increased, and despite dire warnings of trade union control, in both Britain and Australia, Labor governments rarely submit to the instructions of extra-parliamentary bodies. This has the apparent advantage of earning the accolades of a hostile press for the integrity of Parliamentary government. It also has the major disadvantage of making social policy often as difficult to implement for Labor as for tory governments. The policy speech made clear reference to the need to utilise *expert* advice on a number of commissions to be established to advise on the formulation and implementation of a policy. In addition, 'We shall need the help and seek the advice of the best Australians. We shall rely, of course, on Australia's great public service; but we shall seek and welcome advice and co-operation from beyond the confines of Canberra'.

The dominance of Cabinet over the labor movement was demonstrated at the Federal Conference at Surfers Paradise in July 1973. Over fifty motions from the branches were postponed on the agenda to the final day; the conference then adjourned without discussing them.[64] Policy initiative resided in the Ministry with its coterie of seconded advisers, public servants, specialist commissions, think tanks and academic experts. While the economy functioned smoothly this occasioned little dissension. When the economic situation deteriorated a politically cohesive labor movement did not exist. The consequential differences of opinion and open conflicts were one of the important ingredients that led to the government's destruction.

3. The First Labor Ministry, December 1972-May 1974

The first Labor Ministry of seventeen months presents a record of lost opportunity. Some readers (and no doubt some reviewers) will be surprised by this statement. It is certainly true that the period was one of great activity. It is its purpose that requires attention.

The economic conditions of the period were dominated by two features: rapid and continued recovery from the recession of 1971-2, and a steady rise in the inflation rate. These were both characteristic of all the advanced capitalist states. Labor utilised this period to introduce a wide range of new policies. As Lloyd and Reid document,[65] it was a period of greatly increased Parliamentary activity: more bills presented, more passed, more Parliamentary committees, more divisions. In the area of public service administration a number of new Commissions and think tanks were established: Social Welfare, Cities, Grants, Schools, Petroleum and Minerals, Industries Assistance, and the Priority Review Staff among others. By the end of 1973, Mr Whitlam reported that ninety-six enquiries, commissions, panels and task forces had been established to investigate, among other things, the public service, Post Office and the C.M.F. Six new ministries were established including Environment and Conservation, Media and Urban and Regional Development. What did all this activity produce?

It is not the purpose of this essay to canvass the entire range of this activity in any detail. The main elements of the policies are discussed below.

The extensive commitments to expanded social welfare programmes were taken seriously and their inauguration was commenced. The details of some had either not been worked out or required negotiations, and like Medibank they did not originate in this period. However, in many directions they were quickly off the ground. Pensions were raised in accordance with the objective of their reaching 25 per cent average weekly earnings. Expenditure on education doubled in the 1973 budget, on health, by nearly 20 per cent, on housing, fourfold, and on urban development it tripled. New social projects were begun: community health centres, environmental protection and the assistance programme to the new regional divisions. This was possible without a rise in the tax level (which had been specificially eschewed in the policy speech) because increased receipts resulted from two sources. First, the economy was operating at near capacity and hence producing larger revenues. Secondly, as inflation speeded up, income tax payers could and did enter higher tax brackets on the progressive tax scale, without earning higher real wages (fiscal drag). However, neither of these two sources could be relied on to continue to provide increased revenue: the sharp sprint up the business cycle was temporary; the inflation rate, it was hoped, would decline. Economic growth would provide the long term funds necessary to sustain an *unproductive* public programme. How was this to be accelerated?

The strategy for increasing economic growth contained four elements. The first related to the capital stock. The system of *ad hoc* 'hydra-headed' planning of the industrialisation strategy had produced an industrial structure with considerable inefficiencies. On the one hand, as a result of the ease with which tariff protection was granted, particularly during the era of Sir John McEwen, some industries were inefficient according to the bench-mark of the cost of their products by international standards. Most economists agreed that their degree of tariff protection should be lowered, and economic surveys frequently listed those industries.[66] This was particularly true of textiles, footwear, furniture and paper. It was also doubted that these industries were improving their position and thus qualifying for 'infant industry' status. In general they were undercapitalised. On the other hand some industries were over-capitalised. As a result of the local-content provisions laid down by the coalition government in the 1960s, there were four foreign-owned automobile-manufacturers operating in a market that could have barely supported one without protection. In this case there was the additional problem that consumers were, in any case, shifting from the local product to imported vehicles, a trend which would accelerate.

On 18 July 1973, a tariff cut of 25 per cent across the board was announced. Further, in December 1972 and September 1973, the Australian dollar was revalued by 7 and 5 per cent respectively against the U.S. dollar. The result was to increase considerably the cost of domestic goods relative to the now cheaper imports. It was intended that, as a result, the least competitive, and hence the least efficient, sectors of industry would be closed and new capital located in the more efficient remaining areas where capital-deepening could ensue. This would raise productivity and growth.

The second aspect related to the labour force. The large pool of unskilled labour that the immigration programme had provided would be curtailed. This had not only reduced capitalists' incentive to increase capitalisation, it had also necessitated large expenditure on 'social capital' which was unproductive. In its place the increase in the work force would be met from two other sources. As in other capitalist countries, married women had been entering the work force in increasing numbers (their 'participation rate' had been rising). This process would be encouraged not only ideologically through the general Women's Liberation propaganda but, more important, materially by the provision of day child-care centres, and government support for equal pay for women. This would enable the same quantity of social capital to provide a larger quantity of labour power, thus in Marx's expression 'increasing the intensity of exploitation'. For by 'the widespread introduction of female labour', 'the whole family must now perform more surplus labour for capital than before, even when the total amount of their wages increases, which is by no means always the case'.[67] Or to put it in more contemporary terms, 'we find the main potential labour reserve among the 2.4 million (women) who are listed as being on home duties . . ., there is further scope for drawing on this reserve if suitable jobs are offered'.[68] Whereas in 1907, Justice Higgins took 'the standard appropriate to the needs of the average employee regarded as a human being living in a civilised community' and established a fair and reasonable wage for a man with a wife and about three dependent children to support as the labour power required from a family unit, in the 1970s two labour units would be required to attain the newly historically determined fair and reasonable wage.

The other source of labour, in addition to natural increase, would be provided by those workers eased out of the bankrupt, inefficient industries in the process of rationalising the capital stock. More than the female entrants, they would be recycled through that pale imitation of the Swedish labour plan, the National Employment and Training Scheme (NEAT). As the then Labour Minister put it: 'Where tariff changes cause displacement, we will be there to sustain the displaced worker. Where technological change makes a skill obsolescent, we will be there to teach another skill'.[69] In the absence of immigration which provided a highly mobile increment to the work force, the government was seeking to match capital's labour requirements from internal sources. That NEAT was too little, and badly administered, became apparent later.[70] Without being integrated into forward estimates or national planning, a labour-retraining scheme would tend to degenerate into a palliative complement

to the dole.

The third element in the policy for the re-adjustment of industry involved the dismantling of the extensive system of featherbedding and subsidies that had built up over two decades, in order to increase internal competitive market forces. Government subsidies would be run down; business collusions reduced by strengthened Trade Practices legislation; more extensive consumer protection provisions would be introduced to improve the quality of goods; and the Prices Justification Tribunal would be used to force industry to offset increased costs by increased efficiency, rather than by lifting prices to maintain profit margins. Again, in all these cases it was to be market forces rather than social planning which would provide the impetus for change.

Finally, Australia's role in the world market and its relationship to the multi-national corporations was to be modified. This had three planks related to foreign investment in Australia, Australia's international status, and resources diplomacy.

Since 1949, Australia had adopted a *laissez-faire* policy towards foreign investment. During the four years prior to the Labor government there had been, however, some changes in both the attitudes and policies of the federal government. Gorton and McEwen had both adopted rather critical attitudes towards the unrestricted passage of the Australian economy into foreign ownership. The former had caustically referred to the 'tickle my tummy' mentality, and some press commentaries suggested that one reason for his replacement by McMahon (in 1971) in the Liberal leadership was his intention to place greater restrictions on foreign capital inflow. It was McEwen who coined the expression 'buy back the farm'. McMahon was more committed to free-market forces and less government restrictions—one reason for McEwen's 'black-balling' him during the Liberal leadership struggle which followed Holt's drowning in 1967. But the situation changed in 1971-2. The large pool of U.S. dollars (particularly Euro-dollars), which existed following the currency re-alignment of 1971 and the US deficits which had preceded it, was causing considerable concern. About \$A3 billion entered the country in those two years, chiefly, it was assumed, in anticipation of a currency revaluation and the quick profit which would result. By increasing domestic liquidity and facilitating rapid credit expansion, this inflow sparked the inflation spiral and did little to increase the economy's productive resources. In September 1972, the Liberal Government placed restrictions on foreign capital inflow.

The Labor Party's attitude had also changed.[71] In his 1970 speech to the American Australian Association in New York, Mr Whitlam had suggested, 'I think there are advantages for American investors to have Australia as a factory in the 18th century sense of an offshore factory for Southeast Asia'. In his 1973 address he was more qualified:

> In future we will cast a more critical eye over individual investment. We intend to make sure that future capital inflow is associated with *productive*

investment which will add to Australia's real resources and that foreign capital is employed in real *partnership* with Australian owned capital.

To buttress this development the AIDC would be used to mobilise Australian funds for this partnership. And government assistance and encouragement would be given to Australian industry, itself going multinational especially in South east Asia.

Thus the use of selective controls on capital inflow, coupled with a drive to increase the efficiency of Australian industry, would enable Australian capital to penetrate Southeast Asia in conjunction with American and Japanese. This would be complemented by efforts to provide greater stability to Australia's trading position by strengthening its economic links with the centrally planned economies.

The third aspect of improving Australia's growth rate by modifying its international position involved 'resources diplomacy'. During the global boom of 1973, the historic price relationship operating in favour of manufactured goods against energy and raw materials was reversed. The most spectacular change achieved during this period was the five-fold oil price increase demanded by the Organisation of Petroleum Exporting Countries. But other commodity producers also faced a sellers' market. Under the nationalist Minister for Minerals and Energy, Rex Connor, Australia would both improve its terms of trade by government intervention in minerals exploration and export, and use its own energy resources to offset climbing international oil prices. During the first Ministry these strategies were commenced: iron ore contracts were renegotiated with Japan to achieve higher prices:[72] oil search subsidies were withdrawn but exploration activities encouraged by selective controls; government agencies were foreshadowed for joint ventures; uranium was kept in the ground in anticipation of future large price increases; a natural-gas pipeline grid was to be the basis for a new domestic energy provision system; and state governments were overruled to increase the price and royalty for coal exports. Connor stated that 'in the future there will be no give-away of kingdoms, empires or principalities' by the 'mugs and hill-billies' previously in control of this sector. The federal government would orchestrate a sellers front to improve the terms of trade, thus making more capital available for a more rapid economic growth record.

It remains to deal with the government's policy towards inflation. In the 1972 election speech, Mr Whitlam had correctly accused the coalition government of presiding over the worst inflation rate in twenty years. During 1973 it increased. At that stage it did not assume the central position in government strategy that it would later. The legacy of the 1971-2 capital inflow coupled with the rapid economic recovery of 1973 were seen as the causes. To this might be added Labour Minister Cameron's efforts to increase the share of the G.N.P. going to wages and salaries, specificially by using the public service as a pacesetter. The government's anti-inflationary devices included use of the P.J.T., re-

strictions on capital inflow, and the tariff cuts that have already been referred to. The last coalition government budget had been in deficit to stimulate the economy for electoral reasons. Labor's first budget saw its expanded welfare programmes matched by increased revenues to a degree that a small domestic surplus was planned. In addition, a credit squeeze was introduced in September/October 1973, by raising interest rates. The centre plank, however, was to be an incomes/prices policy administered by the federal government. Since it lacked the constitutional powers to do so, two referenda were submitted in December to amend the constitution. They were both defeated, 65 per cent casting negative votes on the incomes proposal.

In May 1974, Labor again faced the electorate following the threat by the opposition-controlled Senate to block supply bills. The government stood on its record, making few new promises and was returned with similar support to 1972. The only significant new issue to emerge in the campaign was the rate of inflation.

The first Labor Ministry had held office during a period of boom. The thrust of its policies revolved around four inter-related objectives: the expansion of Australian social and welfare programmes, the consolidation of the welfare state; to pay for this the growth rate should be increased by rationalisation of the capital stock by use of market forces; improve Australia's participation in the world market by selective involvement in trade and capital movements; and change the orientation of Australian foreign policy towards a more independent stance. Shortly after the second electoral victory, this programme was called into question by the collapse of the global and domestic boom. From that time the government foundered.

4. The Struggle Between Two Lines, May-November 1974

Writing in November 1974, a former ministerial adviser argued that 'In seven months the government moved from single-minded concern with inflation in May to single-minded concern with employment in November'.[73] This fairly describes the movement in government policy during this period.

During the campaign for the May 1974 election, the A.L.P. had added some minor features to its welfare programme expansion policy—child care centres, more health programmes, structural adjustment assistance—but broadly stood on its record. It was the Opposition that introduced the new element in their effective criticisms of the rising role of inflation. A fortuitous and atypical drop in the inflation rate for the first quarter of 1974 had blunted the edge of the Opposition campaign somewhat. But the problem was still there. Following the victory of 18 May 1974, the government was faced with the need to formulate a strategy. What were its options?

Up to that time the system of economic management utilised during the post-war period—Keynesian economics—had not been confronted with inflation as a major economic problem. Certainly prices had risen during the post-war period but at a fairly steady and low rate—except briefly during the Korean War. Insofar as it entered economic policy making considerations it was attibuted to two sources, demand pull and cost push. With respect to the former it was argued that in periods of rapid growth, particularly when an economy has been quickly recovering from a trade cycle recession, aggregate demand would expand quicker than output, thus creating a sellers' market in which suppliers would raise prices. In this situation, the role of government was to restrain demand growth by reducing its own expenditure, running a balanced or surplus budget and tightening credit by use of interest rates, etc. Cost push related the same situation specificially to the labour market. In periods of low and falling unemployment, wages would be pushed up as a result of high demand for labour and the increased bargaining capacity of the trade union movement. This analysis was added to Keynesian management policy in the form of the Phillips Curve. Named after an English academic and his empirical studies of Britain, the Phillips Curve seeks to demonstrate that wage and price increases are in inverse correlation to the rate of unemployment; more of one means less of the other. Hence, in order to reduce the rate of inflation, it would be necessary to alter the condition of the labour market. To reduce inflation required increasing unemployment. This option had been adopted in the 1971 Snedden budget when some inflationary increases had been occurring. One way of curbing such tendencies was to cut back government spending.

Immediately following the electoral victory the government consulted its economic advisers with respect to formulating an anti-inflationary strategy. It already had the credit squeeze inaugurated in September 1973, in the pipeline, and this was assumed to take about six to nine months to have any serious impact. It was informed by its Treasury advisers that further measures would be necessary. In the first instance, this advice was accepted by Mr Whitlam and the then Treasurer Mr Crean. Treasury argued that in the light of expanding public expenditure and large wage increases the federal government would need to restrain these two movements if inflation was to be checked. In July 1974 this advice was acted on.

On 23 July, Mr Crean announced a mini-budget, the total effect of which was designed to restrain aggregate demand by cutting government expenditure and maintaining the credit squeeze. 'The foundation of any anti-inflationary policy must be the control of demand', he argued. 'The monetary situation is now very tight. We shall certainly keep it that way as long as necessary'.[74] Government revenue was to be increased with higher charges for postage, telephones, cigarette and spirits duties and a capital gains tax. Expenditure was cut by reducing assisted immigration, deferring the means test abolition and deferring the child care programme. 'In a spectacularly candid way, the Treasurer embraced the 1971 strategy which put the McMahon Liberal-Country Government out of office', argued one newspaper.[75] 'Mini-budget may cost 180,000 jobs', trumpeted the headlines in another.[76] It was reported that government advisers predicted that 'the measure would mean that the number of people out of work will rise to between 120,000 to 180,000—or between two and three per cent of the work force'.[77]

The deflationary package had come in for extensive criticism in the caucus on the evening of its introduction. A motion that it be deferred was supported by at least three Ministers and lost by only forty to thirty-five votes. In fact, the Prime Minister spent as much time in Parliament the following day defending himself against the critics within his own party as from the opposition. It was widely assumed that the measure of 23 July was the first blast of a tough deflationary budget to be introduced in September (having been delayed by the May election).

In fact, the strategy pre-figured by the mini-budget was defeated politically within the caucus. The reason for this caucus revolt sprang from the impending downswing in the trade cycle. As early as December 1973 some Ministers, especially Clyde Cameron, had been arguing that there would be an economic downturn in late 1974. This had indeed been a common prediction in the financial press throughout the capitalist world during late 1973. It was thought that the rapid, synchronised upswing of 1973 would be equally rapid and synchronised in reverse. The large energy price rises and oil restrictions of late 1973 seemed likely to intensify this problem. In fact, at the very time that the mini-budget's introduction was proposing to deflate the economy, this was in any case occurring. The upward movement of the rate of unemployment had begun and did not stablise for over a year.

During late July and early August, the 'Treasury Line' came in for repeated criticism from a wide range of sources. Within days the Deputy Prime Minister, Dr Cairns, put forward an alternative six-point package which included selective regulation of banking credit to bolster productive operations; differential tax rates to penalise speculation and favour low incomes; the maintenance of real wages, social security benefits and full employment; and the regulation of prices and profit levels.[78] Mr Bryant and Mr Cameron also circulated Caucus with plans designed to maintain economic activity yet lower inflation, including indexation of wage rates to the Consumer Price Index, in return for voluntary wage restraint and the restoration of tariffs and quotas on imports. Academic economists also became vocal proponents of alternative strategies. The Melbourne Institute for Economic and Social Research argued against deflation and for a wages/prices policy buttressed by taxation rates used as carrot and stick.[79] A group of South Australian economists launched the 'Adelaide Plan', the chief feature of which was wage indexation.[80] The Liberal leader, Mr Snedden was also critical of what he called a 'forty-year-old text book' economic thinking which advocated deflation: he opposed the revenue increases and called for large tax cuts. Other ministers, including Mr Uren and Mr Hayden, took extended economic advice and became influential in the drafting of the budget.

The effect of this activity was the political defeat of the Treasury line within the Parliamentary Labor Party. Having stood at two elections on the basic platform of extending public welfare programmes the party was not willing to accept their cut-back and an attack on wage levels as an anti-inflationary strategy. This was also sound politics, insofar as surveys already indicated a sudden drop in Labor popularity in what had been its electoral strongholds of working class voters.[81] 'This drop was to accompany the rising unemployment during the coming year. The formulation of the September budget reflected the changed political circumstances. The July mini-budget had narrowly been accepted by Caucus. During August it was clear that this was no longer the case, as Cabinet dismantled the Treasury submission which was reported to advocate a 'surreptitious surplus of over $1,300 million'.[82] There was no carving into government expenditure. Dr Cairns announced that the credit squeeze would be relaxed. On 26 August, Mr Whitlam made it clear that he had disowned the Treasury line and Dr Cairns took over the reins of budget policy.[83]

The budget that Mr Crean introduced in Parliament on 17 September 1974 represented an entirely different strategy to that of July, to deal with the three problems of economic downturn, rising inflation and increased industrial militancy to gain compensatory wage increases. It represented what might be termed the social contract strategy. It was designed to mildly stimulate the economy while providing the basis for a voluntary wage restraint policy to deal with inflation.

Overall the budget was to provide for an effective domestic balance of revenue and expenditure — in fact a surplus of $23 million. Mr Crean intimated that if this were not sufficient future mini-budgets would further stimulate employment. He added:

> The Government is not prepared deliberately to create a level of 4 or 5 per cent, or perhaps even higher unemployment . . . To act on unemployment to reduce cost pressures would inhabit that cooperation with trade unions and could destroy the Government's right to claim it. The Government will not close off its options until the possibility of cooperation has been given a proper test.

The tax scales were restructured to the advantage of lower income groups. Expenditure on a wide range of social welfare programmes was increased, particularly for Regional and Urban Development, education, pensions and culture and recreation. Mr Crean asserted that:

> Crucial as the fight against inflation is, it cannot be made the sole objective of government policy. This government is committed to the programme of social reform to improve the position of the less privileged groups in our society and to maintain employment opportunities.

On the unemployment front the government had opted for economic stimulation.

On 18 September, Mr Whitlam made clear where the government's anti-inflationary policy was to be aimed. He argued that 'there is now

every reason for cooperation from employees and their organizations . . . for employees we have ensured a rise in their real standards of living as members of families as parents, as city dwellers, and as public transport and road users'. The trade union movement was being offered policies to maintain employment levels and growing welfare provisions in exchange for wage restraint. Mr Cameron negotiated the indexation of wages proposal with the A.C.T.U., but at that stage it was not clear whether the union movement would accept the proffered social contract. In fact, the situation continued to deteriorate.

In the two months which followed the introduction of the September 1974 budget, it became clear that the problems which faced the Australian economy were of a more fundamental nature than had been at first recognized by the government.[84] The Consumer Price Index for the September 1974 quarter rose by 5.4 per cent—an annual inflation rate of 22 per cent. It started to be widely canvassed that due to inadequate accounting procedures the profit rates recorded by Australian companies were in fact illusory. If the Merritt-Sykes depreciation method were used — current replacement cost — Australian corporate profits were declining.[85] Crean was concerned that this was having a serious effect on investment levels, which were declining. Imports were continuing to grow in competition with domestic production. In October the unemployment rate reached 3.2 per cent on a seasonally adjusted basis—a post-war record level. The progress towards a voluntary wage restraint system based on the Arbitration Court's indexing wages to the C.P.I. seemed unlikely to materialise before April 1975.[86] In the meantime, pay claims and industrial strike action reached record levels. October and November 1974 witnessed the extension and consolidation of the basic strategy outlined in the September budget speech. This process culminated in the elevation of Dr Cairns to the Treasury portfolio.

The policy initiatives of September-November 1974 were designed to stimulate the private sector, lift aggregate demand by running a government budget deficit, increase protectionism and lay the basis for wage restraint. They could be summarized as a Left Centre Keynesian package. Dr Cairns lent his support to the domestic critics of the 1973 tariff cut in which he had unenthusiastically participated. In a letter to the Associated Chamber of Manufacturers on 8 October, he openly queried the tariff level which Mr Whitlam had defended as recently as 23 September when referring to the 'nervous Nellies in my Party'. On 25 September, the Australian dollar was devalued by 12 per cent and greater support for import controls was evident in Caucus.[87] On 24 November, Mr Whitlam announced that tariffs would not be further reduced and it seemed clear that the free-trade approach of the Industries Assistance Commission under Mr Rattigan had fallen from favour. On 9 December, he announced a range of new tariff quotas on imports and presaged others. Following the extensive reports that[88] 'squeezed profits' were reducing production and job opportunities, a new mini-budget designed to stimulate the private sector was announced on 12 November. Personal and company taxes were cut and the P.J.T. was instructed to take into account the need for profitability in its price rise hearings. On 11 December, further depreciation allowances were granted and company tax payment dates deferred. On 20 November 1974, Clyde Cameron announced that it was thought that wage indexation would be quarterly from the first quarter of 1975, thus reducing the need for industrial activity and large wage claims in anticipation of price rises. This, it was hoped, would stop the wage rises which Mr Whitlam had blamed for both inflation and the 'profits squeeze'. On 21 November, following some public criticisms by Mr Whitlam of the Treasury, it was announced that Dr Cairns would replace Mr Crean as Treasurer early in December. Shortly after, Labor was decimated in the Queensland state election, following the National Party's State Premier's blaming the Federal Government for the economic situation.

The rapid deterioration of the economy which followed the May election victory of 1974 produced a sharp political struggle within the Parliamentary Labor Party. It revealed many of the party's strengths. After a brief flirtation with the 'short, sharp, shock' Treasury line of reducing inflation by attacking the living standards of the poorer members of society, the A.L.P. opted for stimulating the economy. It also revealed its weaknesses. Lacking a social strategy that encompassed democratic social control over society's productive forces, that would enable a strategy for deciding what should be produced, when and where, it unveiled piecemeal a new package. The press occasionally obliged it with the title of 'new economics'. In its first flush, associated with the rise of Dr Cairns, it was consistent with standard international practice: aggregate demand stimulation to deal with a trade cycle recession; a wages policy to deal with inflation; and tariffs, quotas and devaluation to handle foreign competition. This was the basis of policy until mid-1975 by when, it was hoped, an upswing would have started.

The danger signals, however, were already present. This might not be just another trade cycle. If it were not, more than aggregate demand management might be required. Would it be forthcoming?

5. 'The New Economics', December 1974-June 1975

In early February 1975, the supreme policy-making body of the Australian Labor Party held its biennial conference at Terrigal, New South Wales. The platform adopted by that conference represented an endorsement of the strategy then being implemented by the government under Dr Cairns' leadership. The most important items were contained in Section V, Economic Planning. Under it the following were included:

> The Australian Labor Party will:
>
> 1. Establish a Department of Economic Planning to give advice on medium and long term priorities . . .
> 4. Empower the Australian Parliament, either by referendums or State references, to make laws with respect to prices, incomes and interest rates.
> 5. To achieve Labor's objectives, establish or extend public enterprise where appropriate by nationalisation, particularly in the fields, of banking, consumer finance, insurance, marketing, housing, stevedoring, transport and in areas of anti-social monopoly.
> 6. Recognising that ours is a mixed economy, that the private sector provides employment for a substantial part of the Australian work force and that an efficient and prosperious private sector is essential for the maximization of employment opportunities:
>   (a) provide an economically healthy environment within which business and agriculture can plan on a reasonably long term basis to receive reasonable returns on investment in order, among other things, to promote new investment and encourage innovation and research; and
>   (b) protect and develop Australian industries ensuring the optimum use of the nations resources by the use of tariffs, import controls subsidies and/or other economic instruments. In the course of determining policy for the protection and development of industries the Australian Government to make full use of the Planning Department . . .
> 13. Establish clear guidelines for overseas investors, for the benefit both of these investors and of the Australian community. Overseas ininvestment in Australia should be encouraged only where it introduces new technology and expertise, includes plans for Australian participation in the enterprise, and/or otherwise shows itself to be in Australia's interest.

Further, in Section VIII, Industrial Development, the following additions were made:

> **Mineral Resources**
> Labor will achieve and maintain full ownership and control of coal, oil, natural gas, uranium and all other fuel and energy resources . . . To encourage the treatment and fabrication of mineral resources in Australia, Labor will only allow the export of minerals:
> (a) . . . at reasonable world market price . . .
> (b) where they are reasonable beyond Australia's prevailing treatment and fabrication capacity . . .
>
> **Fuel and Energy**
> 1. Labor will establish a National Fuel Energy Commission to devise and implement an integrated and coordinated national fuel and energy policy. The Commission will prepare an annual Energy Budget . . .

What were the practical results of this policy manifesto? The Department of Economic Planning never saw the light of day. An incomes policy was vigorously pursued though price control was relaxed. An abortive effort was made to gain some control over the massive funds controlled by the insurance industry, by the formation of a government insurance corporation. Efforts to stimulate the profits of private industry were continued with increasing vigour until the government lost office. Overseas investment was increasingly sought. The policy with respect to minerals energy and fuel produced the disastrous Loans Affair.[89] Before describing the new developments however, it is necessary to pose the central question:

What was wrong with the economy?

In his address to the 1976 ANZAAS Conference, 'What went wrong?', a former senior Government adviser, Professor F.H. Gruen attempts to answer the same question.[90] He provides the following series of answers. First, coalition government mismanagement meant that Labor inherited both inflationary pressures and an economy with rapid cyclical movement, contrary to post-war experience. Second, U.S. mismanagement had left excess international liquidity with inflationary implications. Third, Labor overstimulated the economy in 1973. Fourth, the wages explosion of 1974 overheated inflation. Fifth, the 1974 collapse provided reaction to overcapacity and was correspondingly severe. Sixth, Labor contributed to the resulting profit squeeze as did the uncertainty engendered by inflation. Nominating scapegoats he lists: 'the Americans for taking so long over losing in Vietnam'; the McMahon government; the Labor government 'for losing its nerve from August 1974 to June 1975'; academic economists for insisting on overfull employment; and Treasury for losing some chance to influence events. He concludes by saying that he doubts if we gain much from looking for scapegoats and quotes Assar Lindbeck:

> The ability in different economic systems to take efficient action against negative external effects of the environment seems to be rather independent of the actual economic system; perhaps the most important pre-requisite for such actions is in fact an interested and active public opinion and hence free debate.

This is indeed the point of view of this essay. While the government's analysis remained at the level of the deficiencies (or otherwise) of public policy-makers, it lost sight of the objective forces creating the difficulties. Whether these could be affected at all by the beginning of 1975 in such a manner as to retain public support must be open to question.

During the 1973 boom most, sectors of the economy had experienced very high rates of activity, despite 1.5 per cent unemployment.[91] Both agricultural and mineral exporters faced a sellers market with rising prices. Manufacturing industry was running at a high level of output and building stock levels. Construction industry was meeting the high demand of those sectors while housing was trying to keep pace with heavy demand. In 1974, all these conditions collapsed for inter-related reasons. The world commodity boom came to an end and not only export receipts but investment in primary industry stalled, a process no doubt encouraged by Labor's cutting back the extensive subsidy system. Once manufacturing industry had established a high stock level, production levelled out and investment dropped. Again this was intensified by the deliberate policy of reducing protection, and only snowballed as consumers saved more in fear of unemployment. Further, as the Committee of Enquiry into Manufacturing industry reported in 1975, the profit and investment rate in that sector had been declining since the 1960s.[92] Construction industry, particularly in Sydney and Melbourne, found it had over capacity of view of declining demand for office space, etc., and could not readily diversify into other areas. Housing construction faced both a credit squeeze and reduced population growth. This was exacerbated as declining production was translated into declining demand. This type of scenario, which will be developed later, suggests that in a capitalist economy, a general tendency to expansion will be self reinforcing, as will a tendency to decline. With all sectors moving downwards together, exports, investment, consumption, a large stimulus would be required to reverse the pattern. The stimulation of aggregate demand provided under Cairns may have in part served this purpose and slowed the degeneration. But productive investment on a broad front was not forthcoming in the private sector. The government's efforts to stimulate it via public investment was a proper supplement: the administration of the policy proved less successful.

The economic programme which unfolded under Dr Cairns' direction was not a 'new economics': it was a Left/Centrist Keynesian policy designed to deal with a dip in the trade cycle. Because the recession of 1974-5 was the deepest and sharpest since the war, and also because of the concurrent high inflation rate, the policies were to some degree unusual. But their basis remained that of stimulating economic activity by government intervention. If national income potential was not being realised—that is, there was under-utilisation of capital and unemployment of labour—government policy could operate to stimulate one or other of its component parts. This would lift demand and hence call into operation the unused capacity. If potential national income were to be exceeded by demand, hence creating inflationary pressures, governments could restrain aggregate demand levels.

This basic formulation of economic management was susceptible to either Left/centre or Right/centre packages. The former would emphasise consumption and public-welfare spending to stimulate activity; the latter, profits, and hence investment. But in principle it was assumed that any point of stimulation would produce the desired result. Put crudely, a government could determine the difference between the actual and potential national income level; divide by the multiplier (which determined the longer term effect of putting one dollar into circulation); and run a deficit budget of that level to call the unused capacity into operation. While unused capacity existed, such a policy was thought to be neutral with respect to inflation. Increased demand would call forth production, not price increases. To the extent that it did this could be managed later, at a level of full employment, by a restrictive credit and monetary policy. If wage rises led to cost-push inflation, this could be managed by a wages-policy thrashed out with the unions, in terms of the social contract budget as popularised by the Wilson British Labour Government. If private capital feared the implications of a socialist Treasurer, it could be reassured verbally and in the guarantee offered by the Terrigal changes in the party platform. In addition, greater control over the direction of production could be attained by the implementation of the finance capital, resources and energy, and economic planning provisions included in the

Terrigal platform. This was the programme with which Labor entered 1975.

The situation with which this strategy had to deal was unprecedented. During 1974 fundamental changes had taken place in Australia's economy. Profits as a percentage of G.N.P. had declined from nearly 15 per cent to 9 per cent. The growth rate of the non-farm sector had slumped to minus 3 per cent. Unemployment hit 4 per cent in January 1975. The growth rate of the money supply was negative until July 1974, then grew to nearly 30 per cent on an annual basis by October. Despite a reflationary deficit budgetary policy, which the growth of the money supply reflected, the economy was still deteriorating. And by January it was estimated that a budget deficit of $1,500 million was likely—six times the previous highest of 1972-3 ($215m), with which Mr McMahon failed to win the December 1972 election.[93] The government continued to reflate but within months this strategy was to encounter resistance.

In January, Cabinet determined to lift the ceiling on the growth rate of the Public Service, thus re-invigorating the fastest-growing employment sector under Labor.[94] Those 'fat cats' Mr Cameron had castigated were to increase in number. On 28 January 1975, on Dr Cairns' recommendations, it acted to bail out the motor vehicle industry. British Leyland had already collapsed and the American big three, G.M.H., Chrysler and Ford, had announced that sackings of up to 10,000 workers were imminent as a result of declining sales and increased import competition. It was thought that the overall unemployment impact would have been double this figure. To forestall this, sales tax was greatly reduced, import quotas were established and the budget decision to tax the use of company cars was revoked.[95] The government was forced to protect the very multinationals it had previously criticised. Similarly, the restrictions on foreign capital inflow eased.[96] On 29 January, the government abandoned its plans for a capital gains tax.[97] At the Terrigal conference, the government's established direction was endorsed and no new initiatives came from the Labor movement. 'The new economic platform with its emphasis on the private sector and protection is more of a reflection of the direction already adopted by the government rather than a blueprint for the future'.[98] The trade practices policy was effectively reversed by extending the legality of exclusive dealing and agreements on the restraint of trade.[99] On 14 February, an extra $240m was granted to the States following a Premiers conference 'in an effort to hold unemployment and create jobs'.[100] Two days earlier it was announced that financial institutions would be encouraged to lend more freely to land developers to boost the housing industry.[101] On 18 February, Dr Cairns announced that private industry had received $1,850 million in the previous six months to help investment. In early March greater protection for the the textile industry was agreed to by Cabinet.[102] Two particular corporations, Electrolytic Zinc and Australian Pulp and Paper Mills were each given an outright grant of $650,000 to maintain production.[103] By April it was estimated that the budget deficit for the previous nine months had

been $3,301 m.[104]

This wave of pump-priming did not restore the popularity of the government as reflected at both the Queensland state election and in public opinion polls.[105] Nor did it produce an upturn in the economy. As Dr Cairns lamented in February:

> We live in a society where the determinants, the things that happen in the system as a whole are taking place in the private sector. Now if we're going to get activity going, if we're to get production up, if we're to keep people in work or get them back in work, we have to work on the private sector to get results there.

He added that the powers of the federal government were peripheral—'to imagine that the Government in Canberra has extensive powers, that is has the machinery to use them effectively is a mistake. It's not so'.[206] Lacking that power and machinery, the government was forced to attempt to talk up and subsidise Australian capital. Its parliamentary position depended on its success. Dr Cairns led the pump-priming, Mr Whitlam the talking-up. In a number of addresses to business groups, the Prime Minister stressed the A.L.P.'s commitment to a mixed economy and the role of profits. 'During the period of the Labor Government there has been no initiative to nationalise industry. There will not be'. He pointed out that the Government was 'seeking to attack inflation by reducing the pressure for wage increases' and 'sought to enhance profitability'. He concluded:

> The democratic system is everywhere under challenge and great stress. It's no coincidence that the capitalist system is equally and everywhere under challenge and great stress . . . you might ponder how long capitalism can survive if popular democracy does not survive. I venture to suggest that the values you uphold will not go unchallenged if those who seek change through the parliamentary system lose faith in the capacity of that system to provide peaceful change.[107]

The government had come to recognise that its success, its existence, depended on the operation of capitalist reproduction. It was seeking to bolster it by government subsidies of public money, wage restraint and the lifting of profit rates. Its policy was to meet resistance from three sources: the political Left; the trade unions and the political Right. It brushed the first aside, won a protracted struggle with the second and fell to the third.

The March issue of *Labor'75* contained a long letter from members of the Victorian Socialist Left criticising the Terrigal programme on two basic counts. First, that it committed the party to the preservation of private capital. Secondly, that, in calling for a wages/prices policy it effectively accepted that inflation was caused by workers' wage increases. It was reprinted in the Communist weekly, *Tribune*.[108] The letter was correct in its propositions, but the opportunity for an alternative direction had been lost six months before during the budget struggle; and it had been lost then because the platform of 1972 had been formulated for different circumstances. And thirty years of boom had made those circumstances appear permanent. It was that historical fact which determined the absence of an alternative programme, led the government into reliance on manipulation of aggregate demand, persuaded social democrats to abandon the objective of social ownership of production, and had permitted the personal dominance of E.G. Whitlam, pragmatist, eclectic and welfarist. To blame him alone, as was later done, for 13 December 1975 would be ahistorical. The events of late 1975 were already pencilled into the diary. The private sector could not be talked up, subsidised up nor touched up, as Dr Cairns' successors were to discover. The long boom was over. The crisis came home.

The trade union movement presented a more substantial obstacle. In 1974, the combination of high levels of employment and inflation had led to a high rate of industrial militancy.[209] Wages had kept in front of prices, though take home pay was eroded as workers moved up the progressive income tax scales. By mid-1974, the government had begun contemplating the use of the Arbitration Commission as an instrument for implementing the wages policy which the electors had denied it the power to enforce in December 1973. The matter was canvassed in talks with the unions and the A.C.T.U., publicly, and before the Commission for the 1975 National Wage Case. The complications were considerable and cannot be described in detail here.[110] Briefly, the employers wage restraint. The A.C.T.U. wanted indexation so that wages rose with prices as measured by the Consumer Price Index (C.P.I.), without any restrictions on the Unions' rights to collectively bargain additional rises. The government wanted wage restraint and canvassed various methods of implementing it, across the board or 'plateau'[111] indexation in particular. The Commission wanted to reassert the central role in wage fixation policies, which it had lost since 1969, with the 'wage drift' that followed the unions' destruction of penal clauses after the Clarrie O'Shea jailing. Within this context, different unions and employers groups had different attitudes.

On 30 April 1975, the Arbitration Commission delivered its National Wage Case decision. It decided:

1. To index all wages and salaries quarterly to the C.P.I. unless persuaded to the contrary;
2. To sit every three months to consider this;
3. To consider annually productivity rises;
4. That increases above indexation would be extremely difficult to gain;
5. The continuation of wage indexation would be dependent on all unions moderating their wage demands and remaining within the indexation guidelines.

Most commentaters did not think this system would last long since strong unions would break through and destroy it. At least two conditions were required for its success: a continuing high rate of unemployment to act as a brake on union militancy; and a government determined to provide it with every support.[112] Both proved to be forthcoming.

The indexation of wages effectively meant a wage freeze and in the longer term a reduction in the real wage level.[113] In May the A.M.W.U. claim for up to $20 a week increases above indexation was being heard. Not only was this the traditional wage leader case, but an increase had been granted in September 1974. In the Cabinet meeting of 12 May, the Labour Minister Clyde Cameron proposed that the Government support the claim. He was opposed most vociferously by the Minister for Industry, Senator J. McClelland, and also by Dr Cairns. It was decided that the government take a neutral stance. The claim was deferred by the Commission. On 5 June 1975, Mr Cameron was replaced by Senator J. McClelland as Labour Minister. For the remainder of the year the government was energetic in its support of the wage freeze.[114]

In the following week the government supported B.H.P.'s application for a price rise before the P.J.T. It centred its argument on the need to restore profitability to Australian industry. "The government's submission is more than just an elaboration of Mr Whitlam's letter to the tribunal in November . . . It represents an all out attempt to influence the tribunal into setting a precedent which would encourage other companies to approach the tribunal on the same basis . . . In this respect it represents a complete reversal. The Q.C. appearing for the government argued that 'a restoration of profitability is one of the necessary conditions for the solution of the current economic problems'.[115] He argued that as a percentage of the G.N.P., profits had declined while wages were rising. There needed to be a redistribution back towards profits. B.H.P. received a considerable price rise. Capital, with government support, had lifted its social dividend while labour with government opposition had failed to do so.

By May 1975, it seemed that the government had unequivocally accepted the logic of the 1972 policy speech: it was committed to and dependent on the expanded reproduction of private capital. It was already pursuing the consequential policy with some force. But it was coming under attack from the political Right, particularly for its pump-priming. The chief architect of that policy, Dr Cairns, proved to be vulnerable and fell with Cameron in the 'Night of the Long Knives', 30 June. The issues involved in his eclipse included inflation, his relations with the Parliamentary Labor Party and the Treasury, and the 'Loans Affairs'.

The major alternative school of economic thought to the Keynesians in the post war period had been provided not by Marxists but by monetarists. The original proponent of the school was the eighteenth century economist David Hume. The centre plank of the doctrine is the Quantity Theory of Money. It argues that if the supply of money increases faster than the supply of goods and services, and the velocity of circulation of money does not change, then prices will rise.[116] A central element in its form of economic analysis is thus the rate of growth of the money supply which is controlled by central governments, in Australia via the Reserve

Bank. The chief source of excessive growth of the money supply is, in the view of this school, the ability and policies of governments to run deficit budgets. This was considerably exacerbated after 1960 by the American Government's policies of increasing the international money supply, by running a deficit international trading account by printing unsupported dollars. The consequence of Keynesian aggregate demand stimulation, and American maintenance of the Bretton Woods system was inflation. The consequence of inflation was recession, as currency values were everywhere thrown into doubt. The remedy propounded by such theorists was a restructuring of the international monetary system to prevent the continued excessive expansion of international liquidity—particularly the supply of American dollars—and domestic fiscal restraint. They called for an end to Keynesian economic management and a return to market forces based on a stable currency. Supplementary to this central proposition they were critical of the welfare state expansion, arguing that the paternalistic provision of goods and services, through an expanded state bureaucracy and legion of welfare officers, was not only inflationary, but ineffective. Where necessary it should be replaced by cash transfers enabling the contraction of the public sector and the use of market forces to allocate resources.

In the academic world, monetarism is closely associated with the 'Chicago School' of which Milton Friedman is the best known member. Politically it is propounded by the Right of the political spectrum, including in Britain, Sir Keith Joseph's Centre for Policy Studies, and Enoch Powell; the Chilean government, which following the 1973 military coup was closely advised by the Chicago School;[117] and in Australia, the Workers Party. Its philosophical proponent is Ayn Rand, the apostle of unbridled capitalism. Within the context of the 1974-76 recession its thrust was to oppose the stimulatory budget deficits which governments proposed. To that extent its policy advice was not markedly different to the Treasury line of 'the short sharp shock' which had been defeated in Australia in 1974. Where it differed, was that it did not directly blame unions or employers for inflation, but the government. But its policies would produce the same increase in unemployment as the Phillips Curve devotees. Previously a weak reed in Australian political life, monetarism was to emerge with some force in opposition to Cairns' Left/Centre Keynesian package.

One of the first signs appeared in the influential business economic newsletter, *Syntec*. In its July 1974[118] issue, it warned of the difficulties facing Australia, and argued that the government faced an unpalatable choice between unemployment and high interest rates, which made capital accumulation difficult. It was possible to produce improved capital flows 'only if the Labor government is prepared to sit out a sustained period of significant unemployment'. It added:

> . . . so real growth in the economy has to more or less cease for a time which means a fairly severe drop into unemployment by Australian

> standards. Hopefully the corollary to this will be a big fall in the rate of wage-push.

By September,[119] it was pointing out that firms were finding it difficult to finance capital expansion in the light of inflation and high interest rates. It warned of 'a progressively worsening financial climate for capital raising for private business', adding that 'if the Labor Government is going to move into a public spending surge in the 1974-75 budget', the situation 'could move towards the dimensions of disaster'. In January 1975 it feared that the government had become pre-occupied with unemployment and 'had chosen to fund Australian reflation upon a rapid expansion of the liquidity base'.

> Such rapid expansion of 'money supply' by means of central Government deficit financing has an unhealthy ring to it at the best of times, but if it is to go on in combination with the current rate of wages growth it will amount to having the trading banks underwrite cost inflation in Australia, without really contributing anything to new capital formation. It is a situation about which the banks themselves should become increasingly uneasy.[120]

This was indicative of the fact that, however manufacturing capital might view Dr Cairns' efforts to bolster their markets, finance capital was already uneasy about its inflationary implications.

The response of the Liberal party opposition to the developing economic crisis was at first as confused as the Labor government's. In response to the short sharp shock mini-budget of July 1974, Mr Snedden proposed stimulatory tax cuts.[121] In September he 'strongly rejected the use of unemployment as a method of curbing inflation—thus aligning himself with the government and against the Treasury'.[122] In reply to the budget he called for large tax cuts—which Dr Cairns later introduced and although he suggested restraints in government expenditure, he did not attach any urgency to them. Indeed he called education, pensions, the elimination of poverty, medical care, foreign aid and urban development 'vitally important national objectives'.[123] In the following months the Liberal spokesman on the economy, Philip Lynch, advanced various propositions designed to stimulate economic activity chiefly by cutting taxes and welfare programme growth.[124] The Liberals favoured a Right Centre Keynesian stimulation package expanding consumption and investment at the expense of restraint on government expenditure.

On 10 February 1975, the Opposition parties issued a new policy statement which reflected their reassessment of the economic situation.[125] Its most important proposals were: large tax concessions to capital; reduce wage rise and oppose indexation as inflationary; 'immediate policy actions to prevent an excessive and dangerously inflationary growth of the money supply'; and immediate cuts in government spending and the level of the budget deficit. In Chapter five, 'Government Policy: Source of the Crisis', it attributed the economic crisis to 'government spending . . . and the continued high rate of increase in the money supply associated with it'.[126] Commentators widely and correctly saw this document as pushing the Liberals into monetarism[127] which marked a swing to the Right in terms of economic management. Snedden began providing longer lists of programmes he would axe.[128] In early March, the new policy on trade unions announced by the then spokesmen on industrial relations, Mr Fraser, proposed reintroducing penal sanctions.[129] Later in the month, he replaced Snedden as Liberal leader.

The election of Malcolm Fraser to the Liberal leadership[130] coincided with a swing to the Right within the opposition (both in its programme of monetarism, involving a widespread dismantling of the welfare state, and more restrictions on the activity of organised labour) and in the individual leader. In his ANZAAS speech,[131] Mr Fraser, made clear his disdain for Keynesian policies and 'the printing press'.[132] He enjoyed reading Ayn Rand—'There is an element of truth in Ayn Rand's books that is sometimes overlooked'.[133] In his 1971 Deakin lecture, he proclaimed:

> We need a rugged society, but our new generations have seen only affluence. If a man has not known adversity . . . it is harder for him to understand that there are some things for which we must struggle . . . Life isn't meant to be easy.

The National Times reported that 'big business, including the Bank of New South Wales', had been most important in swinging the crucial New South Wales Liberals' votes away from Snedden.[134] Certainly he seemed a more appropriate conveyor of monetarist cut-backs[135] than his predecessor, whose economic alternative to Labor had been dubbed 'Creddenism'[136] by one paper.

By 1975 the monetarist position was also receiving widespread support in the media. The most detailed exposition was contained in three articles by Dr Juttner in the *Australian*[137] where he warned that 'the real danger exists in that the attack on inflation will result in higher not lower rates of price increases' and that 'it now probably requires a higher unemployment rate to reduce inflation by a given amount than say two years ago'. The press shortly picked up the 'considerable debate which might be broadly classified as the Keynesians versus the Friedmanities', arguing that the budget deficit had been 'principally financed by the printing press.[138] One commentator added: 'If the recent rate of growth of the deficit and money supply is continued much longer it will underwrite a high level of future inflation'.[139] In April the high priest of monetarism, Milton Friedman visited Australia in a blaze of publicity urging a moderation in deficit financing. It was reported that his approach was 'dominant in the Reserve Bank.'[140]

At first the effect of this campaign on the government was limited. Certainly Cabinet established a committee to scrutinise expenditure in February.[141] But as late as April, Mr Whitlam said that the budget deficit would only be reduced when unemployment reached reasonable levels,'[142] and Dr Cairns continued to refuse to deflate by cutting the money supply.[143] But by late April there were clear signs that sections of Cabinet

were becoming concerned at the inflationary implications of the growing deficit. The Minister for Social Security, Bill Hayden, had already circulated Caucus with warnings to that effect, and by late April it was clear that many members agreed with his criticisms of Cairns' management[144] and calls for restraint.

By May it was clear that Cairns was going to restrain the increase in the deficit, and he told an interviewer: 'I will be planning to get the domestic deficit down to the lowest possible figure in the coming budget'.[145] This policy had been determined in April. Mr Whitlam on 23 April had circulated Ministers to submit their expenditure proposals to the Cabinet Economic Review Committee (CERC) for reduction. The long process of pruning which centred around CERC and continued until August had begun. On 3 June, Dr Cairns was removed from the Treasury portfolio. A month later he was out of Cabinet. He became the Treasurer who never brought down a budget.

Why did the Prime Minister remove Cairns? Ostensibly it was owing to his providing an intermediary with a letter empowering him to act in the loans negotiations. In fact 'the letters were merely the rationale: Mr Whitlam was going to get himself a new Treasurer anyway'.[146] Dr Cairns was moved for similar reasons to Clyde Cameron. They had both come to the view that was by then supported by the majority of Cabinet and Caucus: economic management should shift from pump-priming and the protection of real wages to restraint in government spending and a wages freeze. But neither were sufficiently strong advocates of the new line. Cameron had shown this in his support for the A.M.W.U. claim. Cairns showed it in the text of his budget outline proposals which were circulated to Cabinet and later published in the Melbourne *Age*.[147] He concluded:

> 1. We must never fail to re-employ people who can be reemployed productively merely because it would add to the deficit.
> 2. We must not consent to surrender any significant part of our programmes for welfare, education, urban improvement and culture advances as the result of pressure from the media and other anti-Labour forces.
>
> It is far better to be defeated while attempting to implement Labor policies than to be defeated after surrendering them. I do not believe we can win by surrendering these or, if by any chance we did win, that winning would be worthwhile.

Having failed to get a Caucus spill of Cabinet and an election, the Prime Minister reshuffled. One paper described it as 'The Eclipse of the Left'.[148] The senior ministers became Hayden (Treasury), McClelland, Wheeldon (Social Secruity) and Morrison (Defence), all committed to reducing public expenditure and cutting wage levels. The rearrangement of other portfolios facilitated cuts in those departments by the CERC. Cameron and Cairns had provided the policies: others would carry them out.

Why was the 'Left' eclipsed? A number of reasons have been advanced for the political defeat of Dr Cairns, who for over a decade epitomised the Parliamentary Left on issues like participation in decision making and the Vietnam War. Certainly the rearrangements of his office staff served to isolate him from his base in the Caucus, which had elected him Deputy Prime Minister only a year earlier.[149] There may also have been some truth in his own allegations that his department had 'set him up'. His considering the establishment of a Department of Economic Planning as an alternative to Treasury[150] and his participation in the Loans Affair against its advice may have provided motives in this respect. In addition he had led the Treasury's political defeat in 1974. The publicity accorded Ms. Morosi[151] may also have been thought to have harmed his political strength. But few of these considerations applied to Clyde Cameron (or later to Rex Connor). The fact was that they presented no clear practical strategy which could keep the party in office by the estimation of the majority of their colleagues. Their pump-priming Keynesianism had got them up: they went, as its failure became more apparent. By late May, Cairns and Cameron had agreed that the new course was necessary but would not implement it. When the production statistics for April and May appeared to indicate that a recovery in the trade cycle was occurring, the Government was only too ready to accept that inflation had now to be reduced by reining in the public sector while the private sector expanded.

The government was now committed to a policy of slow recovery from recession while using unemployment and indexation to cut wage rises and the CERC to prune government expenditure. There were two basic obstacles to this policy's succeeding. Firstly, it was a difficult strategy with which to win an election. In June, the Bass by-election in Tasmania again showed this, where the biggest swings against the defeated Labor candidate were in working class polling areas hit by unemployment.[152] The June purge could only worsen that situation. Secondly, only an economic recovery could restore Labor's electoral fortunes and one was not in sight even a year later.[153] Since the Opposition controlled the Senate and could block supply bills, an election in late 1975 was already an odds-on favourite. The Loans Affair would provide the excuse for that as well.

6. Economic Rationalism, June to November, 1975.

The strategy assumed by the new look cabinet was described as that of the 'new post-Keynesian economic orthodoxy'.[154] It contained three major elements. First, the government sought to rein in the rate of increase of public expenditure and the size of the budget deficit. The centre piece of this plank was the Hayden budget. Second, the Minister for Labour, Senator J. McClelland, vigorously pursued wage restraint. This centred on the maintenance of the indexation guidelines. Third, it sought to increase foreign capital inflow. Involved here was a significant change in Connor's restrictions on foreign investment in the mineral sector. The overall objective was to reduce inflation, shift resources from the public sector and wages to profits, and to stimulate investment. The package was deflationary unless the private sector was lifting. It wasn't.

As a result, economic activity and unemployment remained stationary where they did not deteriorate. The package could win business approval and editorial praise: it could not win an election. In opened the door for a more determined application of the same strategy by a new Cabinet. Far from making it less likely that the opposition would force an election by blocking supply—since the 'responsible budget' was close to their own policies—it ensured an election by maintaining the government's electoral unpopularity.

By May, it was the consensus in Cabinet that the budget deficit anticipated for 1975-6, of $5 billion, would have to be cut. There was only disagreement about the extent and direction of the cuts. Following Cairns' removal from Treasury it was thought that he and Cameron would seek a higher deficit (less deflation) than Hayden.[155] In fact, on 2 July, Cairns was sacked from the Cabinet as the result of a further Loans Affair ripple.[156] This ensured large cut-backs to maintain a constant deficit level since, in the words of a former adviser to the new Treasurer, the 'Private sector could be crowded out'.[157] Against a background of business (particularly finance capital) calling for government restraint,[158] the Cabinet set about pruning the estimates and selling its strategy to the electorate.[159] Having made the strategic decision, measures of deflation began to flow. In June the Reserve Bank urged the trading banks to restrict new lending,[160] and the state Premiers complained bitterly that they had received inadequate grants at the Canberra conference.[161] In mid July, it was announced that a 1.5 per cent growth-rate ceiling had been placed on the public service, whereas in the three previous years its average growth had been 5.5 per cent per annum.[162] On 1 August, heavy increases in charges for telephone, telegram and telex services were announced.[163]

At the same time within Cabinet the estimates collected by the Cabinet Economic Review Committee, and the cuts to them which the CERC Officials' Committee had recommended, came up for consideration. Little secrecy was attached to the process as each minister fought with varying success to maintain his department's bid.[164] None of them, except partly defence, and culture succeeded. Mr Whitlam had handed the formulation of the budget to Hayden; and through him to CERC. Treasury had risen 'Phoenix-like from the ashes of its two-year battering' to be the 'major departmental influence'.[165] The result of this pruning process was that the welfare expansion programme was stopped and in many areas, including the unemployment relief scheme, RED, cut back strongly. Since the cutting reflected no social or economic plan, other than a desire to cut aggregate expenditure, the result was across the board cuts modified by inter-departmental political fighting. It was a caricature of economic planning.

Business spokesmen were in accord with this process.[166] It was the labour movement that was most concerned with these developments. Complaints were made not only about the character of the pruning but the undemocratic nature of its implementation.[167] Such disquiet was only intensified by two reports issued shortly before the budget speech. The seasonally adjusted unemployment figure for July was relased on 10 August, and showed it to have risen to a new peak of 4.81 per cent, suggesting that the recovery heralded in May had been a false dawn.[168] An OECD report issued the following week confirmed this prognosis.[169] This threw into doubt the Government's public rationalisation that the private sector was recovering sufficiently for a cut-back in public expenditure to be made.[170] In the week before the budget speech, Mr Whitlam acknowledged the real core of the problem in his Chifley Memorial Lecture. The party's main programme—the expansion of and equality of access to public welfare programmes—depended on a steadily expanding capitalist economy such as had existed to 1971. That growth had stopped and, since the party had abandoned nationalisation, its programme would need to be cut back.[171] The restoration of private capital accumulation had become the government's primary objective.

In this context, the strategy unfolded in Mr Hayden's budget speech of 19 August offered few surprises.[172] 'We expect that as the expansion of public sector activity is restrained the opportunity for private sector expansion will improve though full response to greater room for growth may take time to develop'. 'We are no longer operating in that simple Keynesian world . . . Today . . . more inflation leads to more unemployment'. The projected budget domestic deficit was held to the 1974-5 level (about $2 billion) in order to avoid increasing either inflation or unemployment. The ball was now in the court of labour and capital. As the *Financial Review* put it, 'The election of 1969 marked the era of Gortlamism. We have now entered the era of Haserism'.[173]

Many commentators on the budget observed the similarities between its strategy and that emerging in the Opposition.[174] Industry welcomed the tax concessions but called for more.[175] The welfare cuts were clearly going to hit the poorer sections of the community,[176] while the tax changes were inegalitarian.[177] And it was quickly remarked that the budget was unlikely to reduce unemployment, which would continue to rise into 1976.[178] In fact, the following month unemployment reached 5 per cent,[179] and Senator J. McClelland anticipated the number of unemployed would rise to 400,000 by January.[180] Indeed, Mr Hayden himself later conceded that his budget economic forecasts were over-optimistic concerning recovery.[181] As one sympathetic writer described, Bill Hayden had moved from being a Left wing militant in the 1960s, to advocating an expanded egalitarian public sector in 1972, to accepting the need for a short sharp shock in 1974, and finally to the use of the unemployment weapon to attack inflation and defend profits.[182] The government's popularity stood at 38 per cent in the opinion poll[183] taken shortly before the Opposition decided to defer the 'responsible budget' in the Senate in October.

The second element in the strategy was to maintain the pay pause, which the indexation guidelines introduced by the Arbitration Commission in April represented. By June, the state Premiers and the Metal Trades Industry Association had become convinced that this represented

the best means to achieve wage restraint.[184] The major obstacle was the union movement which in 1974 had achieved the most rapid pay increases ever, by the highest incidence of industrial militancy since the 1930s. The first serious threat to the April guidelines was presented by the A.M.W.U. following the rejection of its May pay claim.[185] By July, it had abandoned its national campaign to achieve this in favour of local collective bargaining.[186] The white collar unions' peak association, A.C.S.P.A., having in June rejected a 'wages freeze' and demanded changes in the capitalist system,[187] in September supported indexation.[188] Other campaigns continued but the overwhelming majority remained within the guidelines.[189] As a result the Commission granted 3.5 per cent to cover the June quarter CPI rise in September.[190] In November, it granted no rise since the C.P.I. for the September quarter rose by only 0.8 per cent.[191] The wage pause was implemented.

The government was able to achieve this rapid introduction of a pay pause for two reasons. First, unemployment had risen considerably, reaching 5.3 per cent by October.[192] The Phillips Curve effect had been brought into operation and maintained by the budget. Secondly, the government, particularly Senator J. McClelland and Mr Whitlam, appealed publicly and privately to Labor's supporters to accept wage indexation. McClelland even threatened to resign if they did not, for the government, he claimed, would then fall anyway. They were assisted in these efforts by union leaders, the A.C.T.U. President, Mr Hawke, in particular. In fact, Mr Fraser was later to accuse Mr Hawke of failing to defend union interests, saying 'If we had been in power during these past twelve months with unemployment rising to 300,000, we would have heard a lot more from Mr Hawke'. [193] The combination of the stick of the reserve army of labour—strengthened by the government's campaign against welfare 'bludgers' which withdrew benefits from many[194]—and the carrot of political unity forced through the pay pause.

The third major plank was to re-open the flow of foreign investment which had been checked in 1973, partly to curb liquidity growth, partly to increase Australian ownership. By mid-1975 foreign borrowing and capital inflow were minimal[195] and in August it had become clear that the government had adopted a much less restrictive policy towards foreign take-overs.[196] Also in August, the secretary of the Minerals and Energy Department and close confidant of Rex Connor, Sir Lennox Hewitt, was moved to QANTAS.[197] In September, a new resources committee of Cabinet was established to reduce the powers of Connor's department and enable greater capital inflow.[198] On 24 September these moves culminated in the removal of the broad objectives of 100 per cent Australian ownership of energy resources and maximum equity in minerals. Except for uranium, 50 per cent foreign ownership would thereafter be permitted.[199] On 14 October, following further rumours concerning the 'Loans Affairs', Connor resigned.[200] He was replaced by Senator Wriedt who quickly make clear his intention to adopt a more conciliatory attitude towards the state governments and the mining industry.[201] As one commentator pointed out: 'Coalition and Labor policy on the contentious issue of foreign investment in mining is now almost identical'.[202]

Since the June purge, the government had changed its strategy. Just as the defeat of the Treasury line in 1974 had seen the rise of Jim Cairns, so its re-adoption in 1975 had seen the rise of Bill Hayden. When the Liberal Senators voted to defer the budget on 16 October they did not use their criticisms of that budget as their primary reason, since it represented principles with which they agreed. Rather, they criticised the condition of the economy and attributed its decline to Labor Government mismanagement.

The events of October and November 1975 have been sufficiently well canvassed elsewhere[203] to require but brief description here. The Opposition-controlled Senate blocked the budget on 16 October. Thereafter the government's approved appropriations began to run out. Heated debate concerning the constitutional situation resulted, together with small public rallies by the labour movement to protest this action. On 11 November the Governor-General, Sir John Kerr, sacked the Labor Government and installed Malcolm Fraser as caretaker Prime Minister. The Senate passed supply and an election was held on 13 December. The Labor Party was decisively defeated. What was the significance of these events?

7. The Canberra Crisis

The political battle lines have already been drawn in historical interpretations of the 1975 change of government. For coalition supporters, a reprehensible government of economic wreckers was removed by unusual but constitutional methods, and the actions of the coalition parties and Sir John Kerr were suitably endorsed at the federal election. For Mr Whitlam's supporters, a re-invigorated government that was doing well in coping with a world wide economic situation beyond its control was unconstitutionally removed when its strategy was beginning to work.[204] For Trotskyites, the Canberra coup was possible only becuase the right wing Labor officials (Hawke and Dunstan in particular) and Stalinists (C.P.A.) were unwilling to lead the mass movement for a general strike.[205] For the C.P.A. (M.-L.) the heightened contradictions between the super powers, the Soviet Union and U.S.A., and the weakening of the latter had forced it to consolidate its grip on its remaining sphere of influence. Supporting evidence for this case was to be found in Sir John Kerr's long association with the intelligence apparatuses of Australia and America;[206] the growth of Soviet interests in Australia, particularly in shipping and real estate;[207] the increased contact between the A.L.P. and the Soviet Union;[208] and finally the 'security crisis' with the United States involving Mr Whitlam's revelations about the C.I.A. in Australia during November 1975.[209]

These claims deserve brief consideration. Those of the coalition government revolve around the state of the economy and its own ability to improve it. We will return to that shortly. During its last six months in

office the Labor government had halted much of its programme and attacked those it claimed to represent, on behalf of their enemies, hoping to enlist the latter's support sufficiently to avoid an election. When the election came it was in the suburban seats and working class strongholds that the swing against it was strongest. Responsible economic management indeed: but to whom? It is true that Mr Hawke campaigned immediately and widely for calm at a time when many workers left their jobs to demonstrate against the sacking. But what political purpose could have been attached to a general strike: give the Hayden Budget time to work? Tighter regulations for dole bludgers? And who would lead it? Those who were campaigning on the plank that only Labor could and had reduced strike activity? Whether the American intelligence community pulled the strings for the sacking of Labor remains conjecture. It could only be done because the A.L.P. would lose an election. In June, Cairns had told Cabinet that the consequence of the economic rationalist strategy would be electoral defeat. In the election campaign, the rationalists were so pleased with their strategy that they avoided it as an election issue until the coalition forced it on them. Labor wanted to campaign on stable government and defence of (its interpretation of) the constitution.

In short, the Canberra or constitutional crisis was a reflection of the economic and social crisis. Labor lost the first because it had failed to resolve the second. The central issues were: what was wrong with the economy and what could be done about it?

When the labor government came into office, the major sectors of the economy were all recovering from the 1971-2 recession that had been global. In 1973 agricultural and mining activity boomed, their condition being determined by the world market. Mr Connor's ability to renegotiate mineral export prices reflected the world commodity boom. Manufacturing industry served almost exclusively the domestic market and Labor sought to restructure it by intensifying competition, both internal and external. Home-building and construction production was lifting partly as a reflection of the economic upswing, partly because of the desire of people and corporations to get out of inflating currencies and into real assets. This was a world-wide phenomenon. The public sector was fuelled by the 1972-3 budget and the retail and service industries reflected these other buoyant conditions.

During 1975, the opposite conditions existed. The export sectors were experiencing the effects of the world recession. In farming this began to be felt severely in late 1975 when forward orders were exhausted and the real income of farmers had dropped by a national average of 54 per cent since 1973.[210] This was worsened by the rationalist withdrawal of various subsidies, particularly on petrol and superphosphates. A similar drop in mineral exports was experienced, and by 1976, it was the Japanese who were seeking price renegotiation, downwards.[211] In the circumstances there was little the government could do about either process in the short term. Both recessions would be passed on via reductions in demand

and with bankruptcies would lead to further concentration of ownership.[212] The housing industry was hit by two factors. The reduction in migrant intake cut demand. This was certainly intended, as part of the process of capital-deepening rather than capital-widening. In addition, it was hit by the credit squeeze of 1973-4 combined with inflation. The effect was to lift interest rates to a level where fewer people were able to make the necessary repayments: a repayment gap, not a deposit gap was established. This also applied to landlords. Hugh Stretton suggests that this was already producing a reduction in Australia's home ownership rate.[213] Some check in this decline was reversed in the August 1975 budget. *Syntec* estimated that the housing industry slumped 20 per cent in 1974-5 and would only lift 5 per cent in 1975-6.[214] Similarly, the non-housing construction industry which had boomed for a decade and changed the the face of inner city areas, collapsed in mid-1974. The expansion of public activity during the Cairns period alleviated this problem to some degree.[215] Again a cut-back in public spending would worsen the situation that had resulted from an overproduction of office space and the generalised recession.[216]

The key sector was thus the manufacturing industry employing, 1.3 million people. In July 1974 the government commissioned an inquiry into it which reported in October 1975[217] (the Jackson Report). Its major findings were:

> Australian manufacturing industry is in acute financial crisis. Unemployment is high. Factories are running below capacity. Many firms have borrowed to the hilt, with capacity under trust deeds and credit standing eroded. Their profit record and prospects make it hard to raise equity. . . In part manufacturing's problems are manifestations of the world economic crisis in which all countries including Australia, are enmeshed. But in Australian manufacturing there is a deep-seated and long standing malaise. That malaise has sharpened the impact on industry of the current economic crisis. When it passes, the malaise of manufacturing will still be there.

It listed the causes of that malaise: a satiated domestic market; too inefficient to win export markets; and stagnation of fixed investment for ten years. Other surveys confirmed that the sector had been suffering a falling rate of profit since the 1960s.[218] As a result, investment had been stagnant, contributing to the 1971-2 recession. The 1973-4 export-led boom had disguised this tendency as restocking and market rises ensued. In mid-1974 the downturn was evident. Labor's efforts to rationalise manufacturing had been ineffective in the boom; in the slump when they would have worked they were electorally unacceptable.[219] The 1975 'Capital Strike'[220] was a reflection of the longer term decline in profit rates.[221] By transmission through reduced growth and employment into lower demand levels, the decline in investment produced classic results: bankruptcies of smaller firms;[222] reduction in retail sales as workers save a higher share of their income in fear of unemployment;[223] and the co-

existence of surplus capacity with low profits.

The problem, then, stemmed from two sources. First, a manufacturing sector of 30,000 firms, heavily concentrated and foreign owned, employed 1.3 million people or a quarter of the work force, which had ceased accumulating capital because of a declining profit rate. The government had tried to re-organise it by driving out unprofitable sectors but had to retreat due to unemployment. It then tried to produce investment by lifting profits: this failed because surplus capacity already existed and higher prices were pocketed in monopolistic sectors.[224] In late 1975, it moved to curb price rises by cutting wages growth and government expenditure: this would maintain recession by reducing demand and effective subsidies to industry.

The second problem stemmed from the export industries. When they were buoyant they provided some disguise for the problems elsewhere. In 1975, they were not. Being locked into the world market ensures that the tempo of Australian economic activity will be determined by it. The alternative is to maximise trade with centrally planned economies which have a different rhythm of production. Certainly some efforts were made in this respect, but they could not be sufficient. This part of the problem was beyond Australia's control. The other could be dealt with.

The government had two directions it could take. The first was recommended to it by the monetarists and the finance capital newsletters: reduce the growth of the money supply and the public sector with the unfortunate short term consequences of deepening the recession. In the long run, by reducing inflation, this policy would re-invigorate growth based on the competitive interplay of free market forces. This was correct, but not for the reasons given. The effect would be two-fold. First it would wear out the capital stock since investment would be negative. At some stage it would again become profitable to invest in certain sectors and an investment-demand production-profits-investment cycle could start again. Second, it would reduce the price of labour by the Phillips Curve effect and increase labour's productivity as capitalists found it easier to increase the rate of exploitation by speed-ups and lay-offs.[225] Marx would have agreed with Friedman. He would have added that class antagonisms would be heightened during this 'cleansing process'.

The alternative was to increase production for social need and not profit, hence eliminating the problems of declining investment being determined by profit rates. The obstacles here were also political. The Leninist solution of seizing state power and having the plan conquer the market was out of the question. The A.L.P. was not a Leninist party and those that were, were at the lowest ebb of their political influence since the 1940s. A rapid response to the recession would have required a carefully formulated strategy for increasing publicly owned production to compensate for drops in private economic output. The policy speech of 1972 had made no reference to such a strategy, nor did it exist. Instead, the increase in public sector activity was in unproductive areas concerned with distribution which failed to add to investment or output. Indeed it did fuel inflation.[226] Very few efforts were made to expand the public sector into areas of production: in Australia the term is almost synonymous with public service. The major exceptions included the Minerals and Energy Department's plans for expansion of the Pipeline Authority and other enterprises which collapsed in the fiasco of the Loans Affair; and the proposition that was initiated in November 1974 to gain public equity in a four-cylinder engine plant in Adelaide. In July 1975, it was also announced that the government would buy a pharmaceutical producing group.[227] To this could be added the efforts to establish the A.G.I.C.[228] In fact one of the most enterprising suggestions in this respect came from the A.C.T.U., when in a submission to the P.J.T., then hearing another BHP price rise claim, it argued that the government should pay for any investment expansion by the company, thus not only ensuring expansion, but also gaining some control over it.[229] The report of the enquiry into manufacturing industry also produced extensive suggestions for the establishment of new social institutions, including industry councils, to widen democratic participation in social planning of production.

The economic rationalists moved in other directions. It is perhaps no accident that the Cabinet coup which installed them preceded by a week the moving of Tony Benn in Britain from the Industry to the Energy portfolio.[230] In fact, the rationalist strategy chose merely to hold the line on domestic activity in the hope that the government might have a year longer in office for an international recovery to lift it. Three days before the defeat of December, the *Financial Review* rightly punctured the hope: . . . 'maybe it's not just another recession'.[231]

The Labor government was elected and then re-elected on a redistributionalist programme. In 1974-5, production emerged as the central problem. Since it was not a typical post-war trade cycle, short, shallow and temporary, the stimulation of aggregate demand proved insufficient to produce recovery, and no plans existed for the planned expansion of production. Without growth, the Labor government—any government—would be defeated at the polls. In late 1975, it had taken the option of controlling inflation and leaving the private sector and/or the world market to produce growth. To blame the electoral defeat which followed on individuals would be incorrect. Its avoidance would have required extensive and detailed plans for the public control of production: these do not materialise overnight. Wide sections of Australian society attributed the economic decline to Labor mismanagement and voted rationally for the coalition parties who had presided over twenty-three years of prosperity. Alternatively, to blame the Labor Party for its reformism is to fly in the face of five-and-a-half decades of total rejection by the Australian people of Leninist parties and the Dictatorship of the Proletariat, a rejection which has not been modified by the events of the last five years. Reformism within a democratic framework can clearly achieve and retain majority support, providing it maintains

material output and living standards. If the coalition government is unable to achieve these objectives the question will again be raised.

For socialists, however, the question in the Australian context is neither 'Revolution or Reaction?'; not 'Leninism or Reformism?'; nor 'Moderation or electoral defeat?'. It is rather the formulation of a programme that will both ensure living standards, and the economic output on which welfare provisions depend. This must centre around the expansion of democratic public ownership of the means of production in the face of the opposition of its present domestic and foreign owners. Anything more has been regularly rejected by the mainstream of Australian opinion, working class people included. Anything less will preclude democratic socialists from central economic management. The lesson of 1972-5 was not that Labor cannot run a capitalist society; nor that it moved too fast; nor that revolution is the logical alternative. It was that welfarism depends on production, which follows its own laws while left almost exclusively in private hands. The coalition government is rapidly teaching that lesson. It is for socialists to produce an alternative. Its absence will ensure that, at critical moments, an electorally oriented social democrat party will follow the firm and concrete lines provided to it by a combination of capital, the public service and the press. That is one function of the capitalist state. Either democratic socialists conquer the state or it conquers them. In that sense, 1974-5 was a re-run of 1930-1.[232]

8. The Coalition Government

During the election campaign of 1975, the coalition parties were more anxious to attack the record of the Labor Government than to present their own policies in any detail. Since the Labor Party wanted to fight the election on the constitutional question, the coalition parties' policies remained somewhat unclear. But enough had been revealed during 1975 to indicate what general direction they would take. On a number of occasions Mr Fraser had set out his general philosophy. In his Sir Robert Menzies lecture he promised: 'I have no intention of leading a government which is only going to socialise Australia at a slower pace than Labor'.[233] In his 1975 address to the National Press Club, he pledged 'to end enforced equality in the workplace, in the economy and in education'.[234] During the Bass by-election campaign, Mr Fraser had promised that a Liberal government would 'put the heart back into free enterprise', institute tax reforms to restore individual incentives, ensure adequate protection for industry, reduce government spending and abolish the P.J.T.[235] In general, these statements amounted to a commitment to reverse the direction of the increased government intervention in Australian economic and social life that had occurred over the post-war period. As one commentator put it, Mr Fraser's commitment

. . . rebuts the fundamental assertion of Labor under Whitlam—that

> political action, taken federally, is required to alleviate inequalitites in Australian society.
> But as well, this considered and deeply felt assertion runs counter to the movement in Liberal Party policy which began under Prime Minister Gorton and McMahon and was not reversed by Opposition leader Mr Bill Snedden.[236]

As was earlier noted, this change in direction within the Liberal Party was heralded by the shift towards monetarism reflected in the February 1975 party policy statement.[237] The change in leadership confirmed this direction, as statements on specific policy areas showed. As shadow minister for industrial affairs, Mr Fraser had formulated an industrial relations policy which advocated 'an effective return to penal provisions, a powerful industrial 'police force'-type operation and an elaborate framework for settling disputes that would make direct action virtually impossible', and took 'a tougher line than previous Liberal-Country Party policies'.[238] He later confirmed that unemployment and 'consequences' would be used to discipline the labor movement: 'The sort of penalties—I've fallen into my own error—the sort of consequences that can apply are obviously fines, deregistration, appropriation of property if fines are not paid'.[239] The Liberals' social welfare programme made no firm promises[240] though its commitment to cut government expenditure was a clear signal in this respect. In education, cuts in expenditure were clearly envisaged together with the possible introduction of a voucher system.[241] The Liberals' federalism policy envisaged reduced revenues being granted to the States but simultaneously granting them increased taxation power, especially over income tax, in order that they could assume greater fiscal responsibilities.[242] Although the shadow minister for social security, Mr Chipp, rescinded his statement that Medibank would be dismantled, it was widely reported that it would be extensively changed and wound back.[243]

The most thoroughgoing account of Liberal strategy, however, was contained in Mr Fraser's reply to the budget in August, when he promised a 'huge transfer of resources from the public to private sector'. He outlined a three-year economic programme including tax indexation, further extensive cuts in public expenditure, a 40 per cent investment allowance, zero growth for the public service, abolition of various agencies including D.U.R.D., and cut-backs elsewhere.[244] Although he sympathised with the budget's objectives he felt it did 'not adequately restrain government spending'.[245] It was widely felt that if Mr Fraser intended to cut the budget deficit in the interests of reducing inflation *and* reduce the revenue base by indexing taxation, then the Liberals' cuts to government expenditure would need to be much more extensive than had been revealed. In addition, if this were undertaken at a time when the private sector were not rapidly growing—and it wasn't—this would have serious deflationary consequences. Mr Lynch, the shadow Treasurer, had acknowledged this when he stated that 'times in the short term would be more difficult'.[246] It was with such deflationary intentions that the coalition caretaker

government was installed on 11 November 1975.[247]

During the month's duration of the caretaker government which was coterminous with the election campaign, the deflationary intentions of the government were clarified, particularly in the detailed blueprint of its economic policies released on the night of Mr Fraser's policy speech.[248] It argued, 'inflation has been the cause of the present recession. The government's economic strategy will be designed to bring down the rate of inflation'. Government expenditure would be streamlined and controlled although the 1975-6 deficit could not easily be reduced. Wage indexation would be supported 'in the present economic circumstances'. It appeared that the first six months of 1976 would be 'a staging post for the major reforms of the three-year programme' during which government spending would be curtailed and the 1976 budget prepared. In fact the Hayden budget was to be taken over with some modification by the coalition, while it prepared to 'introduce a number of major reforms to direct resources away from government and back into the hands of individuals and business'.[249] If this were not achieved, Australia would experience soaring inflation.[250]

The Labor Party's criticisms of this programme centred on three issues. First, it warned that cuts in public expenditure of the order suggested by the coalition's programme would raise the unemployment level and deepen the recession. By depending on an investment-led recovery it would ruin the delicately poised 'middle way,' slow recovery with falling inflation supposedly established by the Hayden budget.[251] Secondly, it argued that the 'first six months of 1976 would be devoted to planning the maximum cuts in education, health, welfare and urban policies'.[252] In these two respects, Labor was making what proved to be accurate predictions based on the government's own statements. Thirdly, Labor spokesmen argued that one result of these policies would be to provoke a confrontation with the union movement which would resort to industrial action against these policies. A Labor government, however, could maintain 'delicate social consensus'.[253] Indeed it did appear that the more stringent controls on union activity formulated by Mr Fraser earlier in 1975 were designed to deal with precisely that contingency. In fact, as the campaign progressed it became clear that the Liberal Party had the carrot as well as the stick in mind. Mr Fraser welcomed the recommendations of the Jackson Committee;[254] he expressed his determination to get on well with trade unions and to revive the National Labor Advisory Council, a consultative body of unions, employers and federal government;[255] he promised that 'employers will be encouraged to establish some continuing mechanism to further communication and understanding of the common interests of employers and employees';[256] to retain unemployment relief and retraining programmes;[257] and to neither jail unionists nor introduce compulsory secret ballots.[258]

Following its decisive election victory on 13 December, the coalition government embarked on a programme to reduce inflation by cutting government expenditure and the budget deficit. This would be brought on stream in the 1976 budget. In the meantime minor adjustments could be made to Labor's economic rationalists' strategy. With the Labor Party emasculated in the Federal Parliament, the government was already aware that the orgainsed labour movement would provide its chief opposition. To cut back the welfare state while avoiding industrial disruption became its major problem.

During its first two months in office the shape of the new government's strategy became clear. The Governor-General's speech opening Parliament in February promised a shift in resources from the public to the private sector and a government policy the first objective of which was to control inflation.[259] And it was widely reported that the two key ministers, Mr Fraser and Mr Lynch, together with their most influential advisers, were ideologically committed to small government, *laissez-faire* economics and the doctrines of monetarism.[260] Consistent with these propositions was the new package that emerged. Starting on 1 January, a 40 per cent investment allowance was granted to capital to stimulate an investment-led recovery[261] A committee was established under Sir Henry Bland to prune the size and cost of the public service.[262] The enterprises brought under the control of the Minerals and Energy Department were sold off.[263] Credit was tightened, interest rates raised and the growth of the money supply was reined in by a series of monetary measures.[264] It became clearer that the federal government's policy towards the states was to shift functions towards them without increasing their revenue grants.[265] On 15 January, consistent with the 'dole bludger' campaign that had been mounted against unemployment workers during 1975, new and stricter guidelines were announced for the provision of unemployment benefits that would have the effect of reducing the number of recipients and increasing the occupational and geographic mobility of labour.[266]

The two most decisive actions occured in February. On 3 February, Mr Fraser announced a package of savings in government expenditure which, together with the public service savings already made, would reduce federal spending by $36m.[267] On 30 January, Federal Cabinet determined to submit to the Arbitration Commission that the indexed wage rise for the last two quarters of 1975 be only half the 6.4 per cent rise in the CPI. As it turned out, the federal government's submission was supported by no-one, not even the Liberal state Premiers,[268] and on 13 February a national pay rise of 6.4 per cent was passed on by the Arbitration Commision. The significance of these moves was not in what they achieved—which was very little, and the Hayden/McClelland strategy remained in operation—but what they foreshadowed later in the year: much greater cuts in welfare and public programmes and a more determined attack on the real wage level.[269]

It was also becoming clear that despite the massive endorsement it had received at the polls in December, the government was likely to face widespread and growing opposition to a thoroughgoing deflationary policy. Although surveys of business opinon tended to indicate that capital was optimistic that a recovery would occur,[270] this was not borne

out by the actual levels of activity.[271] Already by February it was apparent that sectors of industry could be severely hurt by a cut-back in government expenditure and, however satisfied they might be by the government's efforts to cut wages, they would be opponents of cuts to those government programmes which ensured their profitability.[272] The first sector to voice these complaints was the heavy-construction industry which had been severely affected by the recession.[273] As the year progressed, sectors of the manufacturing industry began to complain that the strategy was squeezing their markets. The non-Labor state governments also voiced complains about the severity of the squeeze, partly no doubt because they faced the polls earlier than Canberra, and professional economists launched a round of criticisms.[274] The government's chief worry, however, emerged as the trade union movement.

The Labor government had achieved wage restraint, partly as a result of unemployment level, partly due to its political leverage within the trade union movement. The coalition government would require a different strategy. This was already emerging by February, and included the following elements: moderate or right-wing unionists would be encouraged to co-operate with the government and some would be placed in advisory positions;[275] this cooperation would be gained by concessions made to them by altering the most anti-labour planks in the government's programme;[276] negotiations would produce an economic package; and 'sweeteners' could provide the moderates with the means to persuade their militant union colleagues not to undertake industrial action against the government's strategies. As a result the P.J.T. was not abolished;[277] the proposed legislation concerning control on union activities was made negotiable; and tax concessions were held out as a trade off for wage restraint. These were the carrots. But, since the overall strategy of deflation was *not* negotiable, it seemed likely they would prove insufficient. During 1976, this question became the central one for organised labour.

In March and April an apparent fall in federal government activity seemed to indicate that Mr Fraser was pursuing his stated objective of taking politics off the front page. This was deceptive. On 4 March,[278] Treasurer Lynch re-affirmed his view that 'orthodox' 'Keynesianism' is no longer appropriate; on the contrary it is hopelessly outdated'. He went on to argue that cuts in government expenditure and in real wages were essential if a lasting economic recovery was to be produced, even if 'cutting back Government expenditures in order to reduce the deficit will depress activity in the Government sector and, in some cases, demands upon and activity in the private sector as well'. And indeed, despite the occasional report suggesting a recovery might be starting,[279] the statistics on employment of labour and capital continued to indicate stagnation.[280] Despite this, the central concern of the Cabinet was the long process of pruning Government expenditure with strong support from Treasury. In this process only defence expenditure proved immune and the cuts were rarely successfully opposed.[281]

In other areas minor refinements continued to be made to the deflationary strategy. Criteria for unemployment benefits were further tightened by applying them more thoroughly to skilled and professional workers.[282] It became even clearer that the 'new federalism' policy would shift greater fiscal responsibilities to the states who, lacking central bank capabilities, would be unable to produce expansionary strategies.[283] Following the rebuff of its badly prepared submission against full wage indexation in February, the government undertook a careful examination of the means to reduce the real wage level. Treasury officials argued that indexation could be fully abandoned and that the Phillips curve effect would provide sufficient restraint. Other modifications were also canvassed. In the event, the strategy suggested by the Senior Vice-President of the A.L.P., Jack Egerton, following dinner at the Lodge with Mr Fraser, was adopted: plateau indexation.[284] The deflation was biting, business was becoming increasingly unhappy that the investment allowance was likely to be its major concession.[285]

In two other important areas there were extensive debates within government circles. On 30 March, the Minister for Industry, Senator Cotton, made a lengthy statement on the automobile industry in which he adopted Labor's local content plans. It was widely canvassed that the government might also pursue the Labor government's rationalisation policy by planning one four-cylinder engine plant located in Adelaide for the entire market.[286] These intentions were clearly opposed by the existing major producers, Ford and G.M.H., and would be resisted. The second area was the minerals sector where the collapse of the world boom had led to Labor's modifying Connor's policies. Under the new minister, Mr Anthony, the policy was bipartisan: 50 per cent local equity except in uranium which was 75 per cent. This came in for heavy criticisms both from the (foreign dominated) mining industry and the Queensland and West Australian branches of the coalition parties, who argued that the guidelines were too restrictive.

The coalition government had not yet produced a polarisation of the forces of labour and capital. Indeed in certain respects its policies were as vociferously opposed by sections of business as sections of labour. And conversely it received support from sections of both. Its deflationary strategy took further shape in May and June and it was carefully formulated to maintain and utilise these divisions with tactical flexibility. Its strategy, however, was non-negotiable. The real value of the wage bill was to be contracted; the 'social wage' underwritten by government expenditure would be cut; the inflation would be rapidly reduced. In March, *Syntec*,[287] which as we have seen, had foreshadowed previous government policies for two years, insisted that if this policy were not successfully accomplished during 1976, Australia would face the same inflation-devaluation-further inflation spiral which had accompanied the decline of the productive base in Britain. 'Tough internal action' was required and 'the Government's shadow-boxing to date doesn't look very convincing'. It warned 'unless it means to king hit—which we doubt—

then the deficit in 1976-7 is going to be around $4000 million'. In May it became clear that the king hit was indeed materialising.

The king hit unfurled in late May and early June in three stages: the mini-budget of 20 May; the national wage case decision of 28 May; and the Premiers' conference of 10 June. All three were deflationary; all three aroused the opposition of wide sectors of society; but each contained sweeteners which divided and muted the opposition.

Mr Lynch introduced the mini-budget after a week of publicity build-up during which the more attractive measures he announced were emphasised in a national TV address by the Prime Minister, leaked to the press and sold at a dinner at the Lodge to newspaper editors. The major propositions it contained were: proposed government expenditure for 1976-7 was cut by $2.6 billion; future income taxes would be indexed; child endowment benefits would be substantially raised; and a 2.5 per cent income levy would be established to pay for Medibank. In words almost identical to those of Mr Hayden in the previous August, the Treasurer promised that the Government 'is continuing to aim for a moderate, balanced recovery in which the public sector stands aside to permit the private sector to grow'. As was pointed out in the press, the majority of income earners would be worse off as a result of the package[288] although low-income earners, especially those with large families, would benefit. As became clear, Medibank would also be substantially destroyed by forcing many people back to the private health funds and raising hospital charges to reduce the government subsidy. [289] The package was deflationary but the sweeteners visible. And when it became clear that the trade union movement might well unite for industrial action against the changes to Medibank,[290] the Government announced it would permit Medibank to operate as a private health insurance fund.[291] This apparent concession divided the union movement.[292]

The reaction of business was more muted but similarly concerned. A number of manufacturers associations joined the construction industry in expressing concern that the government was cutting its expenditure and deflating the economy too quickly. Vocal in this respect were the Metal Trade Industry Association, the Associated Chambers of Manufacturers and the Australian Industries Development Association.[293] The retail trades took no comfort from the deflationary mini-budget and the textile industry was reported to be 'fighting for its future'.[294] Overall it was argued that the investment allowance had proved of little value.[295] The government, however, was determined not to engage in pump-priming and indeed was warned specifically against this by finance capitalists in line with *Syntec*'s recommendations.[296] It used other means to placate these criticisms, and at the largest conference of businessmen ever held in Australia, it argued that recovery was around the corner.[297] More tangibly it resorted to increased tariff and quota protection, and abandoned the Labor initiated automobile industry rationalisation plans that Cotton had apparently endorsed in April.[298] These moves, together with the local equity requirements in the minerals sector, ensured that opportunities for domestic capital would be maximised during the deflationary drive. Further concessions in the form of company tax indexation and on easing of the trade practices legislation against monopolies and mergers were also foreshadowed.[299]

The second decision related to the wage level. During the period of indexation, the year to March 1976, gross average weekly earnings had risen more slowly than the price level, and experienced a real fall.[300] There had been a simultaneous drop in the number of work days lost due to strike action to 50 per cent of the 1974 level.[301] The Phillips curve was clearly working. On 28 May the Arbitration Commission, in line with the government's submission that the real wage level should be reduced, applied indexation for the first quarter of 1976 to wages up to $125 per week, a figure substantially below not only average but also medium earnings. Above the level the flat rate of $3.80 would be granted.[302] Coupled with the mini-budget this ensured a cut in real wages for the overwhelming majority of income earners but, because of its apparently egalitarian effects, it produced a muted reaction from the trade unions, some of whom welcomed it.[303]

The third step in what was evidently a run up to a tough budget was the confirmation of the deflationary new federalism policy at the Premiers' conference on 10 June. In February a 'secret' Treasury paper had described it as, 'the Commonwealth handing the dirty work of increasing taxes to the states'.[304] Even before the June conference the States started to complain at the instruction that they increase hospital charges,[305] and became alarmed at Mr Fraser's open criticisms of their expanding expenditure.[306] On 10 June, Mr Fraser presented the Premiers 'with a non-negotaible package the effect of which will be a severe cut in State Government services or a steep increase in State taxes'.[307] The Premiers, Labor and non-Labor, were unanimous in their opinion that the effect of the package would be an increase in the rate of unemployment, a reduction in business activity, particularly construction, and a cut-back in welfare programmes.[308]

On 17 August 1976, Treasurer Lynch brought down the first non-Labor budget since 1972.[309] In it he stated:

> The way in which the various elements of the Budget slot into the anti-inflationary strategy highlights the importance of looking at *all* our policies—fiscal policy, monetary policy, wages policy and external policy—as a unified and coherent whole.[310]

By that stage the major priorities of this strategy were clear. The first priority, as Mr Lynch reiterated, was the reduction in the inflation rate. This was regarded as necessary for two reasons: to ensure that 'Australia's international competitiveness does not continue to be eroded for too much longer by cost escalation in excess of that of our trading partners',[311] and to remove the price uncertainties which had driven Australian businessmen into 'their shell-holes'.[312] The government intended to achieve this objective by three mechanisms. The first was by reducing

the growth rate of the money supply, a policy launched with the Australian Savings Bond issues of early 1976. The second was complementary and involved a reduction in the budget deficit by one billion dollars. The third assumed the status of an independent objective.

The second priority was a reduction in what Mr Lynch termed the 'existing excessive level of real wages'.[313] It was argued, as it was in the 1930s that by making labour too expensive, high wages were creating unemployment. Further, it was asserted that the 1974 'wage explosion' had created the high inflation rate. The government's principal means for achieving a reduction in the real wage level was through the National Wage case. Its first submission—that only 50 per cent of the C.P.I. rise for late 1975 be passed on—had been rejected. In May it had achieved a reduction in the wage bill by means of plateau indexation. On 12 August, the Arbitration Commission further reduced real wages by introducing tapered plateau indexation. In conjunction with these cuts in real cash wages, the 'social wage' would be eroded by cuts in welfare services. The cuts of February and May were consolidated with further reductions in government programmes provided by the budget.

The third major objective was a redistribution of the national income away from wages, salaries and government expenditure and towards profits. Or as Mr Lynch expressed it: 'the sooner wages and profits return to a more normal relativity, the sooner job prospects will improve', and a 'downward adjustment in the wage share' '. . . is now required'.[314] The rationale for this objective was twofold. First, in a capitalist economy the mechanism for economic growth is provided by the reinvestment by capitalists of their profits, in anticipation of being able to make further profits. If this mechanism is not replaced by another—the expansion of productive facilities in the public sector or by the establishment of a socialist economy—then adequate profit rates *are* a prerequisite for economic growth. For nearly two years the financial press had been referring to the sudden drop in profits' percentage share of the non-farm G.D.P., from 15-6 per cent to 10-11 per cent. In April, *Syntec* had urged that profits' level would need to be increased by 50 per cent.[315] At stable G.D.P. this would involve a loss *per worker* of approximately $11.00 per week on the estimate of one trade union.[316] Secondly the coalition argued, like Mr Hayden, that the private sector was being squeezed out by the too rapid growth of the public sector. The redistribution would be accomplished by two principal devices. As the economy grew modestly, the reduction in the real wage level would allow profits to rapidly recover. Further, the contraction in the public sector would be accompanied by increases in the level of tax paid by wage and salary earners but by a gradual reduction in the tax rate on corporations.

The fourth objective was to cut the size of the public sector. This partly reflected the ideological commitment to free enterprise and individual initiative which Mr Fraser had frequently stated. It was also in concert with the advocacy of allowing free market forces to determine the distribution of income and resources—a central plank of the monetarist school. The 1976 cuts in Federal expenditure—continued in the budget—have already been referred to. In addition the New Federalism would reduce revenues available to state governments. The budget provided for a reduction in real terms of special grants to the states, while in the month preceding the budget Mr Fraser had criticised the expansion of state government programmes and had warned them to match their budgets with that of the federal government.[317]

The fifth objective was the only one to offer serious hope for short term economic recovery. Since the major elements of domestic activity—consumption, production, investment, public expenditure—were unlikely to lift substantially as a result of the government's strategy in the coming financial year, it was hoped that the economy would receive some assistance from the world recovery. The principal hope here was the minerals industry. The Labor government had adopted less restrictive policies on foreign investment in late 1975. In early 1976 these were the guidelines adopted under Mr Anthony, although he encountered serious criticism from his political allies in state politics in West Australia and Queensland, for being too restrictive. The weekend before the budget, Mr Lynch announced a new foreign investment mission would tour overseas, and that the government would be more 'flexible' in the administration of its guidelines.[318] The success of this element in the strategy depended on two conditions being fulfilled: world recovery needed to continue; and Australia would need to receive a massive injection of foreign capital. Even if these conditions were fulfilled, and this was unlikely, the capital-intensive nature of the minerals sector seemed to ensure that the employment generated would hardly dent the unemployment pool. In line with this policy, the budget allowed for substantial reductions in the taxation level on the minerals sector.[319]

It was within that strategy context that the budget was located. Mr Lynch attacked Keynesian economic philosophy and tailored the budget to a restricted growth of the money supply. By cutting the deficit by \$1 billion he hoped to achieve a single digit inflation rate by mid-1977. The overall balance is set in rounded figures in the accompanying table

The 1976 Budget

	1975-6	*Change on Previous Year*	*1976-7*	*Change on Previous Year*
Outlays	\$21.8 billion	up 22.5%	\$24.3 billion	up 11.3%
Receipts	\$18.2 billion	up 19.7%	\$21.7 billion	up 18.8%
OveWall deficit	\$ 3.6 billion		\$ 2.6 billion	down \$1 billion
Domestic deficit	\$ 2.9 billion		\$ 1.9 billion	down \$1 billion

Allowing, as Mr Lynch did, for an inflation rate of about 12.5 per cent for the year, three principal features emerge. Government outlays in real terms would be down by about 1 per cent. Revenue would be up in real terms by about 5.5 per cent. And the budget deficit was reduced by 1 billion dollars. Take these items separately. Expenditure had not been slashed, although the small real reduction was a reversal of the previous two years' experience and would have clearly deflationary consequences. The biggest cuts included Postal and Telecommunications (which would borrow \$200m). Aboriginal Affirs (\$33 pending an inquiry), A.I.D.C. (\$75m), Public Service (\$22m), special grants to the states, housing and health. The biggest contribution to the anti-inflationary strategy, however, would come from increased revenue.

In real terms government receipts would rise by over 5.5 per cent. In a masterpiece of political propaganda, the government leaked to the press that indirect taxes would rise massively, the traditional basis for a 'horror budget'. In fact they lifted by a mere 1.5 per cent in real terms. The sigh of relief could be heard in Antarctica. Company taxes also lifted slightly, by about 2 per cent, but the results of the revised stock valuation procedures were thought likely to check this trend in future years. Taxes on wages and salaries would rise by 23 per cent or 10.5 per cent in real terms. Here was the major contribution to a reduced budget deficit, a reduced growth in the money supply and, together with the National Wage Case, the redistribution of national income the government was seeking. Despite their being indexed, direct taxes on workers would rise over 10 per cent. In this rise the Medibank levy was the chief component, contributing about 50 per cent of the reduction in the deficit.[320] This explains why the government risked, and got, the first national strike to implement it and why it was so carefully implemented but insisted on. Announced four months before implementation, confused by changes and minor concessions in government policy, sustained through a national strike which the government asessed as a fizzer, the 2.5 per cent Medibank levy was vital. It was designed to push most people back to the private sector for health insurance; to reduce the size of government; to increase revenue and reduce the deficit; and, while maintaining a growth in workers' taxes, not form part of the agreement whereby the States' received a percentage of income tax revenues.

The budget provided, therefore, an important step in a three year programme of restructuring Australian society. Since that programme was basically deflationary and seemed unlikely to produce short term economic recovery, it assumed that unemployment would remain at high levels. Indeed Mr Lynch made no serious effort to suggest when full employment might be reached. The full employment pledge of 1945, having become for thirty years the cornerstone of public policy in Australia, having been postponed in 1975, was finally abandoned in August 1976. The Long Boom was truly over. As Don Dunstan, South Australian Premier pointed out: 'Australian workers were facing the gravest assaults on their living standards since the late 1920s'.[321] That assault would be implemented piecemeal in the hope of avoiding a major confrontation with organised labour of the kind that the same policies, implemented at once, had occasioned in Britain under Mr Heath, and in New Zealand under Mr Muldoon. The level of unemployment would be determined by the political and economic requirements of the readjustment.

9. The Socialist Alternative

The main thrust of the social strategy of the coalition government had thus been openly stated and progressively acted upon. Its central plank was deflation: its component parts included: a reduction in real wage levels overall; a cut-back in the social wage provided by public welfare services; maintenance and expansion of the unemployment pool to facilitate the disciplining of the work force; a redistribution of national income towards profits; a reduction in the central government's role in economic management; and a shake out of domestic industry to the advantage of larger firms and those less dependent on government support. To a degree the Labor government had already moved in these directions. Although it was at first suggested that this new orientation reflected archaic economic and social theories inapplicable to contemporary conditions, the strategy was in fact rooted in the needs of Australian capitalism as it faced the changed conditions which the end of the post-war boom had brought. Three areas in particular exhibited conditions requiring urgent remedy.

First, domestic manufacturing industry was experiencing a declining rate of profit which was inhibiting investment, growth and technological advance. The government's desire to lift the rate of profit sprang not so much from the corporations' extensive links with the Liberal party and the bureaucracy, although these were considerable,[322] as from the objective function of profits as the engine of economic growth in a capitalist society. The solution involved the application of those policies Marx described as tendencies offsetting the declining rate of profit—reducing wage levels, increasing the rate of exploitation, maintaining a reserve army of unemployment, improving the terms of foreign trade and wearing out the capital stock. In this process, smaller capitals (firms) would be eliminated and the larger ones would expand their control.

Secondly, the international situation demanded rapid reduction of the inflation rate which by 1976 threatened to be one of the highest among OECD countries. If Australia's inflation rate stayed higher than that of her trading partners, the steady devaluation of 1976 would accelerate and, by increasing import prices, further fuel inflationary trends. Further, foreign investment would not flow into a country with a potentially devaluing currency, and foreign investment already in Australia would find its assets and repatriated profits declining in value. While the world market in capital and goods remained a determining influence on Australian economic activity, deflation would be necessary at the rate of its trading partners. As elsewhere in the OECD countries, 1975-6 witnessed a move to rapid deflation via public spending cut-backs, reductions in real wage levels, and an increase in unemployment.

Thirdly, Australia was experiencing what O'Connor calls a fiscal crisis of the state.[323] The rapid growth of state activity that the 1950s and 1960s witnessed, accelerated in the 1970s, financed partly by fiscal drag or the money illusion associated with inflation, and partly by record levels of deficit budgets. This rapid increase was the result of demands by both the working population for improved welfare provisions and private business for increased subsidies, contracts and, in some degree, planning dovetailed with the corporation's own projections. Together with the international monetary breakdown which accompanied the abandoning of the Bretton Woods System this further fuelled inflation Redistributive programmes and corporate handouts were not matched by real revenue as the state lost control of its fiscal strategy and no sector of society would meet the cost. To that extent both Mr Hayden and Mr Fraser were dealing with a real problem of the capitalist state. Monopoly corporations raised prices to cover taxes; workers in the private sector used the strike weapon to maintain their *net* income level; the agencies of the state undertook amoebic growth rates; and public sector workers politically resisted any cutbacks in their programmes. Mr Hayden's budget and, more forcefully, Mr Fraser's 'new federalism' and his indexation of taxes, represented an effort to re-impose and relocate accountability for the expansion of unproductive state expenditure.

As was already apparent by mid-1976, this programme would be met by resistance not only from workers faced with declining real wages, higher unemployment and reduced welfare benefits, but also from those sectors of capital, particularly in the manufacturing and construction industries, dependent on state intervention for the maintenance of a high level of aggregate demand for their markets, or on public subsidies of one sort or another for their profits. The state governments were also unenthusiastic, since their expenditure would need to be increasingly matched by revenues raised by themselves. Other sectors of capital, finance and the multi-national corporations in particular, were more enthusiastic proponents of what *Syntec* called the 'King Hit'.

During 1975-6 the reaction to the increasingly deflationary programmes of two governments offered little encouragement for the formulation of a socialist alternative. Despite its thorough drubbing in the December 1975 election, sections of the Parliamentary Labor Party became apparently convinced that Mr Fraser's programmes would produce his defeat in 1978. One former minister argued that Mr Fraser would no longer be party leader by 1978.[324] Hence Labor could stand on its 1975 record and return to office; no fundamental reconsideration of policies was required. In fact the resistance to the deflationary programme was severely muted as the coalition government's periodic minor concessions and sweeteners, ensured that united national action for political purposes was not successfully undertaken by the organised labour movement. Without resolute leadership around an alternative political programme, the union movement continued to discuss each policy initiative 'on its merits': the strategy was unfolded item by item as both alternative leadership and programme remained absent. The creation of both had assumed a critical position for Australian socialists.

The socialist position developed in the tradition of Leninist revolutionary parties possesses a logical consistency that in large measure accounts for its intellectual survival. The capitalist system of production involves certain laws of development to which any government seeking to administer it must adhere. Profits are sacrosanct; the distribution of income and wealth are relatively immune to efforts to change it; serious government intervention against capital's prerogatives invites stagnation or political retaliation: and the agencies of the state exist primarily to protect the social institutions of market forces, private capital and the increasing concentration of economic power. Parliamentary socialism is both a contradiction and an illusion. Hence a socialist strategy must involve the destruction of the capitalist state and its replacement. This logical success is not matched, however, by the position's political record in advanced capitalist or liberal-democratic societies. Indeed those communist parties which have achieved greatest popular support have done so by abandoning the heritage. This is, in large measure, the result of Leninists' refusal to 'advise the state on how to administer capitalism'. Or to put the same proposition differently, they decline to offer concrete proposals for immediate improvements to the living conditions of ordinary people in the view that that amounts to reformism. Yet that is precisely the task to be undertaken if the capitalist solution to the present situation is not to run its course. Capital's deflationary programme will be painful and encounter opposition; the Leninist alternative is logically correct but politically unviable. Are there alternatives?

The democratic socialist tradition incorporates the progressive development of greater equality, greater democracy, greater security in wide areas of social life and the expansion of democratic public planning of production. The last is a necessary prerequisite for the successful attainment of the others, but following the long capitalist boom 1945-71, its central importance had been forgotten. Aggregate demand management provides no adequate substitute for control of supply of production. In certain respects, 1975-6 did witness some revival of this proposition. The Jackson Report on manufacturing industry proposed the democratisation of forward planning of the industry's future structure. Connor's objectives in the minerals/energy sector would have involved decreased dependence on world market forces. The Terrigal Conference resolutions concerning finance capital would have reduced its control over the direction and rhythm of production. The policy objectives of the Cairns social contract period offered the protection of living standards, had they been matched by increased *control* over output. The expansion of public ownership into pharmaceuticals and automobile production would have provided pacesetters for public planning. The Department of Economic Planning proposed at Terrigal could have provided a central regulating body which, linked to D.U.R.D.'s regional planning areas and Australian Assistance Plan funding, could have provided a countervailing force to corporate power. It is in these practical directions that the labor movement may be expected to reformulate its policy as the consequences of the coalition government's strategy become

clearer.

The programme adopted at the Terrigal conference of the A.L.P. provides for a substantial increase in public ownership, control and planning. What it lacks is a specification of those agencies that would implement it, for example, a Public Enterprise Board and Fund to ensure the expansion of publicly owned facilities—and a timetable for its adoption. Without such mechanisms any future Labor government will be as dependent on the operations of corporate power as was the last. That would be no alternative—just an echo.

The socialist alternative cannot be a fully developed blueprint nor can it be merely an acceptance of the imperatives of capitalism. It must take existing problems and offer concrete solutions that develop those germs of democracy, equality and planning which already exist.[325] To await the cataclysmic establishment of the socialist state or to stand on a rejected record is to abandon the socialist alternative. The period of transition will be a long one.

NOTES

1 Capital is productive resources, e.g., factories. In Marx's terms it is a 'social relationship'. Its owner hires wage labour to work with it to produce a commodity which can be sold at a value greater than the sum outlaid in hiring the labour, paying for any raw materials used and covering the wear and tear on the machinery. The difference he called 'surplus value', the capitalists' profit.

2 A major source of socialist theory is Karl Marx, one of whose basic concepts is the labour theory of value. This is *not* rigorously applied in this eassay. A useful introtroduction to the theory is found in Ernest Mandel, *Marxist Economic Theory* (Merlin Press, 1971) Chapter One.

3 The countries of Western Europe, North America, Japan and Australasia. They correspond to the membership of the Organisation for Economic Co-operation and Development (OECD).

4 This 'iron law of wages' is Ferdinand Lassalles'. Marx thought the value of labour (e.g. wages) would be determined not only by minimum physical requirements but by social and historical elements determined by the development of society. See Karl Marx, *Wages, Prices, Profit*.

5 Frank Stilwell, Sharing the Economic Cake: Inequality in Income and Wealth in Australia (paper presented to A.I.P.S. Summer School, 1976), provides a useful summary of the data for Australia.

6 See C.P. Kindleberger (ed.), *The International Corporation: A Symposium* (M.I.T. Press, 1970; and Hugo Radice (ed.), *International Firms and Modern Imperialism* (Penguin, 1975).

7 The Henderson enquiry into poverty has made clear this is true of Australia. See Commission of Enquiry Into Poverty, *Poverty in Australia* (Australian Government Printing Service, Canberra, 1975). Compare the Study on Britain, D. Wedderburn (ed.), *Poverty Inequality and Class Structure* (Cambridge University Press, 1974).

8 Pierre Jalée, *The Pillage of the Third World* (Monthly Review Press, 1970), provides a classic description of this. See also Samir Amin, *Accumulation on a World Scale* (Monthly Reveiw Press).

9 P. Sweezy, *Modern Capitalism and Other Essays* (Monthly Review Press, 1972), esp. pp. 141-3.

10 The 'coupist' element of Lenin's theories came in for considerable criticism at the time for its undemocratic connotations as for example by Rosa Luxemberg. Indeed Lenin himself had some doubts about it. See Rosa Luxemburg, *The Russian Revolution and Leninism or Marxism?* (University of Michigan Press, 1976); and Roy Green, Imperialism and Revolution (unpublished Honours thesis, University of Adelaide, Politics Department).

11 During the ascendency of Lin Piao and the Cultural Revolution in China, 1965-9, Peking took a similar position.
12 This is true in varying ways of the French, Italian and Japanese Communist Parties.
13 See Bob Gollan, 'The Ideology of the Labour Movement, in E.L. Wheelwright & K. Buckley (eds.), *Essays in the Political Economy of Australian Capitalism* (vol. 1, Australia & New Zealand Book Company, 1975). For extensive criticisms of this strategy see (for Britain): R. Miliband, *Parliamentary Socialism* (Merlin Press, 1973); and David Coates, *The Labour Party and the Struggle for Socialism* (Cambridge University Press, 1975); (for Australia), V.G. Childe, *How Labour Governs* (1923 Melbourne U.P., 1964); and H. McQueen, 'Glory without Power' in J. Playford & D. Kirsener (eds.), *Australian Capitalism* (Penguin, 1972).
14 See E.A. Boehm, *Twentieth Century Economic Development in Australia* (Longman 1971), chapter 2; and B. McFarlane, 'Australia's Role in World Capitalism', in Playford & Krisner, *op. cit.*
15 Robin Gollan, *Radical and Working Class Politics in Australia* (Melbourne University Press, 1970), chapter 8 describes this. The 1905 federal ALP platform 'fused' nationalism, 'the cultivation of an Australian sentiment', with socialism, 'collective ownership of the monopolies'.
16 Much of *Capital*, vol.II, is devoted to this subject.
17 K. Marx, *Capital*, vol.III, (Progress Publishers, Moscow, 1966), p.211ff.
18 These include: increasing the intensity of exploitation of labour (including using female labour so a family provides more surplus); depressing wages; using relative overpopulation and unemployment; colonial trade.
19 V.I. Lenin, *Imperialism: The Highest Stage of Capitalism*.
20 His magnum opus was J.M. Keynes, *General Theory of Employment, Interest and Money* (1936).
21 Charles P. Kindleberger, *The World in Depression 1929-39* (Allen Lane, 1973).
22 This is true not only of those sick or unemployed workers living in poverty but also of sections of the work-force, particularly immigrant workers in Europe who together with women provided much of the expansion of the Europe labour force in the 1960s. See Stephen Castles & Crodula Kosack, *Immigrant Workers and Class Structure in Western Europe* (Oxford University Press), 1973.
23 The establishment of special provisions for stagnating regions especially in France, northern Britain and southern Italy became a key issue in the E.E.C.
24 See R.W. Connell & T.H. Irving, 'Yes Virginia there is a Ruling Class', in H. Mayer & H. Nelson (eds.), *Australian Politics, A Third Reader*, pp. 36-40.
25 See F. Crisp, *Ben Chifley*.
26 See OECD Economic Surveys, *Australia, 1972*, pp.19-20.
27 B. McFarlane, *Economic Policy in Australia: The Case for Reform* (Cheshire, 1968), pp.170 ff.
28 *ibid*, chapter 5.
29 G. Kolko, *The Politics of War* (Random House, 1968); and Joyce and Gabriel Kolko, *The Limits of Power* (Harper and Row), 1972.
30 As the Europeans later complained, viz. J.J. Servan Schreiber: *The American Challenge*. See also E. Mandel, *Europe Versus America?*, N.L.B., 1970; and A. Stadnichenko, *Monetary Crisis of Capitalism* (Progress Publishers, Moscow, 1975).
31 On the World Bank and I.M.F. see T. Hayter, *Aid as Imperialism* (Penguin) and C. Payer, *The Debt Trap* (Penguin). The literature on U.S. global strategy is enormous but Harry Magdoff, *The Age of Imperialism*, Monthly Review, provides a useful introduction.
32 H. Gelber, *The Australian-American Alliance*.
33 See R.I. Downing (ed.), *The Australian Economy* (Weidenfeld and Nicholson, 1973), chapter 2.
34 R. Catley, 'Prelude to Vietnam', *Journal of Southeast Asian Studies* (1971).
35 See OECD Survey, *Australian, 1972* p.15., and B. McFarlane, 'Economic Policy', in Roy Forward (ed.), *Public Policy in Australia*.
36 See *Overseas Investment in Australia*, Treasury Economic Paper No. 1, (1972).
37 OECD Survey, *Australia, 1972*, pp.20-1.
38 J. Collins, 'The Political Economy of Post-War Immigration', in E.L. Wheelwright & K. Buckley (eds.), *Essays in the Political Economy of Australian Capitalism* (vol.1, Australia & New Zealand Book Company Sydney, 1975).
39 See OECD Survey, *Australia, 1972*, p.29 ff.
40 See E. Mandel, *Late Capitalism* (New Left Books). Indeed one famous socialist analysis claimed that the major problem was the disposal of surplus profits: P. Baran & P. Sweezy, *Monopoly Capital* (Penguin, 1966).

41 P. Jalée, *The Third World in the World Economy*. A. Emmanuel, *Unequal Exchange* (Monthly Review Press, 1972), argues this was due to, not the cause of, the disparity in income levels.
42 See 'The End of U.S. Hegemony', *Monthly Review* (October 1971).
43 In this essay I have not sought to deal with the character of the global conflict between the U.S.A. and the U.S.S.R., generally viewed as a struggle between capitalism and socialism. The Chinese government and some communist parties including the Communist Party of Australia (Marxist-Leninist) view it as an inter-imperialist struggle following the restoration of capitalism in the Soviet Union.
44 By 1975, one estimate was as high as $300 billion.
45 See J. Hinkson, 'Currency Crisis', *Arena* 36.
46 See Anthony Barnett, 'Class Struggle and the Heath Government', *New Left Review* 77(1973), pp.23-5.
47 For Britain see A. Glyn & B.Sutcliffe, *British Capitalism, Workers and the Profits Squeeze* (Penguin, 1972). Compare B. McFarlane, 'Radical Ricadians', *Arena* 39(1975).
48 See Angus Hone, 'The Primary Commodities Boom', *New Left Review* 81(1973).
49 See 'Third World Struggle Against Hegemony in the Economic Sphere', *Peking Review* (26 September 1975); and G. Barraclough, 'The World Economic Struggle', *New York Review of Books* (7 August 1975).
50 See Henry Mayer (ed.), *Labor to Power: Australia's 1972 Election* (Angus & Robertson, 1973).
51 'The democratic Socialisation of industry, production, distribution and exchange to the extent necessary to eliminate exploitation and other anti-social features in those fields — in accordance with the principles of action, methods and progressive reforms set out in this Platform.'
52 See Boehm, *op.cit.*, chapter 6.
53 OECD Economic Surveys, *Australia, 1972*.
54 See Hugh Stretton, *Ideas For Australian Cities*.
55 OECD Survey, *Australia, 1972*, 'Basic Statistics: International Comparisons', pp.100-1.
56 In sharp contrast with the E.E.C. states.
57 See Bob Catley & Bruce McFarlane, 'Technocratic Laborism —The Whitlam Government', in E.L. Wheelwright & Ken Buckley (edd.), *Essays in the Political Economy of Australian Capitalism* (Australia & New Zealand and Book Co., Sydney, 1975), vol. 1, pp.242-69.
58 *A.L.P. Policy Speech*, A.L.P. 1972.
59 *Australian*, 15 August 1975.
60 Address to N.S.W. Chamber of Manufacturers, 30 August 1973.
61 There is some doubt as to whether this is the case.
62 See B. McFarlane, 'The Swedish School Revisited' (paper to Conference of Economists, Adelaide, 1973).
63 See A. Lindbeck, *Swedish Economic Policy* (Macmillan, 1975).
64 'The (Federal) Conference was a policy-making instrument of great vitality for Labor in Opposition during the years of the Whitlam leadership; on the evidence of the Surfers Paradise Conference, the conference languished as a dominant influence with Labor in Government': C.J. Lloyd & G.S. Reid, *Out of the Wilderness, The Return of Labor* (Cassell, 1974), p.229.
65 *ibid.*, chapter 7.
66 See for example, OECD Economic Survey, *Australia*, 1972 p.31.
67 *Capital*, vol. III, p. 233.
68 R. Horne, *The Australian Labour Market*, p.28.
69 *Australian Financial Review* (*AFR*), 14 March 1973.
70 In 1976 the Liberal Minister for Employment, Mr. Street, described it as 'a middle class rip off'.
71 Catley & Mcfarlane, *op. cit.*
72 *National Times*, 4 June 1973.
73 John Edwards 'In 7 Momentous Months turned to Refloating a Sinking Ship', *National Times*, 18-23 November 1974.
74 *Commonwealth Parliamentary Debates*, (*CPD*), 23 July 1974.
75 *AFR*, 24 July 1974.
76 *Australian*, 24 July 1974.
77 *ibid.*
78 *Australian*, 29 July 1974.
79 *AFR*, 6 August 1974.

80 *Australian*, 24 July 1974.
81 *Australian*, 9 September 1974.
82 *AFR*, 23 August 1974.
83 'Cairns Makes The Running', *AFR*, 16 August; 'The Puppet Treasurer's Budget', *AFR*, 13 September 1974.
84 *AFR*, 22 October 1974.
85 *National Times*, 28 October 1974; *AFR*, 21 October 1974.
86 *AFR*, 21 October 1974.
87 *National Times* 30 September 1974.
88 *Australian*, 21 October; *AFR*, 18 October; *National Times* 28 October 1974.
89 See Appendix to this chapter.
90 F.H. Gruen, 'What went Wrong? (Presidential Address, ANZAAS 1976, Section 24 Economics).
91 Probably attributable to the run-down in immigration increasing frictional mobility (i.e. people not moving to jobs), and higher benefits decreasing the attractions of employment in some small measure.
92 *Policies for Development of Manufacturing Industry: A Green Paper* (Australian Government Publishing Service), vol. I (The Jackson Report).
93 See *Australian*, 1 February 1975.
94 'Whitlam's Monster', *AFR*, 14 January 1975.
95 *Australian*, 29 January 1975; Robert Haupt, 'Whitlam's Car Policy Sli‸s into Reverse', *AFR*, 29 January 1975.
96 *Advertiser*, 15 January 1975.
97 *Australian*, 30 January 1975. This was subsequently revived for land speculation and again axed by cabinet: *AFR*, 18 February 1975.
98 Paul Kelly, *Australian*, 10 February 1975. See also R. Haupt, '1975 Kills Labor's Reforms', *AFR*, 7 February 1975.
99 *AFR*, 3 February 1975.
100 *Australian*, 15 February 1975.
101 Richard Ackland, 'Govt Primes the land loan Pump', *AFR*, 13 February 1975.
102 *Australian*, 4 March 1975.
103 John Byrne, 'Govt Cash for Companies', *AFR*, 23 April 1975.
104 *Advertiser*, 8 April 1974.
105 *Advertiser*, 16 May, it was down to 41 per cent, 3 per cent lower than April.
106 Monday Conference interview, *Australian*, 25 February 1975.
107 Address by E.G. Whitlam, 'The Private Sector and the Australian Government', to Sydney Chamber of Commerce, 28 February 1975. Also address to Committee for Economic Development of Australia, 7 March 1975.
108 *Tribune*, 1 April 1975.
109 Including a strike record unequalled since 1929.
110 The three articles by Bob Mills in *AFR*, 19, 20 and 21 February 1975 set out much of the situation.
111 Percentage increase up to a certain level, or plateau, e.g., Average Weekly Earnings, and that fixed amount for those earning more. See the interview with Clyde Cameron, 'Up the Workers,' *Australian*, 15 February 1975.
112 See *AFR*, 1 May 1975 for extensive reports and commentary on the decision.
113 During the following year Average Weekly Earnings rose more slowly than prices.
114 See *Australian*, 12 May; *AFR*, 15 May; *Australian*, 15 May; *Australian*, 24 May. Also 'Ministers Clash on Metal Wage Claim', *Australian*, 10 May; 'Wages Stand off', *Australian*, 13 May; 'Shambles in the Cabinet Room', *Australian*, 15 May; 'Government Takes Neutral Stand in Metal Case,' *Australian*, 13 May; John Edwards, 'Wages Policy and the Government's Survival depends on John Moore', *National Times*, 19-24 May.
115 John Byrne, 'Govt's Lift Profits Plea to PJT', *AFR*, 23 May 1975.
116 For discussions of these issues see R.J. Ball & P. Doyle (edd.), *Inflation* (Penguin, 1972); and R.W. Clower (ed.), *Monetary Theory* (Penguin, 1973).
117 One radio commentator described its policy as 'balancing a budget on a bayonet'.
118 See *AFR*, 4 July 1974.
119 *AFR*, 5 September 1974.
120 *AFR*, 16 January 1975.
121 *Australian*, 31 July 1974.
122 *Australian*, 3 September 1974.
123 *AFR*, 25 September 1974.
124 P.P. McGuiness, 'Liberal Economic Policies Make Sense: Labor Should Try Them', *National Times*, 28 October 1974.

125 *The Liberal/Country Parties Economic Policy and Assessment: National Economic Programme 1975*. It was drafted with the assistance of such apolitical economists as Professor Hogan of Sydney University– *National Times*, 10 March 1975.
126 *ibid.*, p.47.
127 Alan Wood, 'Liberals See the Errors of the Past– Money Supply does Matter', *National Times*, 17 February 1975; Barry Hughes, 'Towards Monetarism with some zigs and zags', *Australian*, 13 February; Robert Haupt, *AFR*, 11 February.
128 *Advertiser*, 10 March 1975; *AFR*, 7 March 1975.
129 *Australian*, 4 March 1975. He was later reported to have discussed jailing Laurie Cairmichael. See also 'Fraser's Tough Union Stance', *AFR*, 14 February 1975.
130 See Paul Kelly, *The Unmaking of Gough* (Angus & Robertson, 1976).
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