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ESSAYS IN THE POLITICAL ECONO OF AUSTRALIAN CAPITA

VOLUME 4

Edited by
E.L. Wheelwright and Ken Buckley

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LABOR AND ECONOMIC CRISIS: COUNTER STRATEGIES AND POLITICAL REALITIES

THE GOLDEN ANNIVERSARY OF THE CHANT OF JIMMIE SCULLIN, 1929

BOB CATLEY & BRUCE McFARLANE

IN THIS ESSAY we seek to explain the existence of two competing trends within the Australian Labor movement and how each of them reacts to severe capitalist economic crises. We have chosen to do this by drawing our analogy between the 1930s and 1970s, when similar crises threw up a similar array of social forces: international and domestic monopoly and finance capital operating through right wing political forces and the state apparatuses, to shift the burden of the crisis onto working people by cutting real wages, public social expenditure and increasing unemployment, while the capital stock was re-organised. Two tendencies emerged within the labour movement in response to these situations. On the one hand, on both occasions stood those committed to basic labour policy, namely the nationalisation of the commanding heights of capital which were directing the crisis; the expansion of progressive taxation on both income and wealth; and the expansion of social services and employment opportunities through the increased public expenditure programme which would then prove possible. On the other side stand the 'rational economic managers', anxious to accommodate to the process of restructuring being undertaken by capital in the hope of achieving electoral success.

This is the same point we made in *From Tweedledum to Tweedledee* in 1974. Since the message of that book was lost sight of in complaints about the title, we wish to make it clear that this essay is *not* designed as a personal assault on W.G. Hayden, nor is it a defence of a mythical golden age of the Labor Party. We are merely recording, as did V.G. Childe in 1923, the operations of factions within the Labor movement under the stress of crisis. This will entail some conclusions unpalatable to some A.L.P. supporters just as Childe's did in their time.

In 1929, John Maynard Keynes wrote a pamphlet, *Can Lloyd George do it?* It advocated public works expenditure as a powerful contribution to combatting a worrying British economic slump and getting employment levels rising. This brought Keynesianism close to the 'basic Labor Policy' thrown up by working class organisations. In late 1929, Australian Labor Prime Minister Jimmie Scullin was veering towards a similar programme, then being advocated by federal Treasurer 'Red Ted' Theodore, although six months (and many English duchesses later), he was backing off it. In 1979. Labor leader William George Hayden was again advocating 'midly reflationary policies' of like ilk, after an earlier flirtation (in 1975) as federal treasurer with *cutting* public works. The 'mildness' of the Keynes-Scullin reflation as advocated by Hayden under rank and file pressure was not specified with regard to extent, degree, duration, timing or specific gravity. However, the objective was at least clear—to reduce the unemployment level closer to the '5 per cent of the work force' that Hayden, in his role as defender of the 'rational economic management' tendency within the A.L.P., had conceded as 'natural' and 'inevitable' in a modern capitalist economy.

As it turned out, Lloyd George's public works programme as described by Keynes was relatively successful, despite the absence of a powerful theoretical rationale in its adoption, and the idea of a *general* unemployment money benefit was born in the process. Scullin, however, was defeated by the disastrous economic and political effect that stemmed from a high percentage of export earnings being eaten up by the outflow of profits and dividends, by the lack of guts among the A.L.P. federal caucus members, and by the dead hand of the past—the specific economic history of the development of the Australian capitalist system.

This essay argues that whether Australian social democracy, 1979-style, can make any real contribution to solving the unemployment problem, let alone transform a shaky and incompetent capitalist mode of production, depends very much on the *same* configuration of political forces and material realities as emerged in 1929 and on the outcome of the struggle between basic labour policy and 'rational economic management'. It follows that the advocacy of policies faithfully echoing the 'mild Keynesian reflation' of Jimmie Scullin in 1929, could provide an appropriate golden jubilee repetition of the struggle played out at that time. In that sense, an examination of the theme *Can Hayden do it?* paves the way for a fuller understanding of the constraints on social democratic leaders, the rise of an open pro-capitalist faction and the objective role that their policy line within the party is called upon to play in times of deep capitalist crisis.

The development of capitalism in Australia

What was the 19th-century stamp on the capitalist mode of production that the A.L.P. inherited in 1929 and 1974-8?

It will be recalled that in Europe, capitalism had grown from the womb of feudalism. It was featured by a process of capital accumulation dependent upon rural depopulation, the concentration of land ownership and improved agricultural technology. Economic growth thrived on static or declining incomes of the working population, being harnessed by the burgeoning capitalist class and devoted to accumulation. The process of primitive accumulation was commenced.[1] The massive technological advances which accompanied this process, which spread throughout Western Europe and North America, shifted the centre of world power to these areas. The rest of the world soon felt its impact.

A second source of surplus for the new metropolitan areas became available as the colonial world was created. Civilizations that had shortly before been the equal, if not the superior, of the European were subjected politically and economically. They were transformed during the colonial epoch into adjuncts to metropolitan needs, providing industrial raw materials, foodstuffs and new areas for Western profitable investment.

The political and social impact of this new mode of production amounted to a global transformation. In the metropoles, as Barrington Moore[2] has so conclusively demonstrated, the accession to political power by the capitalist class was everywhere associated with violent civil conflict. The peaceful social order of contemporary advanced capitalist liberal democracy was everywhere erected on violence. In the world's geographical periphery the colonial conquest, usually itself bloody, preceded a transformation of relatively self-contained societies into adjuncts of the world market with dramatic changes in what they produced. This has been called 'the development of underdevelopment'.[3]

Contemporary Australia was created by an analogous process but does not readily fit the model of either metropole or satellite. Sinclair[4] has recently argued that its economic development can be viewed in three stages. The first, from settlement to the 1820s, witnessed a penal settlement outpost of a relatively autarchic character so far as the developing world economy was concerned. The second ran from the 1820s to the 1920s, when a long-term disequilibrium existed between the metropoles' (in this case chiefly Britain) demands for Australia's primary products and its capacity to supply them. The chief bottlenecks responsible for this disequilibrium, he claims, were shortages of labour and capital. The third period saw the closing of this gap and a fifty-year process of economic growth founded on the industrialisation of the Australian economy, originating in the late nineteenth century but accelerating after the first world war following the widening of tariff protection.

An alternative perspective on the same process has now been derived.[5] But it should be noted that Australian capitalism was established on similarly violent foundations to those of the metropoles—in this case the almost total destruction of the primitive communist society which had previously held the terrain and competed for its use.[6] Fitzpatrick described the economic development of Australia that followed the breaking out of the restrictions of the penal colony, in terms of the dictates of the needs of British capital.[7] This was understandable at the time of writing, since the British bondholders had been visibly instrumental in deepening the 1930s depression via policies imposed on Australia by the Bank of England and the Premiers Plan.

Hence Australia became in turn a sheep run, a mine and a cattle farm, as discoveries and technological advance made these advantageous for British investors and importers. Changes in the demand pattern of the British market or investment preferences by British investors could, throughout our economic history, as quickly produce depression in Australia.

Contemporary Left economic historians offer modifications of this 'Fitzpatrick' schema which may be summarised in the following form. The development of capitalism in Australia has been founded on two thirty-year boom periods of rapid economic growth, 1860s-1880s and 1948-1970. Two lesser periods of growth at a lower level exist alongside them, the 1820s-30s and 1900-1930. Each of these periods was characterised by three crucial factors: the inflow of labour attracted by the higher per capita income which served both production and to develop a domestic market; the inflow of capital, supplementing domestic sources, and facilitating a higher consumption level; and the strong demand on the world market for those commodities providing the leading edge for rapid economic expansion.

Each of these growth periods was followed by a sharp economic contraction in the 1840s, 1890s, 1930s and 1970s. The question at issue is why? Fitzpatrick couched his explanations largely in terms of metropolitan needs. Each contraction was the consequence of the depression of foreign markets for Australian primary products and a related reduction of capital inflow. In each case the service debt on previous capital inflows had to be repaid out of reduced export earnings. A corresponding sharp reduction in living conditions for Australian working people and a rise in unemployment was the result. Orthodox academic historians have, by contrast, placed greater emphasis on internal developments. Butlin[8] and Sinclair, for example, are more inclined to attribute the 1890s recession to the excessively speculative character of the 1880s investment boom, and C.B. Schedvin[9] has sought to move the explanation for the 1930s depression in a similar direction. In both cases a conjuncture of two crises produced sharp economic contraction: domestic over-investment (in the 1880s particularly in construction and the land boom; in the 1920s in a particularly well-protected manufacturing industry) and a collapse of the world market. Each crisis was compounded by the deflationary policies of governments dictated by their needs to repay the 'coupon-clipping' rentiers and bond-holders who had financed the expansion.

The peculiar nature of the development of capitalism in Australia also explains its contemporary features. First, although Australia's relation to the world market was (and remains) comparable to a Third World Colony—exporter principally of raw materials and importer of manufactured goods and capital—its domestic social structure came to resemble a metropole. Secondly, the long-term import of capital meant that it avoided the direst features of the primitive accumulation of capital and the savage attacks on working people associated with that process. Much of the economic surplus required for capital accumulation was that redistributed by the metropole from other colonies, where it had originally been extracted. Thirdly, with a high land-resources/labour ratio, the commodity labour enforced a high return. This was facilitated by the absence of the South African solution—cheap native labour—and was ensured by labour's political demand for a white Australia. Humphrey McQueen, indeed, erects his explanation for 19th-century Australia's labour movement politics—chauvinist, imperialist and petit bourgeoise—on a combination of those factors.[10] Finally, the point should be made, the onset of each depression was accompanied by outbursts of hostility by the labour movement: strike action, nationalist sentiment and demands that Australia's relationship with the world market be changed. Its defeat in each instance has been widely recorded.

The origin and purpose of the historic crises of Australian capitalism, then, have been two-fold. The first is classicly and uniquely a product of capitalist economies: the need for a cleansing of the capital stock as the rate of profit declines. Marx describes this in Volume III of *Capital*.[11] It involves reducing real wage levels, increasing the rate of exploitation and creating a reserve industrial army of unemployed. In this process capital values will be destroyed and the capital stock will be redeployed away from unprofitable sectors, and lead sectors expanded and consolidated. Finance capital plays a critical role in this process. But, given Australia's role in the world market, such a shake-out can be delayed by expanding external markets and corresponding capital inflow. Their collapse provides the occasion for externally oriented sectors to stagnate and await a new role in global developments, triggering the domestic crisis.

One final question should be raised in this context. Since one of the features of the colonial epoch was the prevention of industrial expansion in the periphery by the metropoles—sometimes by use of armed intervention—what enabled Australia to industrialise with so little resistance?[12] It is true that Japan escaped subordination, and in its role as metropole uniquely industrialised its colonies on the mainland—Korea and Manchukuo. It is also true, that following political independence, industrialisation has been undertaken in some Third World countries.[13] In Australia's case industrialisation originated, almost uniquely, in the heyday of imperialism, the late 19th-century boom. Following federation and the isolation imposed by the first world war there existed therefore a political alliance of manufacturing capital and the labour movement capable of enforcing protection. Since, as we shall see, this was not entirely disadvantageous to metropolitan capital, it became a cornerstone of public policy—until the next crisis.

Australia, overseas interference and the 1930s World crises: precursor for the 1970s

A starting point for grasping the economic crisis of the 1970s is to re-run the story of the overseas shocks, of economic gurus, and economic policy bungling, which were features of the crises of the 1930s.

While the Great Depression is usually dated at the end of 1929 for the world capitalist economy, the year 1927 already witnessed a crisis situation developing in Australia. The ingredients were a poor agricultural season, falling primary product prices internationally, and a large flood of manufacturing imports. The trading banks, cautious in the 1920s, now had difficulty in exercising monetary control, as hire-purchase fuelled the accelerated imports.

It was also in 1927 that a British Economic Mission first visited Australia to report back on problems of trade and settlement of debts. It attributed Australian difficulties to factors which offended British capitalism's *laissez-faire* ideology—such phantoms as: public enterprises; government ownership of the central bank; excessive tariff levels and the use of an arbitration system for determining wage levels. The Mission added that the growing size of the national debt was cause for concern, and that a restriction of future overseas borrowing would produce a useful deflation which, by driving down prices, would encourage employment. Not surprisingly, the Mission was in favour of a strong move towards private enterprise, rather than a radical restructuring of the Australian economy as advocated by some political economists.[14]

Within Australia itself, reports of the Tariff Board were drawing attention to the costs of the tariff and the federal government responded by appointing a committee of economists late in 1927 to investigate further. Headed by J.B. Brigden, Professor of Economics at the University of Tasmania, the high-powered Committee also included C.H. Wickens, the Commonwealth Statistician; L.F. Giblin, then Deputy Statistician of Tasmania; E.C. Dyason, a prominent Melbourne businessman; and D.B. Copland, Professor of Commerce at the University of Melbourne.[15] The Committee's final report came out with conclusions that few academic economists then or later found acceptable: that the tariff had enabled Australia to maintain a higher standard of living and a larger population than would otherwise have been possible. It also advanced new criteria for economic policy.[16]

Throughout 1928 one finds more unemployment but fewer bankruptcies, even some prospects of recovery as reduced imports eased the squeeze on local manufacturers. This prospect did not last: by the beginning of 1929 business conditions began to deterioriate, while rural incomes were slashed by the crash of wheat and wool prices in mid-year. Pressure on state governments to draw on 'London funds' increased, and in 1929 Queensland was the only state not labouring under both a sizable London overdraft and pressure for payment by London banks.

A reduction of real wages seemed to businessmen and the S.M. Bruce government to be a major way of reducing costs. This necessitated interference with the Arbitration system—a course sought by Prime Minister Bruce, first at a referendum, and then in a general election.

Although the Labor Party replaced Bruce in federal government, its Senate position was parlous: only seven out of thirty-six members. It has been argued that no Australian federal government had ever been elected to office in less auspicious circumstances.[17] With 13 per cent of trade union members out of work, falling government revenues, cessation of overseas borrowing possibilities and rising imports, the ingredients for the Great Crash were looming.

Scullin's new government first tried the weapon of increased tariffs and primage duties in order to discourage imports. Overseas manufacturers countered this move, in large part, by lowering their prices. Next, the government exchanged its gold reserves for notes, thereby in effect, abandoning the gold standard (in December 1929). Although devaluation of the exchange would have made imports dearer and less competitive and raised rural export income, economists and government officials gave little support to this course.[18]

Scullin did not wholly ignore the question of rural incomes, however. A Wheat Marketing Bill guaranteed the farmer four shillings a bushel, and organised a wheat pool. The legislation was rejected by the Senate. A proposed wool pool was opposed by graziers and brokers as 'interference' in marketing,[19] and only cotton and wine growers got real financial and marketing assistance.

The Commonwealth Bank of Australia at this time was under the leadership of Robert Gibson, a man obsessed with the evils of inflation. He organised, with support of the trading banks, a strong opposition to Treasurer Theodore's reflationary policy. The hostile Senate completed the rout by March 1930.

At this stage a politically helpless Labor Caucus began to knuckle under to more orthodox economic advice. An Economists' Committee, appointed by the Brisbane Conference of A.N.Z.A.A.S., argued that to restore 'equilibrium' in the economy the impact of falling export income would have to be spread equally throughout the community. 'Equal sacrifice' became a national slogan for recovery, promoted by every reactionary group and newspaper. On top of this, increased personal income tax was needed to balance government budgets. In July 1930 this general line received a boost with the arrival of a leading adviser to the Bank of England, Sir Otto Niemeyer who, in conferences with Commonwealth Bank officials and the trading banks, demanded deflation and balanced budgets. The combined effect of all this advocacy was evident at a Premiers' Conference and Loan Council meeting in August 1930. The trading banks were reluctant to either finance government overdrafts or to hold Treasury bills. This forced the Loan Council to slash loan expenditure. Despite the support within the labour movement of some states for the Theodore-Irvine financial plan, many federal Labor politicans were as afraid of 'inflation' as the conservatives, while State premiers agreed to balance their state budgets. Theodore's political disgrace at this time did little to help the radical cause.[20] Many turned to the newly elected N.S.W. Premier, Labor demagogue Jack Lang,[21] and even some federal Labor ministers publicy supported his criticisms of the federal Cabinet's handling of the economy. All matters dealing with the economy and finance were deferred until Scullin's return from Britain. The government drifted, but resisted, for the time being, the growing pressure for public service wage and salary cuts, and for the lowering of government expenditure.

In December 1930, the Chairman of the Bankers' Conference announced that no more Treasury bills or government borrowings would be financed without formal Loan Council 'borrowing' approval.

The year 1931 opened with the problem of mitigating the slump unsolved. Only the wheat harvest recovery was a favourable sign, and even this turned sour when prices fell. At this point the orthodox economists intervened. Professor Copland succeeded in a confrontation with Irvine[22] before the Arbitration Court over the period December 1930-January 1931, in securing a decision to cut wages. He particularly emphasized the fall in national income of some 70 million pounds that had occurred over the previous two years. A 10 per cent cut was supposed to impose on wage-earners that 'equality of sacrifice' for which the orthodox economists had been arguing since mid-1929. The subsequent enforcement of the wage-cut by the Court and state Arbitration tribunals affected a quarter of the wage earners then in employment. In the process, the principle of a living wage, to the extent that it existed, was totally abandoned in favour of the criterion 'industry's ability to pay'. (A similar exercise was to take place in 1953 when inflation, rather than deflation, was exercising the minds of the ruling class.) A call by the Sydney Trades and Labour Council for a general strike was rejected by the A.C.T.U., and the depression, intensified by falling effective demand, rolled on.

At its January 1931 meeting the Loan Council appointed a Committee to deal with the depression. The new Committee continued to resist a policy of exchange depreciation—although this was already occurring through market pressures. It stuck, instead, to balanced budgets and wage cuts. Loan expenditure approval for public works was again reduced. All this was to'restore confidence': it bore the unmistakable imprint of conservative neo-classical economics. The meeting of the Premiers' Conference took the same line when, in the 'Battle of the Plans' it rejected both the Theodore-Irvine Plan and Lang's new 'Plan', and embraced the Economists' Memoradum.

In replay, Theodore, newly re-instated, introduced a Fiduciary Note Issue Bill into the House of Representatives, accompanied by a Bill to remove 25 per cent gold reserve required on the note issue and to set a maximum 60 million pound note issue (substituted as a guard against inflation). Theodore argued this would enable the Government to send 15 million pounds in gold overseas, in order to repay maturing loans. The Senate rejected the Bills and Theodore attempted, unsuccessfully, to turn federal politics into the issue of 'the people versus the banks'.

When the Economists' (Copland's) Committee came to examine the actual budget situation, it soon found the interest bill would need to be reduced—a point that Lang had been underlining.[23] The budget defict for 1930-31 was 31 million pounds. To reduce expenditure further, the Committee recommended that all wages paid by governments, and all pensions, should be reduced to 20 per cent below their 1928 level. Expenditure on unemployment relief was to be limited to 3 million pounds. However, these savage cuts still left an estimated 14 million pounds gap between income and expenditure. Two possibilities left were to raise taxes on property, or yet more expenditure cuts, where only cuts in the interest bill remained as a possible 'saving'. Since, in the view of orthodox economists, taxes on property would lead to 'a loss of business confidence', they advocated hitting the rentier bond-holders by lowering interest rates on government debt.

This was the plan which was presented to the Premiers in May 1931. Lyons, now leader of the United Australia Party, and Conservative machine man Latham were invited to attend the Premiers' Conference, and secured a voluntary rather than a compulsory conversion of the loans. The States then agreed to lower interest rates on private debts, via the interest rates on overdrafts and fixed deposits.

Subsequently, the state and federal governments carried out their obligations under the plan to varying degrees. Lyons, as new Prime Minister, found his task easiest, as there was a relatively high income from federal taxes. Since unemployment relief was paid out by the states at the time, federal expenditure was moderate. The Commonwealth succeeded in raising sales tax rates and primage duties quite substantially.

What was the effect of all these cuts in interest? They appeared to help those farmers who could pay any interest at all. There was a temporary improvement in London Funds in December 1931, but the painful adjustments demanded by the Premiers' Conference continued throughout that year and until mid-1932. Deflation was finally achieved. The Conservative Plan had triumphed, at a huge social cost. In the years of the Plan, 1931-32, unemployment reached a peak of 29 per cent. The 20 per cent cut in money wages was widely implemented, making for a 10 per cent cut in real wages generally for the urban workforce, while the farmworkers, unprotected by the Arbitration awards, suffered even bigger falls. However, the plan did not really work in relation to the world-wide decline in *primary-product* prices, as the wage-cutting spree did not reduce costs far enough to be effective, even in orthodox economic terms. Instead, real effective demand fell, offsetting the effect of 'cost reductions' in improving profit margins, and Australia's crisis deepened.

Unexpectedly, and despite the Premier's Plan outrage, some of Australia's *manufacturers* began to expand output and employment in 1932. The steel, building supply, textiles and paper industries found themselves in a more favourable situation. What had happened was that the imports had been made dearer by depreciation of the currency, and the 10 per cent real wage cut undermined British competition. The Scullin depression tariff drove out imports and presented these sectors with the entire Australian market, thereby offsetting shrinking local demand, and maintaining profit levels. In this peculiar way, no part of the intention of the orthodox economists, wage-cuts make their contribution to recovery not via 'equal sacrifice' but via increased international competitiveness.

Reduced interest played a small but useful role in stimulating investment in 1931-32, while the economic system was kept liquid by the banks' willingness to deal with Treasury Bills. To these processes of recovery was added the 'stimulus' of the Arbitration Courts' adamant refusal to restore the level of the basic wage in 1932, 1933 and 1934. As late as 1939, Australian wages in money terms had failed to recover to the same extent as British wages. In this way, the Australian working class contributed to recovery—the burden of the crisis was shifted to it and firmly kept there till the Second World War.

The relative security of Australian manufacturers from British competition was again put in doubt by the Ottawa Conference of Imperial Ministers in July-August 1932. This produced a promise by Australia to reduce its tariffs on British goods, in return for duty-free import of Australian dairy products in the U.K. The Tariff Board recommended a reduction of 12½ per cent to offset exchange depreciation, and repeated its call for tariff cuts in 1934, when it concluded that Australian manufacturers were taking undue advantage of protection by raising their prices.

In the meantime, Australian manufacturers were reaping economies of scale behind the tariff wall. This process reduced unit costs, particularly in non-ferrous metals and heavy chemicals, a process which continued until the British government in the mid-1930s changed its attitude towards manufacturing in the 'dominions', under the pressure of strategic imperialist considerations, and began urging British firms to establish branches abroad; until they became a competitive reality, Australia got away with a 'beggar-my-neighbour' policy. The local manufacturing sector continued to draw strength from tariff protection, and employment rose to 565 000 by 1938.

It was woolgrowers who experienced the first recovery when wool prices rose in 1933 and 1934. This was an economic sector where indebtedness had not been increasing in the 1920s (by contrast with wheat), and it was able to remain stable, sharing in the moderate recovery of export income. The wheat industry took longest to regain its pre-depression position. Its debt burden had gone up during the 1920s; its prices remained below cost of production until 1935. Government legislation giving relief from indebtedness was passed in the states (except Queensland and Tasmania) to save the industry, and the Commonwealth government 'came to the party' in 1934, when it appropriated 12 million pounds to pay off the unsecured creditors and shopkeepers who dealt most intimiately with the wheat farmers.

Acceptance of control and a government role in marketing was more widespread in dairying than in wool and wheat, so that Dairy Producers' Boards were established in the states and the domestic price of butter was raised by decree. This regulation of market forces allowed the industry to recover quickly and to switch from reliance on exports to the home market. Similarly, sugar producers succeeded in controlling output and receiving consumer subsidies. No new cane land was allotted. Under these circumstances, those who had survived were able to improve and even to increase their exports. Tobacco benefited from high import duties; dried fruit from increasing subsidies. As market forces were increasingly replaced by regulation, and tariff protection rose (to equal that of secondary industry by 1935), rural recovery followed.

In a modern capitalist economy many of the costs which would otherwise be borne by capitalists are 'socialized' and paid for by the State,[24] for example, ports and railways, education, child-care (to a limited extent), roads. During the 1930s the state governments and municipalities which provided these things found they had to rely on their own general revenue and loans. Only at the end of the 1930s were loans again being raised by such bodies. In the interval, all services supplied by the public sector were slashed—in particular, railways, roads and ports. Only Commonwealth government services (post and telegraph) kept pace with the renewed growth of the economy.

The Labor militants, Professor Irvine, and Douglas' supporters had denounced the 'Money Power', and especially the private trading banks for their role in accentuating the Great Depression. By contrast, Labor 'rat' Joe Lyons took until October 1935 to agree to a Royal Commission into Banking. Its final composition was: J.B. Chifley (the former Defence Minister in the Scullin government); J.P. Abbot, a Country Party machine politician; Justice Napier of the South Australian Supreme Court; H.A. Pitt, Director of Finance, Victoria Treasury; E.V. Nixon, a Melbourne accountant; and R.C. Mills, the successor to R.F. Irvine as Professor of Economics in the University of Sydney. It handed in its review of Australian banking in July 1937, commenting in particular on the need for a central bank to be active within a free enterprise banking system. Only J.B. Chifley's dissenting report claimed that bank nationalisation was necessary for effective monetary policy.

The Commission's majority report did deplore the attitudes and activities of the Commonwealth Bank during the Depression, but it did not tackle the issue of the relationship of this bank to the government. Its rather weak conclusion was that the function of the Governor of the Bank and Bank Board Chairman should be filled by the same person in order to unify the control centres. This assumed, still, that the central bank should be independent of the government of the day.

Actual monetary policy soon had to deal with a drop in London funds as primary product prices again collapsed in March 1936. With the Commonwealth Bank itself lacking London funds, the Bank of N.S.W. supplied them. At this time control over the freedom of trading banks to give loans to importers was non-existent, so that the credit supply was only imperfectly known, let alone controlled. Even on interest rates, the Bank of N.S.W., by raising its own rate, was able to force its will on the whole banking system, including the Commonwealth Bank.

Ultimately, these 'loopholes' in the control system strengthened the argument for a minimum deposit scheme to be introduced into Australia. This was the origin of the 'Special Accounts' scheme, now the 'Statutory Reserve Deposits' system. Trading banks were asked to hold a (variable) proportion of their deposit liabilities with the Central Bank; these were to be increased when the need to restrict credit arose, and decreased when Commonwealth Bank authorities considered it expedient to expand the credit base. The Commonwealth Bank Board itself still preferred these arrangements to be voluntary. Only when the banks would not co-operate and demonstrated this, even while the Royal Commission on Banking was still sitting, did the Board (and the Royal Commission) finally agree to compulsion in the operation of the deposits scheme. The Royal Commission went on to recommend that a licensing system should be used to make the private trading banks conform to statutory provisions.

Despite violent opposition to the Royal Commission's findings by the private banks, the government, albeit slowly and reluctantly, at last prepared legislation in the second half of 1937. In November 1938 the Commonwealth Bank Bill was introduced—but it was dropped after the second reading. All of its major provisions were postponed until Chifley and H.C. Coombs took control in 1945, and put the legislation through, adding some 'teeth' in the process.

One message above all others that leaps out of this survey is the general failure of market forces; they were the ultimate cause of the Great Crash and of the slowness of recovery. The 1930s left a series of monuments to the inefficiency of market forces: boards and pooling arrangements in primary industry; high levels of tariff protection in secondary industry; a new system of central bank controls in monetary markets; new government regulation on a scale unimagined by the British Economic Mission in 1927.

No wonder then that a Chatham House report[25] on the 1930s seemed in essence also to describe Australia's own experience of the 1930s, although prepared from a European viewpoint to explain the world-wide economic crash. Its conclusion was simple—market forces cannot be trusted. This was a sentiment to be echoed for the next ten years,[26] in books by businessmen themselves (such as Sir Oliver Franks in Britain) and in government 'White' papers: the Beveridge Report in the U.K. and our own *Full Employment in Australia (1945).* It was to be ignored in the Hayden Budget (1975) and the Howard Budget (1978), both years of violent debate over the very matters which wracked the 1930s.

Summing up: in the 1930s Australia suffered the most severe economic contraction in its history, largely as a result of the world-wide capitalist depression. This was transmitted to Australia via a decline in export earnings, a slow-down in capital inflow, and a capital drain occasioned by the service debt on foreign-owned capital, held then through public bonds. The brunt of the depression was borne by working people as a result of the political actions undertaken by foreign (chiefly British) and domestic finance capital, politicians through the Premiers Plan, the state apparatus, particularly the Arbitration Commission, and the orthodox academic and journalist economists of the period through their championing of wage and public spending cuts. The Labor Party had been either unwilling or unable to do anything about it. In 1979 a similar alliance had been forged to ensure that the burden of the economic depression would be borne by the same sector of the population—working people.

Australia and the Second Long Boom

It was widely believed both by academics and in inner government circles of the Western Powers that a post-1945 peace would bring depression.[27] Stalin's economists agreed that this was likely in the capitalist world. Both proved to be wrong, for the two and a half decades which followed the termination of hostilities proved to be a 'golden age' for capital. One of the prerequisites for rapid *Australian* development was fulfilled—booming overseas markets.

The ingredients of this unprecedented long boom have been sufficiently canvassed to require but brief enumeration here. All the 'metropolitan' (advanced industrial) countries experienced unusually high rates of economic growth, the defeated powers of Japan and Germany being most spectacularly successful in this respect. Business cycle oscillations were minimal, unemployment by historical levels was extraordinarily low, and whole new series of commodities entered into the historically and morally determined wage level of working people. International trade, particularly between the metropolitan powers themselves, expanded rapidly. Governments pledged themselves to growth and full employment and the public sector (welfare state) expanded more or less rapidly, partly in response to electoral demands for improved services, partly to sustain the markets on which the realisation of capital's profit depended. And, despite these features, relative price stability was maintained. Indeed the period has now assumed such golden proportions, that even sectors of the labour movement regard its re-creation as their final objective. It is salutary therefore to give some indication of the bases on which the boom rested.

First, and perhaps most importantly, the structure of world trade continued to depend on the relationship established during the colonial period. Despite political emancipation, Third World countries typically remained oriented towards the production of the specialised number of raw materials for the metropolitan markets. For the most part, the price of these commodities declined during the 1950s and 1960s—the Third World experienced deteriorating terms of trade. In addition, many of these raw materials and energy supplies were produced in facilities themselves owned by corporations from the metropolitan countries. The provision of these cheap commodities was an essential precondition for the metropolitan boom.[28] This became perfectly clear in the 1970s when their supply, at cheap rates, was threatened. Further, efforts to nationalise or control the operations of such corporations in Third World countries was met with political retaliations ranging from political subversion to outright invasion.[29] In 1979 a catalogue of these activities is hardly necessary.

Secondly, the ownership of the means of production, distribution and exchange became progressively more concentrated in larger and increasingly multi-national corporations.[30] Since, in all the advanced capitalist societies, production remained largely in the private sector, a few boardrooms controlled society's output. There has been some argument as to whether such large corporations seek to maximise profits, growth or society's welfare(!). The point is, however, that it is up to their controllers which objective they decide on: and in general the state finds itself adjusting to investment patterns decided on five years before. Again, when serious efforts were made in the 1970s to control this process its importance became clearer.

Thirdly, the distribution of income remained fairly static in the metropoles. This was true not only of personal income distribution, which follows the classical capitalist pattern of a small number of persons with very high income, and the bulk of the population at the lower end of the income scale, but also of class distribution between labour and capital.[31] Yet again, one feature of the 1970s crisis was that the equilibrium of income distribution was disturbed.

Finally, the dedication of the state to the maintenance of full employment was widely regarded as being a result of the 'Keynesian revolution' in economic doctrines. This, essentially, committed the state to the maintenance of a high level of aggregate demand by public expenditure, budget deficits and/or cheap money policies. Two points should be made about this strategy, since it was so readily accepted as 'socialist' by social democratic parties, and even heralded as transforming the nature of capitalism.[32] One is that it was the view of its founder, Lord Keynes, that the theory was specifically designed to *save* capitalism:[33]

> Whilst, therefore, the enlargement of the functions of government involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a 19th-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the successful functioning of individual initiative.

The other, shared by us, *is that as soon as the general strategy became incompatible with the needs of capital, as happened in the mid-1970s, it was jettisoned by the capitalist state.*

It would be difficult to exaggerate the extent to which contemporary Australia was transformed, and in some senses created, by this long boom.

The population almost doubled, the state capital cities more than doubled in size; new industries were created and new modes of transport—particularly road and air—came to dominate the mobility of people and goods, the education system was reconstructed; the capital became a city with a new industry, government; city centres were rebuilt with monuments to finance capital; levels of consumption leaped; and a new medium, television, rose to ascendency in the creation and re-creation of ideology. Whether the Australians of the first Long Boom played Ward's guitar around a camp fire, or McQueen's piano in their living room may be in doubt. What is not in any doubt is that after the Second Long Boom they drove home to their suburban mortgage and watched B.H.P. and Exxon take care of dolphins in the Bass Strait, Utah subsidise Australian opera, and wage slaves in the cricket industry toil over a hot pitch.

Australia's participation in the post-war economic boom, shared by all the advanced capitalist countries, created conditions not dissimilar to those of the nineteenth century boom, but with some additions. Australia's traditional primary export industries suffered from a long-term decline in their terms of trade, but new mineral exports were developed to replace them; manufacturing industry blossomed behind the protective tariff wall; a massive immigration programme greatly expanded the working class which was increasingly located in the service industries; foreign capital entered the country almost without restriction; the public sector expanded rapidly; and capitalist Australia's military policies were directed to the defence of that world capitalist market on which its life depended and from which its culture derived.

Let us look at these issues separately. In 1950-51, wool provided 65 per cent of Australia's export earnings; by 1970-71 it was down to 12 per cent. The combination of worsening terms of trade and synthetic substitution, has produced the long-term decline of what had been Australia's staple export industry. In its place rose the minerals industry which accounted for 25 per cent of exports by 1970-71. Three points should be made about this transformation. First, the minerals industry served a different market and became a central provider for the restored Japanese empire.[34] Secondly, the capital invested in the industry was largely foreign-owned. Tom Fitzgerald has pointed out how that capital has been able to evade local taxation requirements—indeed in his estimation the mineral industry was actually a very large net recipient of public money during its formation.[35] And thirdly, the new minining industry was heavily capital-intensive and located chiefly in the northern tier of the country: West Australia, Northern Territory and Queensland.[36]

Australia's manufacturing industry developed under conditions of protection involving direct import controls in the 1950s, and relying chiefly on tariffs after 1960. By the 1970s, a number of key issues were being raised with respect to manufacturing. First, it was highly concentrated, and of the 30 000 firms involved, 200 (87 of them foreign owned) accounted for half the output. Secondly, it was located in the south-east rim of the mainland; New South Wales, Victoria and South Australia. Thirdly, by the 1970s it was experiencing declining profit rates which had already been translated into a low rate of reinvestment and technological developoment.[37] This in turn was producing increasingly loud calls from economic pundits for a restructuring of the protection policy, as Australian manufacturing industry became more and more uncompetitive.[38]

Jock Collins' study on the post-war immigration programme allows us to quickly summarise its purpose and effect.[39] The three million immigrants to Australia provided a source of cheap labour, particularly important to industrial capital. They facilitate upward social mobility for indigenous workers, but were frequently excluded from the process of parliamentary politics. They deepened the fragmentation of the working class and, initially, provided a less visible buffer for indigenous workers in areas of low pay and unemployment. All this facilitated the ideological creation of the typical Australian as middle class, occupant of an office. Two points may be made here. Firstly, it is true that as elsewhere in advanced capitalist society, the service industries provide the most rapid growth of employment. But secondly, this is merely a further application of the division of labour in the interests of capital. As the late Harry Braverman pointed out:[40]

> The progressive elimination of thought from the work of the office worker thus takes the form, at first, of reducing mental labour to a repetitious performance of the same small set of functions. The work is still performed by the brain, but the brain is used as the equivalent of the hand of the detail

> worker in production, grasping and releasing a single piece of 'data' over and over again. The next step is the elimination of the thought process completely —or at least insofar as it is ever removed from human labour—and the increase of clerical categories in which nothing but manual labour is performed.

Foreign capital is estimated to have produced about 10 per cent of capital formation during the boom. Unlike the situation in the earlier period, the great majority of it was direct private investment in the corporate sector, not the fixed interest loans to government of the pre-war period. The capital also came increasingly from the United States.[41] This capital inflow was a vital component in offsetting Australia's balance of payments, which was almost permanently in deficit. But it contained a number of potential dangers: since it concentrated in high growth sectors, the Australian economy's direction was increasingly determined overseas; if the flow payments were cut off, a balance of trade crisis would coincide with a blockage in capital accumulation; and in that instance the bondholders, as in 1931, would call the tune and repatriate profits. It should finally be noticed in this respect that, by the 1970s, Australian corporations and multi-national corporations based in Australia had begun to export capital in small quantities, particularly to Southeast Asia and Papua New Guinea.[42] This was the origin of the base and springboard strategy.

As in the other advanced capitalist societies, the role and activities of the state were expanded greatly. This expansion has occasioned a considerable debate in socialist cricles about the character of the 'welfare state'.[43] Although the Australian state sector is one of the smallest of O.E.C.D. states, the same considerations apply. One the one side it is argued that the state is purely a creature of capital and its expansion resulted from capital's new needs. These included passing to the state the responsibility for orchestration on behalf of this capitalist class on a whole, offsetting the problem of realising profits by sustaining high demand, producing a better trained work force, and so on. Much of this is, of course, true, but overlooks the modicum of truth in the other position—that the state does represent democratic wishes of working people, and on occasion it may seriously conflict with capital's large interests. This happened in 1974-5.

And finally, although the chauvinist and racist history of Australian cultural development helps explain some of its perspectives on Asia, the character of its post-war military policy can only be fully appreciated in the context of American imperial strategy. As elsewhere, American policy in the region was to establish a system of free movement of goods and capital. After the Second World War, with the rival imperial powers beaten senseless, such a policy in fact meant American dominance. In Asia the threats to the strategy were twofold: the old colonial empires, which were dismantled; and communist insurrection, which was everywhere met by force.[44] Australian military co-operation in this programme was only facilitated by its racist implications, which at that stage were closely tied to apprehensions about China.[45] In the late 1960s Australia became further enmeshed in central imperial nuclear strategy, with the stablishment on Australian soil of a number of U.S. military installations. Those at Pine Gap (Alice Springs), and North West Cape (Harold E. Holt), were vital elements in the U.S. global defence system. They had to be protected, and not least from subversives. On 2 November 1975, Mr Whitlam suggested, in Port August, that there were links between the C.I.A. and the Country Party; this led to the exposure of Richard Stallings, the man who established Pine Gap and befriended Doug Anthony. Whitlam lasted out the week—just.[46]

The international crisis of the 1970s

The events of the first part of the 1970s were clearly seen by the capitalist class to constitute a crisis, and within its own think-tanks and newsletters, the term was used to describe political, economic and social changes. Indeed a number of major reports were commissioned to determine their origin. We may examine two of these by way of introducing the crisis.

In July 1975, the O.E.C.D. Council commissioned an inquiry into the economic problems which its member states were (and are) experiencing, from eight senior economists from the U.S.A., Europe and Japan. In June 1977, it was published as *Towards Full Employment and Price Stability*.[47] It listed the major causes. The United States policy of financing the Vietnam War led to the sparking of inflation. This was fuelled by a series of 'wage explosions' in Europe in the late 1960s. As a result, both metropolitan centres determined on a contractionist policy which produced a global recession in 1971. At the same time the efforts of the U.S.A. to maintain the value of the dollar, despite years of declining competitiveness and massive external deficits, produced, in August 1971, the breakdown of the pegged-exchange-rate system. The coincidence of a number of elections in 1972 led to early expansionary policies and a global boom in 1973. This exhibited unusual speculative features, especially in real estate and gold, which combined with crop failures to fuel inflation. In that boom, bottlenecks appeared early further fuelling inflation—and restrictionist policies were applied in late 1973. They began to apply just as O.P.E.C. price rise occurred and the recession was severe. Concern with inflation and the 'worsened apparent trade off between unemployment and inflation', led to the stimulation of 1975 intending to produce a 'moderate but sustained' recovery. It proved 'fragile'.

The report's conclusion was:[48]

> the immediate causes of the severe problems of 1971-5 can largely be understood in terms of conventional economic analysis. There have been underlying changes in behaviour patterns and in power relationships internationally and within countries. But our reading of recent history is that the most important feature was an unusual bunching of unfortunate disturbances unlikely to be repeated on the same scale, the impact of which was compounded by some avoidable errors in economic policy. We reject, however, the view that existing market oriented economic systems and democratic political institutions have failed.

It might be noted in this context that in his comment on the Report Mr Karaosmanogh (Turkey) wrote: 'I do not share the degree of faith expressed by the majority of the group in the working of the market mechanism. I do not think we fully realise the political realities of concentrated economic power in the hands of a few'.[49]

The report made six major policy recommendations: do not disturb the distribution of income; aim for a slow recovery which avoids inflation; announce growth rate targets for the money supply; 'try to reach a consensus on the need for higher profits and investment among the government, labour and management'; restrain state expenditure by 'automatic indexation of the various parameters of the income tax system'; and make a 'sustained effort to remove tariff and other non-tariff barriers to imports'. The fear involved in the last point is that national efforts to offset recession by protectionism could spread, lead to a collapse of world trade and deepen the recession. These recommendations provide the consensus on economic policy which emerged within the capitalist class in the late 1970s, as the most suitable means for protecting capital.

In the political sphere we may examine a report to the Trilateral Commission, *The Crisis of Democracy*.[50] The Commission appears to have been established at the onset of the crisis, in 1973, with an alliance between Rockefeller money and senior U.S. technocratic intellectuals, particularly Brzezinski. It has commissioned a number of reports including, in 1973, *The Crisis of International Co-operation*. Its major objective appears to be to re-establish a united front between the three capitalist metropolitan areas (Trilaterals) against the Third World on the one hand and the Communist power on the other. In other words it rejected the principles of the Kissinger/Nixon balance of power operation. Since its exclusive membership has included Brzezinski, Jimmy Carter, Mondale, and two Rockefellers, we must credit it some influence.[51]

In *The Crisis of Democracy* it is suggested that the quarter-century success story of the advanced capitalist societies has come to an end with economic stagnation. Six principal areas caused concern. First, inflation, 'the economic disease of democracy', is difficult to curb because governments are too responsive to electors. Secondly, the 'democratic surge' of the 1960s has helped undermine the capacity of democratic government itself. Thirdly, although every social organisation requires inequality of authority and distribution of functions, this democratic surge has swung too far in the direction of limiting authority. Fourth, in the Trilateral countries challenges have been made to wide ranges of social forms, including education, the family and religion, led by intellectuals and encouraged by the media. Fifth, young people are unwilling to enter the working class and immigrant labour is no longer available. Finally it fears a resurgence of economic nationalism as weak governments attempt to shift blame away from domestic failures.

The combined message of these two important documents makes clear how seriously the crisis was regarded and what will be sought. Due to some bad luck, and the excessively democratic temper of its citizenry, the advanced capitalist world ran into problems. In order to rectify this situation, economic discipline and a poorer economic performance will accompany less democracy. At the international level close inter-government co-operation will be required.

Are these fair representations of the crisis? From the perspective of capital, certainly. For the sake of convenience we may locate the sources of the crisis in two areas: within the international system and within the character of advanced capitalist society.

The first centres on the decline of American imperialism and its efforts to resist the erosion of its hegemony. As we have seen, the boom was founded on the creation of a freer international market in capital and goods from which American capital was the immediate beneficiary. Its monetary expression was the 1944 Bretton Woods agreement making the dollar, in effect, the capitalist world currency. America backed the reconstruction of European capitalism, particularly with Marshall Plan money, and Japanese capitalism during the Occupation. By the late 1950s inter-imperialist rivalries were once more surfacing as a consequence of two principal tendencies. The E.E.C. and Japan were experiencing higher growth rates and conquering American spheres. Secondly, due to the fixed exchange rates, the U.S. could nonetheless run balance of payments deficits and cover them by printing dollars. This came to a head in August 1971 when Nixon started the devaluation of the dollar, and import restrictions. Expenditure in the Vietnam War exacerbated but did not cause the crisis *which was rooted in uneven capitalist development.* The immediate result was an international transmission of inflation through the enormous boost to liquidity the dollar surplus created. The Nixon/Kissinger strategic response to this was détente with the communist world (out of weakness) in the hope of reducing military expenditure; and trade war with the imperial rivals. American ruling circles have clearly come to regard this policy as inappropriate, and the purging of Nixon was the precondition for efforts to establish what Kautsky once called 'ultra imperialism',[52] with the Trilateral Commission playing a leading role.

Further, the integration of the economies of the metropolitan powers had strengthened as a consequence of twenty years of increasing trade and investment between them. As a result, as the O.E.C.D. report indicates, they recessed together in 1971, boomed together in 1973, and slumped in 1974. Even those relatively self-sufficient in oil, like Australia, could not escape the exaggerated consequences of those co-ordinated oscillations.

Finally, in the great world boom of 1973, the historic price relationship between raw materials produced by Third World Countries and their manufactured imports changed. The O.P.E.C. oil price rise was only the most spectacular example of this process and the one which, given the political solidarity of the member states and the absence of a short-term substitute for oil, was the most difficult to reverse. The recession which began in 1974 returned the terms of trade to the metropoles' favour, a process which even affected oil. It should be added that the short-term effects of the process were advantageous to the U.S., since it was through its financial institutions that the OPEC dollars gained from the E.E.C. and Japan were recycled. This provided a temporary respite for the dollar, the long-term stability of which would now require reduced energy imports. Carter is gearing up for this task plus an assault on OPEC in 1979-80.

The consequences of these three relations is to place a brake on economic stimulation as far as each O.E.C.D. state is concerned. An individual stimulation could spark inflation and the destruction of the currency value associated with it; co-ordinated expansion risks a global inflation, and a new surge in commodity prices, as the Third World wreaks its revenge for the colonial epoch.

The character of the crisis within each O.E.C.D. member state can be readily ascertained by reference to the publications of that organisation, particularly the six monthly *Economic Outlook*. The issue for December 1976 charts the features of the mid-1970s crisis.[53] It makes quite clear that all the member states experienced the same structural features, although their intensity and relationship varied with national conditions. The principal elements were: the sharpest trade cycle recession since the war; a sharp rise in the inflation rate; an increase in raw material import prices; an unusually sharp drop in the share of profits in the G.N.P.; a massive boost to international and national liquidity; a decline in production; a sharp rise in unemployment, particularly among young people; an initial rise in the share of public expenditure; a rise in the household savings ratio; and rapid currency rate realignments. Among socialists there have been strong disagreements about the internal features of advanced capitalism that have produced these circumstances. But the essential features of the explanation may be summarised in the following form, taking the Mandel thesis as a cornerstone.

Ernst Mandel[54] argues that, apart from the institutional forms provided by U.S. imperialism, the post-war boom was founded on three processes that occurred during depression and war, 1930-45. There was an extensive destruction of capital; a widespread process of technological innovation, particularly during the war, that enabled the construction of new industries and methods of production; and the labour movement had been widely crushed by fascism and unemployment. As a result, profitable capital accumulation, the development of new industries and a relatively docile work force combined to produce the golden age of capital. Linking his analysis to that of Kondratieff, who had in the 1920s argued that capitalism experienced long-term 15 year cycles, he argues that by the late 1960s the first bottleneck had begun to emerge: stagnation in technological innovation.

The second problem relates to an explanation for the decline in profit rates, so widely documented as an emerging tendency in the 1970s. Here two schools are in evidence.[55] On the one side range those, termed by their opponents 'vulgar marxists' or the 'capital primacy school' of Mattick, Yaffe and Altvater, who stand by Marx in Volume III of *Capital*. Capitalists are forced by competition to provide ever-increasing units of capital for their labour in order to maintain themselves in the market place. This involves increasing the organic composition of capital. However, if they do *not* increase the rate of exploitation there will be a tendency for the return on additional units of capital to decline. Although a number of factors may delay the operation of this process, Marx appears to think a corresponding decline in the profit rate is inevitable. As this translates into declining investment and output, a crisis results.[56] The advocates of this political position argue that just such a process occurred in the early 1970s.[57]

The alternative perspective, termed by its opponents 'neo-Ricardianism', was first popularised by Glyn and Sutcliffe.[58] The two decades of full employment had produced a militant working class movement undisciplined by unemployment. It had used its organisational strength to increase its share of value and the G.N.P. The initial response of capital was to raise prices to maintain profit's share, but there is a limit to this process provided by competition on the world market. The result was a squeeze on profits, investment and growth; and the final consequence, stagnation. Rowthorn, in a creative review of Mandel, develops this position and aligns himself with the capital squeeze thesis.[59] He argues that capital returns were squeezed from three directions: worsening terms of trade with primary producers; the expansion of public expenditure in the welfare state; and a rise in the section of the G.N.P. accruing to labour.

Whichever of these two explanations is correct, we can agree that three consequences followed. First, the expanded liquidity base provided by U.S. dollar expenditure, and state-supported expansion of the money supply, enabled this distributionalist struggle to be initially translated into rising prices, as capital sought to protect its return. Secondly, as Stuart Holland so eloquently portrays, not all capitals experienced the same problems, and it was precisely the monopolistic and multi-national corporations that found it easiest to escape the consequences of recession and inflation.[60] Thirdly, at some stage it would be necessary for the state to intervene in the process to protect profits and the process of capital accumulation, by facilitating the cleansing process to the advantage of strong corporations, and disciplining rival claims on profit, *viz*, its own welfare state expenditure, working-class power and Third World commodity producers.[61] And this is precisely the shape that the retaliatory measures of the late 1970s have taken in the metropolitan countries. The same proved true in Australia.

Australia's 'Junior Player' role in multinational corporate total strategy

The 1970s produced two rival 'models' for Australia's future economic relations with South East Asia. The first of these is the 'New International Economic Order', which sets out the aspirations of the radical middle classes of Asia. It calls for higher and more stable commodity prices for the products of Asia; for aid grants from the West without strings attached; buffer stocks; food banks; and, above all, reduced trade and tariff barriers against Asian goods in countries like Australia and the U.S.A. Against this, Australia could become part of the second model—the U.S.-Japanese *Pacific Rim Strategy*. The Pacific Rim has been described this way:[62]

> The United States and then Japan stand at the apex of the hierarchy of economic development. They draw resources from the next tier, (Australia and New Zealand) while selling goods in their markets. The advanced countries, moreover, regard the integration of the neo-colonial countries of

> the Pacific Rim into their triangular and quadrilateral economic relations as essential to the future of the 'international division of labour' in the Pacific.

In the whole conception of a Pacific Rim Strategy, a country's *status* in the 'three tiered hierarchy' determined whether it would be a raw material supplier or, as in Australia's case, also a springboard for overseas (Japanese and U.S.) investors to get into Asia. How did this figure in the planning of Australian Social Democracy 1972-75 and 1978-79? To answer this requires some more background on the pressures being built up by the multinationals themselves.[63]

A recent study lucidly outlined[64] the faster movement in the 1970s towards Australia's economic involvement with the Pacific Rim. In January 1970, the first detailed proposals for acceleration of this process were put forward by Neil McInnes, former Dow-Jones Paris representative and now head of the economic intelligence section of the Australian security service. McInnes said:[65]

> The formation of one's own international companies is not just the sop to national pride needed to deal with the giants from abroad but an essential part of international corporate strategy . . . Our interest is to export [old] technology to Asia because Asians are determined to set up such industries. The export of that technology would best take place by classical means—i.e. via the international company which in this case could be our own companies. This would give Australians the feeling they were participants and not merely witnesses in the internationalization of production.

In the wake of the deepening world capitalist crisis, the appeal of this approach was underlined in advocacy of it by Japanese capitalists, the American State Department and the Trilateral Commission, with the endorsement, in general terms, of ALP leader Hayden. To explain this further we may note:

(a) A leading Japanese capitalist planner Jiro Tokuyama waxed enthusiastic about the desirability of Australian-Japanese joint ventures in the expansion of investment in the Pacific Rim.[66] The ANU-based economists Sir John Crawford and P. Drysdale agree;[67] while

(b) the U.S. Secretary of State, Mr C. Vance, pledged an American commitment to such expanding private investment and trade in the Pacific Rim in his speech to the ASEAN Council of Ministers on 4 August 1978.[68]

(c) More important for our purpose of study of social democracy was Hayden's full endorsement. This is significant because Whitlam had made consistent efforts to step up Australia's integration into the Pacific Rim economy, and had extolled Indonesia as the model Asian economy for receipt of Australian government aid (both civil and military) as well as Australian private capital investment.[69] That was in 1974-5. In August 1978 Hayden returned to this theme:[70]

> A Japanese economy of this size—greater than the rest of the Asian-Pacific countries combined—must be expected to have a major effect on the pattern of Australia's manufacturing and trade development . . . Australia and Japan have strong regional interests but their emphases have differed significantly

> in the past. Those differences are lessening, however, through changes taking place on both sides . . . The most important trading and investment relation of developing countries throughout the region are with Japan . . .
>
> The emergence of more common ground in their regional policies, their positions as permanent members of the region, and their relations with third parties—notably the great powers—offer the scope for a co-operative Australia-Japan role in regional affairs.

For the rest of the speech Hayden called for official, business and academic *joint-ventures* with Japan to get into the Asian-Pacific economy, with some specialized attention on Papua-New Guinea and long-term development investment in the area. He then went on to support the Report of Sir John Crawford and Dr Saburo Okita which lays out the detail on how this might be done.

Whence came the increased pressure on the A.L.P. to get away from Connor's policy and back to Whitlam's 'eighteenth-century' offshore factory and 'springboard into Asia' concepts? One clue is the 'new wave' of plans issued by the Trilateral Commission.[71] This Rockefeller-dominated body produced specialized reports on food, minerals, and multinational development of South and S.E. Asia.[72] It also produced another series, called the 'Triangle Papers' which call for the integration of the two Communist Asian giants—China and Vietnam—into the Pacific Basin economy.[73] How was this to be done?

First, the Japanese, under American prodding were to give China a 'technological fix'—massive transfers of technology over the next 15 years. In return, China would be pressed to continue its moderate (right-wing) lurch in domestic economic policy and 'open up' even further to trade and investment from the capitalist world. Vietnam would get U.N. help, some (disguised) reparations from the U.S.A. and membership of ASEAN in return for a softer policy on multinational corporate investment in the country and cancellation of physical and moral aid to Asian guerilla movements.

Hayden was not slow to take up the Trilateral cue,[74] advocating Australian support for Vietnam's quick entry into ASEAN and the Pacific Basin economy. Brzezinski appears to have successfully persuaded Japan to provide the planned technology transfers, and then visited China in May 1978 where he announced general agreement between the U.S. and Chinese government on *all* issues. The U.S. also exercised pressure on Vietnam directly (U.N. help) and indirectly (the China-Vietnam border, the Chinese 'minorities' in Vietnam disputes and pressure from the ultra-nationalist Kampuchean leadership of 1977-78 on the Vietnam border) with the result that Pham Van Dong was able to visit ASEAN countries for trade and aid talks.[75]

Should these plans succeed—the integration of a fifth layer (China and Vietnam) into the 'quadrilateral' Pacific Rim—there would be a pentagon or a pentagonal instead. In 1978, Hayden, as well as leading Social Democrats in the Trilateral Commission, clearly considered this a result devoutly to be wished.

Australia and the crisis: Social Democracy's response

The 1970s crisis that developed in Australia, as in the 1890s and 1930s, was a result of two interacting tendencies. On the one side, all the features of the international crisis were transmitted through the movement of capital and the dramatic fluctuations in international trading conditions. On the other, this coincided with a purely *domestic* crisis involving the need for a restructuring of particularly the manufacturing and construction sectors. These processes culminated in state intervention to protect capital's social dividend and to discipline public expenditure and the wage fund. In the first instance, however, is manifestation was merely the election of the first Labor federal government in twenty-three years.

In socialist literature, two general propositions are frequently argued about social democratic governments in office. One is that they only come to office in times of crisis which, as they are unable to resolve it in a socialist direction, produces their downfall, either through electoral defeat or via a swing to the Right which eliminates most of their social democratic features. The other is that because of their greater distance from the internal faction fighting of the capitalist class they are, on occasions, able to impose political solutions to the advantage of that class as whole, which more overtly capitalist parties find themselves too divided to undertake. Without wishing to contest the validity of these points, a third proposition should be added: social democratic governments may also, by accident or design, act in a manner contrary to the interests of capital. All these propositions were, at different times, true of the federal Labor government 1972-5.

We charted elsewhere the history of modern Labor government in Australia.[76] In this essay attention is now drawn to some wider conclusions from its performance, but first we need to ascertain the reasons for its 1972 electoral victory. There are a number of 'psephological' studies of the election that depict the areas and classes where votes swung, the policies which may or may not have accounted for them and the organisational features of the parties' campaigns.[77] There was, however, a vital factor which enabled Labor's leader to appear charismatic and its policies attractive. The crisis, which had opened with the 1971-2 recession, had produced deep divisions in the capitalist class which were reflected in three years of savage political infighting in the coalition government. Connell and others convincingly attributed these divisions to four major sources: how to deal with foreign capital inflow; what to do with the tariff and exchange rate levels; whether to move in Gorton's centralist direction; and divisions over the extension of state power into areas of economic planning.[78] The consequences of these divisions were to discredit a disunited coalition government. Further, some fractions of capital, for the first time in two decades, broke with the tory parties and, since the Labor Party supported their views on the above issues, threw their weight behind social democracy. As a result Labor had the money and media support required for victory. It was on that basis that the 'It's Time' coalition was constructed: but it depended on the support of fractions of capital for its existence.

During its first term, December 1972 to May 1974, the Labor Government demonstrated that in most areas of economic policy it was *less* committed to government intervention than its coalition predecessor. With a view to increasing the economic growth rate in accord with 'free market' economic doctrines which its appointed advisers (Gruen etc.) upheld, it set about forcing 'competition' on the domestic corporate sector and 'rationalising' the extensive system of subsidies and supports that had developed haphazardly over the previous twenty-three years. This was the central purpose of the establishment of the Industries Assistance Commission and the strengthening of the Trades Practices Commission. They were to be buttressed by tariff cuts and a rationalisation of government revenue collection via the Coombs task-force whose report was a virtual manifesto on behalf of market forces. The role of the two major parties, Liberal and Labor, had become almost the exact opposite of their respective ideological rhetorics: the Liberals had come to represent state intervention via a 'hydra-headed' planning machinery; Labor the 'dream-world' free market forces of the neo-classical economists. As Whitlam put it on 30 August 1973 when addressing the New South Wales Chamber of Manufacturers:

> Today we have plenty of competition, of modernisation, of free trade—even perhaps, of free enterprise in its most genuine sense—in the Labor Party. What you are experiencing now is the impact on the Australian economy of the first genuine free enterprise government in 23 years.

The Labor Government was able to engage in a restructuring process for one central reason: it was presiding over Australia during the great global boom of 1973. Hence it could cut tariffs and revalue the currency without dislocating employment; expand welfare services without cutting into capital; restrict capital inflow of a speculative character, which had sparked the inflationary spiral during the preceding two years, without feeling the effects of a capital strike; it could afford a militant posture towards its foreign markets (Connorism) since a commodity boom was in any case underway; and it could support an increase in real wages. Since it repeated its electoral victory in May 1974 it even seemed possible that a state-directed cleansing process could be undertaken—and relatively painlessly at that. We leaned to that opinion in *From Tweedledum to Tweedledee.* The failure of the strategy followed quickly after the second election victory (and the publication of that book!).[79]

The crisis which unfurled in Australia in 1974 exhibited the same general features that were earlier described with respect to the other O.E.C.D. states. In Australia's case, it was compounded by three other features. First, there was a sharp drop in the rate of capital inflow, springing from a combination of government restrictions on it and the apprehensions of multi-national corporations about the nationalist aspirations of the government. Whether this amounted to a campaign to destabilise the government may be disputed —it certainly assisted this effect.[80] Secondly, there was a sharp drop in the share of the G.N.P. accruing to profits which had been fairly stable (allowing for cyclical fluctuations) since the massive redistribution to profits undertaken by the Menzies government in the early 1950s.[81] Although typical of a normal trade cycle recession it was particularly large—6 to 8 percentage points—and occasioned an investment strike at a time of record industrial militancy by organised labour. Thirdly, this was worsened by the fact that the manufacturing sector had been experiencing a declining rate of profit since the mid-1960s—a fact that the 1973 boom had disguised. And, as elsewhere, the speculative features of the early 1970s had led to overproduction of central city high-rise development, which caused a sharp contraction in 1974, particularly in Sydney.

The contraction, therefore, occurred as a result of a combination of these external and domestic factors, and at the time that the *inflationary* effects of the world monetary instability (transmitted to Australia via the $3 billion capital inflow in 1971-2), heightened by rapid food price rises, were becoming most marked. After toying with the deflationary measures urged on it by the state machine in mid-1974, the Labor government at last determined on a Left-centre strategy. This had three principal—and contradictory—elements.

First, the 'wages explosion' of 1974 was to be contained. As in many of the other O.E.C.D. states, the traditional wage fixation procedures had broken down after two decades of full employment. In Australia the jailing of Clarrie O'Shea in 1969 had occasioned this developoment. Accepting the need to restrain the wages share, the government produced two policies: a 'social contract' budget in 1974 designed to trade off welfare benefits for wage restraint; and, in April 1975, a reimposition of state authority over wages via the Arbitration Commission and wage indexation. It may be seriously doubted that either would have worked without that mechanism which follows quickly an assault on capital's return, *viz.*, unemployment.

Secondly, under Dr Cairns the state did not discipline its expenditure—on the contrary it was precisely at that time that public sector outlays rose as a percentage of the G.N.P. in an effort to pump-prime the economy. Although this was endorsed by wide sectors of capital, grateful for the efforts to stimulate their markets, the nerve centre of capital, finance, was soon complaining.

Thirdly, in an effort to restimulate investment, two contradictory lines were followed. On the one hand, the controllers of capital were assured that the government wished to lift the profitability of its new investments and various moves were made with this intention. The Prices Justification Tribunal was urged to allow price rises to increase profitability; import restrictions were reimposed and the dollar devalued; in some cases outright grants were made to corporations. Yet, at this time two serious attacks were being made on capital with a view to expanding the role of the state in the reproduction process. The first was the effort to tap the massive funds cornered by the OPEC states in 1974 and yet to be recycled, by means of a government loan to undertake national investment projects in compensation for the foreign capital strike.[82] The second was the efforts to implement the A.L.P.'s Terrigal resolution and establish a government life assurance office and harness a major source of finance capital's revenue.[83] In both cases the retaliatory actions were savage, fuelled by the media in a campaign of salacious scandal and monetarist doctrines.

Following the consequential divisions within the government, this contradictory strategy associated with Messrs Connor, Cairns, and Cameron was abandoned. That which followed was the standard O.E.C.D. model for dealing with the 1970s crisis: discipline the work force, in this case through the Arbitration Commission's indexation procedures; restrain the state sector and lift the squeeze on profits, in this case inaugurated in the 1975 budget which sought to give the private sector room to grow; and reinvigorate foreign capital inflow by reducing the restrictions on its activities. It was with this policy that the government fell.

What broad lessons may be drawn by socialists from the history of the Labor government? Or to put the matter in Marxist form, what strategies do the owners of the means of production, distribution and exchange have at their disposal to prevent their expropriation by a reforming government elected to office in a capitalist state?

The first defence line is to prevent radical Social Democrats getting elected at all, and the historical record of advanced capitalist societies shows that this line is rarely breached. Although gerrymandering and electoral maldistributions may facilitate this process, as social democratic parties are quick to complain, the principal tool is ideological. Curricula in the education system rarely adopt a critical perspective on the free enterprise system and indeed the essence of that vitally important subject, economics, is to presuppose its existence. Further, in the process of education itself, class roles are created and sustained.[84] This base is continually consolidated by the media, which is in Australia dominated by four profit-seeking and -making corporations who need no prompting to propagate ideas in conformity with their interests.[85] Politically, they will normally support right wing parties, although in the event of a left-of-centre victory appearing likely, they may throw their weight behind its most moderate spokespersons and policies, as happened in 1972 and 1974.

The second line of defence is a capital strike in the event of its social dividend being assailed and its prerogatives challenged. A cessation of investment programmes—undertaken for whatever reason—will have the immediate effect of slowing economic growth and increasing unemployment. The media can be relied on to blame the government and perhaps throw in a few salacious personal scandals for good measure.

Third in line stands the state itself. In the first instance ministers encounter public servants whose successful career has been founded on the process of administering a capitalist economy. In addition, as highly paid persons they have little personal stake in achieving a massive redistribution of income, wealth and power. Their links with the private sector are often considerable.[86] And, since constitutions have typically been created by persons of power and wealth they contain extensive provisions to avoid any dramatic alteration in their distribution.

Finally, it should be added to this catalogue, that armed force stands in reserve. In the advanced capitalist countries since the second World War it has mostly remained there. But in the Third World the list of interventions against reforming governments by both domestic and foreign military forces constitutes one of the great indictments of the system in which we live.

'The State would certainly need to support Capital's share[87]

> The State has four main functions from the point of view of those with a stake in the country. The first is to take responsibility for adjusting claims when the economic system has reached crisis. The second is to administer the essential services, like railways in the operation of which private enterprise could not see much profit. The third is to nurture enterprise including well-capitalized undertakings, by means of tariffs, bounties and other concessions. The fourth is to take responsibility of restoring to private capital from time to time, as far as is practicable, power that has been taken from it . . .
>
> *Brian Fitzpatrick, 1940*[88]

The Liberal-Country parties that romped home in the December 1975 election following the gubernatorial *coup* and on a platform of blaming the Labor government for the economic crisis, had had ample opportunity to reflect on the situation. After a lurch in the direction of Right Keynesianism in 1974 under Bill Snedden, a new strategy was formulated in 1975. During the hiatus between the first, unsuccessful, and second, successful, effort to displace Snedden, his rival Malcolm Fraser delivered an important speech at the A.N.Z.A.A.S. conference.[89] In this programmatic statement he distanced himself from the then Liberal leadership. He commenced with a strong attack on Keynesian policies, then being pursued by Cairns and advocated by Snedden, deeming them inappropriate. He located the source of the problems in two areas: 'Trade union leadership is no longer fearful of large scale and continuing unemployment'; and 'national governments have lost the art of restraint'. In addition, Labor's restructuring policies were disastrous: 'You cannot restructure all of industry at once, knock profits and destroy the market basis of companies and expect employment to be maintained'.

Fraser's A.N.Z.A.A.S. statement of 1975 proposed a four-point programme to overcome the crisis. First: 'massive incentives for private expenditure . . . In blunt terms industry, the private enterprise sector, needs a larger share of gross national product'; second, 'a consequential and phased cut in Government expenditure'; third, 'we must reinforce the division of power in Australia and return to a federal system of Government'; fourth, 'a renewed acceptance of a legal framework for the settlement of (industrial) disputes'. In the succeeding three years this programme, which as we have seen represents capital's strategy for the crisis, was adopted by the Liberal Party, displaced the Labor programme in office, and was confirmed at the December 1977 election. How does it work and what are its consequences?

During its last six months of the Whitlam Government, the state had begun its intervention on behalf of capital to ensure the process of accumulation. Following its electoral victory of 1975 the coalition government attached a new urgency to the policy. State controls on prices, via the Prices

Justification Tribunal, and collusive corporate practices, via the Trades Practices Commission, were relaxed. 'Domestic' capital, (which might actually be foreign owned), was afforded new levels of protection with commitments to a new policy of market shares.[90] As Ian MacPhee, later Minister for Productivity, argued in response to socialist analysis of the distribution of wealth and income in Australia: 'At times of economic recession—such as Britain has been experiencing over this period of study by Glyn and Sutcliffe—one would expect the capital share of the national income would drop, and if you believe in a mixed economy, then the state would certainly need to support capital's share of the mixed economy'.[91] Similarly taxation concessions were introduced—including an investment allowance and revised stock valuation procedures—which had the effect of not only reducing corporate tax levels but also encouraging the redeployment of capital to the process of accumulation. In April 1976, the leading business newsletter *Syntec* warned that stable Australia was 'at risk' if profit levels were not raised to their pre-existing share of national income.[92] In May 1977, Treasurer Lynch made clear that his primary objective was the restoration of profits' share of G.N.P. at 17.5 per cent; at that stage it had been restored to 14.7 per cent. He added, 'In the view of this government, restoration of that profit share to normal levels is an absolute precondition for the restoration of economic growth, for the further curbing of inflation and for the provision of employment opportunities'.[93] By the December quarter of 1977, profits as a percentage of G.N.P. had in fact tailed off to 14.1 per cent as the economy once more contracted.

The second and concomitant objective was the reduction in the real wage level. This was undertaken principally through the indexation system which had been created by the Labor government. In the eight decisions which followed the coalition's accession to office, in only two was the full value of the increase in the consumer price index passed on in the form of full wage indexation. This followed from the Commission's acceptance of the government's submission, that real wages needed to be reduced, in order to check inflation and lower the price of labour to a level where its employment could become more widespread. In this respect the government argued that the ratios established in the 5 years 1968-73 had been disrupted, and that the Commission should play its part in restoring the wages-government-profits proportions. This campaign had the support of a number of professional economists anxious to argue the existence of a 'real wage overhang' as a cause of unemployment. According to this concept, derived remotely from Keynes, if wages grew faster than productivity they should be pegged back, since they would be 'excessive' and productive of inflation. In other words, income cannot be distributed from capital to labour in a capitalist society. This went against all that John Stuart Mill wrote in his *Political Economy* about the laws of distribution *not* being inexorable but subject to social decision. However, for the backers of Fraser, the 1968-73 income distribution was a law of nature beyond reproach.

Subsequently in two consecutive budgets, 1976 and 1977, the social welfare share of the G.N.P. (excluding unemployment benefit) was contracted.[94] Involved here were three processes. First, public expenditure on social welfare programmes—education, housing, health, urban and regional development—were contracted in real terms, and the social wage was reined in tightly. Secondly, despite the indexation of the income tax scales, the new Medibank levy ensured that the contribution to state levies made by wage and salary earners would expand. The combination of this and the partial indexation of wages led to a skilled metal tradesman losing between 20 and 25 dollars a week in real terms during the first 2 years of coalition government. Thirdly, the tax burden on profits was lifted by the new deduction concessions to such an extent, that the *rate* of profits tax had to be increased in 1977 in order to avoid a rather transparent fall in total company tax in *money* terms.

Increasingly, in the circles of government economic advice, it was proposed that the rate of inflation would be progressively curtailed, although not immediately, since the restoration of profit's share assumed an increase in prices while it was achieved. The depressed economy, a tight control on the money supply, a contraction of real wages and a dwindling public sector would theoretically achieve this effect—at the expense of working people. The government also hoped to reinvigorate foreign capital inflow. On first assuming office, its policies differed little from the newly-relaxed equity requirements Labor had introduced in late 1975. Mr Anthony quickly came in for criticism from his Country Party branches in Queensland and West Australia for this posture. During the following two years, even those restrictions were gradually eased. But despite optimistic statements concerning the possibility of 6 to 12 billion dollars of investment being in the pipeline for minerals and energy development, little concrete resulted.[95] In fact, on the contrary, the lack of capital inflow to offset the usual balance of payments problem put considerable pressure on the dollar. In November 1976, it was devalued following an inspired leak concerning cabinet discussion to the Melbourne *Age* which led to the reorganisation of the Treasury. In late 1977, the dollar came under further pressure, only to be temporarily sustained by government borrowing overseas of a sum comparable with that sought by Connor in 1975. The government's anxiety to gain capital inflow also ensured it could do little to check the repatriation of corporate profits, of which Utah's $137 million in 1 year was but the most spectacular example.

By mid-1978, however, it had become clearer that government policies, however in accord with the interests of capital they might be, were not producing sufficient results. Following the lifting of serious electoral constraints by the December 1977 election victory, the Fraser government began to step up its efforts to bolster the corporate sector. It also issued two bleak diagnoses of its prospects. At the June 1978 Premiers' Conference, Fraser warned that the international economy would remain depressed for some years but that when some recovery became evident foreign corporations would first evince interest in 'disciplined' economics. He intended making Australia such an economy, with minimal inflation, strikes wage rises and interference in capital's prerogatives. This could be viewed as the '1970's Premiers Plan', this time initiated at the behest of international private capital rather than the Bank of England. The Treasury's analysis of the economy, contained in the 1978 budget papers, similarly contained few optimistic projections: profits remained too low, wages too high, capital inflow minimal and the balance of payments in regular deficit.[96] The 1978 budget corresponded to these diagnoses and sought to use fiscal policy to further increase net profits by reducing corporate taxes and increasing the subsidies to corporate profits; and by increasing taxes on workers and reducing social wage expenditure. The sum transferred by this mechanism alone would be approximately $1.5 billion in the fiscal year 1978-9, the same sum Labor had promised to transfer by a slightly different scheme during the December 1977 election campaign.

Three aspects of the reaction to the 1978 budget, which even the capitalist press had to concede was the most savage since the early 1950s, should be noted. First, both domestic and foreign stock exchanges reacted with a sharp rise in share prices, with finance and mining companies leading the surge. However, the windfall gains the budget provided to multinational corporations gave no assurance that capital inflow would be in sufficient quantities to offset the continuing balance of payments problem. Indeed, by 1979 the position was even worse, with at least one Wall Street broker having warned that Australia's 'Triple A' borrowing status was at risk following the massive government borrowings (about $4 billion) to maintain reserves levels.[97] The screws would need to be tightened further. Secondly, the budget produced widespread industrial and political protests from the Labor movement, and campaigns were initiated by some of the more militant unions to gain compensation not only for the gross drop in earnings administered by the Arbitration Commission, but also for the further nett losses which the increases in income and indirect taxes now imposed. Thirdly, the ALP federal leadership received a considerable filip to both its morale and its standing in the public opinion polls. The question was: what would it do?

We have documented elsewhere in this essay the party leadership's acceptance of the international reorganisation of capital, and the consequential redistribution of Australian capital and labour which may be summarised as 'the Pacific Rim Strategy'. We have similarly outlined its acceptance in 1975 of the need to regulate wage and public spending policies, to accommodate the demands of corporate capital. But by 1979 the issue was being more sharply posed. Would Labor be prepared to undertake the massive redistributionalist programme and reduction in the real wage level that had emerged (as in the 1930s), as the consensus policy demand among corporate planners and their ideological agents, the bourgeois economists? There were already indications that Labor would engage the 1980 election contest with an affirmative answer.

In New South Wales the State Labor Government stood for the 1978 State election essentially on a platform of having made the state attractive to multinational corporate investors as a result of its programme of subsidies and controlling the work force. Following its handsome electoral victory, it emphasised its 'moderation' by threatening to use emergency powers to force striking unionists back to work. The South Australian State government, under an intense media campaign and the threat of a strike of capital, reacted in a similar direction. Its 1978 budget slashed unemployment relief schemes by $14 million and redeployed the savings towards an extensive system of subsidies for private capital. The latter were widely advertised alongside a photograph of a carrot![98] It also sought to borrow overseas $185 million of the state government's proposed contribution of $253 million for 'infrastructure financing', to subsidise a petrochemical plant to be constructed by Dow Chemicals, the napalm manufacturer. Similar moves were being urged on the federal leadership.

The centrepiece of Labor's 1977 federal election platform, the redistribution of $1.5 billion from wages to profits, had been the brainchild of one very influential economic journalist. During 1978 another entered the lists; P.P. McGuinness, the economics editor of the *Australian Financial Review*, and former full time adviser to Bill Hayden, began to campaign in those papers most widely read by corporate executives and senior officials of the state apparatus. In a series of articles[99] he argued that it was the consensus among businessmen and professional economists that real wages should be reduced more rapidly and profits increased. The Fraser government was trying to achieve this desirable objective but was being obstructed by various institutional forces, including the Arbitration Commission and the High Court, and the resistance of unionists who would not collaborate due to the Government's confrontationist policies. In private, however, both union officials and rank and file conceded that wages should go down. Hence what was required was a government capable of negotiating the necessary reduction. The Labor Party would be able to fulfil this role. In such fashion is social democracy groomed as the alternative party of capital, able to more harmoniously implement capital's interests, owing to political affiliations with organised labour. The Australian scenario is for a re-run of Britain 1974 when Wilson's social contract proved more capable of reviving corporate fortunes than had Heath's Selsdon Man and statutory wages policies, with all the overt class conflict they produced.

The Fraser Government's strategy was thus fully in conformity with the needs of Australian capitalism when faced with the crisis of the 1970s. Given Australia's role in the world capitalist system and the position of its indigenous capitalist class, there remained some ambiguities, particularly concerning the level of protection, but its thrust was evident: a restoration of the corporate sector at the expense of the welfare state, the wage fund and the growing number of unemployed. It is to the strucural, international and political implications of this model we must finally turn.

Internal and external dimensions of the crisis re-stated

The function of the crisis is the destruction of capital values. Or to put the same thing another way, its effect is to liberate capital and create a reserve army of labour, both of which may be redeployed in industries more appropriate to the needs of the domestic and world capitalist market. This is the 'cleansing process' or 'shake out' that capitalism, as a mode of production, periodically undertakes in order to renew and refurbish itself. The early Labor government's efforts to achieve this, under state direction, failed. The present government is permitting capital to undertake that task while making certain adjustments and handouts to ease the pain for its supporters. What will be the effect of the structural change?

Domestically, the principal effect is the winding down of large sectors of manufacturing industry. The Industries Assistance Commission,[100] itself formed by Labor as an instrument for the shake out, the inter departmental Project Impact[101] and a series of economists[102] have urged that this task be undertaken in the interests of furthering Australia's 'comparative advantage'. The shipbuilding industry was an early casualty. Textiles, footwear, furniture and, later, automobiles will follow. Their optimistic projections are that, eventually, the labour and capital thereby liberated will be redeployed in the minerals, energy and service industries, although they offer no guarantee in this respect.[103] As has already been pointed out, any future foreign capital inflow is likely to be in these directions, as was the case in the early 1970s.[104] Further, the two largest national corporations, B.H.P. and C.S.R., have made clear in their investment programmes announced in 1977 that they see their future bound up with mineral development.

The effects of this development are far reaching. Firstly, the minerals and energy industries are export oriented and depend on world market conditions for their success, unlike the domestic-oriented manufacturing sector. A depressed world market—likely until the 1980s—ensures minimal capital inflow, low export earnings and balance of payments crises. Secondly, they are highly capital intensive and unlikely to provide employment opportunities on the scale required to compensate losses in manufacturing. This is useful for class discipline. Thirdly, they are geographically remote from the major population centres built up during the industrialisation epoch.[105] And fourth, particularly if the New Federalism's dispersal of political power gains force, the states of Queensland, West Australia and Tasmania (and possibly Northern Territory?) will acquire more political weight—and continue their swing to the Right as local capital and state apparatuses see their development future as dependent on the growing presence of multi-national capital.[106] Finally, no tax of any kind has been placed on super-monopoly rents, as is the standard practice in other O.E.C.D. states.

Externally this process involves a realignment of Australia's role in the world market as pointed out in an earlier section. This will involve a number of changes. First, Australia seems likely to become a vital source of minerals and energy for the metropolitan powers, particularly Japan,[107] especially if (and when) uranium is developed. Secondly, Australian-based multi-national corporations and the larger Australian corporations will penetrate southeast Asia with industrialisation programmes based on the exploitation of thoroughly cheap labour. Australia will be a base and springboard for capitalist penetration of ASEAN,[108] where import-substitution development strategies are being discarded for export-oriented industrialisation programmes based on multi-national capital.[109] Thirdly, the political repercussions of this process involve a closer integration with the governments of the region and complicity in their repressive and militarist policies.[110]

In orthodox academic circles, two favourite models of development, recommended as an alternative to national liberation, are Taiwan and South Korea. As to the former, Gregory Clark *(In Fear of China)* has pointed out that considering Taiwan could draw on massive U.S. capital (for strategic reasons) and an efficient Japanese education system (imposed in its colonial period), and the skilled bourgeoisie fleeing from China, it would be surprising if, under these unusually auspicious conditions, Taiwan did not produce above-average growth. South Korea owes its economic boom, such as it is, to two major circumstances: female slave labour (58 hours per week at 20 cents an hour) and the technological transfer from MNCs—technology and management skills of an extraordinarily productive kind.

How does all of this affect Australia? It means there is an additional reason why Hayden can't 'do it'. Alongside the traditional socialist objections to Keynesian demand management techniques—that they are elitist, technocratic, undemocratic and operate to consolidate the prerogatives of capital—must be added another: they can't work. In a world where the internationalization of production and capital movement is already a reality, the leverage possessed by a government in a country the size of Australia over capital location and production output is severely limited. This is particularly so in a region where the attractions of Free Trade Zones—12 of which now function in Sri Lanka, the Philippines, South Korea and Malaysia—taxation holidays, free land, power, water, and cheap and oppressed labour are widely publicized.

The external dimension to inflation should also be borne in mind. The O.E.C.D. and the Fraser government always tend to depict inflation in terms of internal domestic changes in consumer prices, or the result of domestic budget deficits; yet domestic deficits are *not* inherently inflationary if a country disposes of adequate foreign reserves. The Australian ones have been historically inflationary, not because of 'real wage overhangs' or trade union greed but because of Reserve Bank bungling in the management of Australian reserves, and the weakening international balance of payments position. Inflation is largely reflected in the declining spending power of the Australian dollar as compared to gold. The Reserve Bank, instead of assessing this in the 1960s, persisted in accumulating currencies destined to be soft ones. This fact, with the poor assessment by international currency markets of Australia's economic performance, has accentuated real inflation—the falling value of a dollar against gold.

It is not necessary to be a bullionist to spell out this particular dimension of the crisis: inflation is *not* merely domestic prices reacting to changing costs, be it wages (as argued by the Fraser government and neo-classical economists), or dearer imports, interest rates, the taxation system etc. Rather, an all round assessment of inflation means going beyond movements in the Consumer Price Index and noting the assessment of our currency's purchasing power by world market prices, the effects of which can only be temporarily staved off by extensive overseas borrowings. With no higher economic performance, no increase in the real value of output, no tangible collateral, there is no solution to this external dimension to inflation. This situation is compounded, as Australian export earnings and Reserve Bank holdings are chiefly in soft devaluing currencies—like the $US—and its import bill increasingly in more stable revaluing currencies—like the mark and yen.[111]

Labor, social democracy and capitalist crisis

We have referred elsewhere to the trade cycle as a method of 'cleansing', of flushing out obsolete capital stock or capital investments which are depressing the average rate of profit. A crisis is one way by which the system of capitalism can be refurbished at a higher level of technical efficiency. The alternative is a planned strategy of moving new capital and labour from less to more productive sectors. The Whitlam government first tried the latter. Running into problems, it let the former do the job.

It might be anticipated that a cleansing process like the crisis of 1974-5 would prove electorally unpopular. Indeed its early 'flush-out' led to the demise of the Labor Government whose unpopularity was an essential precondition for the coup of 1975. Why was the same not true of the coalition government? In early 1976 the Labor Party was urged to develop a countervailing strategy to mitigate the effects of the crisis. In the event it took the course of saying little about alternative strategies in the belief that Fraser would fall like a rotten apple.[112] And indeed the Fraser government's public support steadily declined during its first two years,[113] and on the announcement of an election for December 1977 a Labor victory seemed a possibility. The government then unveiled its secret weapon: Labor did find a policy. First, its policy speech promised to abandon the (highly regressive) income tax cuts scheduled for 1 February 1978, and redistribute one and a half billion dollars from wage and salary earners to capital by simultaneously scrapping payroll tax. Mr Fraser dubbed it (correctly) a handout to multi-national corporations. Second, Senator Wriedt announced that the party would reduce tariff protection if elected. Mr Fraser (correctly) announced this would increase unemployment. Third, at Melbourne Trades Hall, Mr Hayden said he thought party policy was *not* to support full wage indexation. Public opinion polls swung sharply against Labor and in the election it performed about as well as in 1975. This result does not vitiate the 'cleansing' analysis[114] referred to above. What it shows is that a social democratic government can only make windmill-tilts at the whole problem of structural crisis unless it can stay in office for 40 years (as with the Swedish Labor Party), or is prepared to make a concerted assault on the citadels of economic power (as J.F. Cairns, in opposition, had been demanding for a decade). Indeed, Mr Hayden had expressed the same view himself ten years earlier in his Fabian pamphlet, *The Implications of Democratic Socialism:*

> A democratic socialist government is faced with two alternatives. It can *work for* the 'commanding heights of capital' by not resisting the economic power

> which these 'heights' represent. In this way moderate and uninspiring reform could be achieved at a depressingly slow rate. The alternative is to resist this power and to build up a countervailing centre of power through competing state enterprises to moderate the established power of capital, and thus be free to carry out a more radical . . . reform policy.

Instead, there was a profound political re-alignment within the Whitlam government as a result of its inability to do either, and this was confirmed at the half-hearted election bid in December 1977. The main effect of this realignment was eventually stated in blunt terms by former A.L.P. Minister for Labour, Senator J. McLelland:

> Whole industries need to be phased out . . . and populations moved from one centre to another if Australia is to overcome problems . . . It will require collaboration with the unions but it cannot be accomplished by a party which is dominated by the unions. So long as it is now perceived as a party which can nearly always be leaned on by the unions, it can never emerge as the party of national consensus. (It is) heartening to see Labor policy moves which qualify certain sacred tenets such as nationalization. Nevertheless the objective is still here, although in diluted form.[115]

Such is a 'Swedish' Social Democrat's vision, turned sour and turning in upon itself, as the frustrated social democrat rails against the working class for standing in the way of re-structuring, whether by market force or by sheer force. In summary, the federal Labor leadership had become irrelevant as an instrument for defending the interests of Australian working people in the face of the deepening crisis for two reasons: it could not win elections; and even if it did, it intended to act as the agent of capital in an assault on labour.

Lest we be misunderstood, our argument is not merely that 'leaders' mislead the public, or the workers, or their supporters. The policies are the result of the social forces at work which produce the policies which the 'leaders' are pushing.

In Canada, Prime Minister Trudeau moved from a liberal economic position to a Keynesian reflation policy, and finally to a very conservative stance close to that of the Fraser government here, with real wage cutting, cutting back on social services, maintaining a permanent pool of unemployment.[116] The same forces and the same changes have been 'rung' in Australia, except that three different governments were involved in promoting the required changes in social and economic policy. Anyone who has closely followed P.P. McGuinness, the economics editor of the *Australian Financial Review*, who has been in turn a welfarist, a monetarist, a Labor policy adviser who wanted to go back to less strict budgetary cutting and, finally, an advocate of real wage cuts, will see that the 'Trudeau Case' is not an exclusively Canadian phenomenon.

What general conclusions can we draw from these episodes about Social Democracy under conditions of late capitalism? During 1931, the Great Depression struck the U.K. A Labour government headed by Ramsay Macdonald was in office. The Minutes of Cabinet meetings held at that time show that the majority, under enormous ruling-class pressure, conspired with bankers, overseas investors and their own political opponents in order to rat on the labour movement as a whole.[117] The Budget deficit became the lead-cow of the whole operation; from the followed cuts in the size of the dole payment and in the state's grant to education. A package was evolved, which on Macdonald's own admission, at a Cabinet meeting on 23 August 1931, 'represented the negation of everything that the Labor Party stood for'; yet he was 'absolutely satisfied that it was necessary in the national interests to implement them if the country was to be secured'.[118]

Scullin, as we saw, took the same line in Australia after the removal of 'Red Ted' Theodore in 1930. Later, a deal was made so that Joe Lyons, Labor leader, went over to Menzies as new head of a Coalition government. This was one of the biggest betrayals of all time, engineered by Melbourne financiers with Menzies acting as their agent. In 1972, Whitlam and the 'It's Time' media brainwashers, 'headed off at the pass' the grass-roots movement that had been built up during the Vietnam moratorium, and ended up in 1975 with a 'Hayden budget' that cut education and workers' welfare, and made the budget deficit as big an obsession as Ramsay Macdonald had done.

Throughout 1977 and 1978, in interviews with the press[119] and business journals,[120] and in discussions with trade unions, W.G. Hayden as leader of a new move to the Right supported by capital and many A.L.P. members, made it clear he was out to do the same. The package was to be called 'rational economic management'. But this time 'basic Labor policy' was re-asserting itself more strongly, with grassroots calls for more socialism, no selling out to multinationals and no more shifting the burden of the crisis on to the working class.[121] The largest union in the country, brushing aside Whitlam's 1972 claim that geography rather than ownership patterns caused inequality in Australia, in 1979 published a mass-circulation study of inequality under the title, *Australia Ripped Off*.

In its *Australia Ripped Off*, the Amalgamated Metalworkers and Shipwrights Union issued an analysis of the crisis and a set of proposals which run contrary to those of Hayden for dealing with it. Their analysis started with the basic feature of Australian society; its massive inequalities. It was pointed out that wealth was so unevenly distributed that the richest 2000 owned more than the poorest two and a quarter million; that income was as unevenly distributed as in the U.S.A. or U.K.; that its distribution had not changed significantly since the First World War; and that the economic policies of federal governments were firmly determined by the corporate sector. *Australia Ripped Off* provided graphic descriptions of the means by which fiscal and taxation policies were used by ruling circles to maintain these inequalities and, indeed, to increase them, as achieved by the Fraser government.

The programme advocated by the A.M.W.S.U. centred around four points. First, a graduated wealth tax should be introduced to reduce inequalities in wealth holding. Secondly, special taxation rates should be levied on multinational and domestic corporations receiving super-profits, especially those in the minerals and energy sector. Thirdly, government policy should resist the destruction of Australian manufacturing industry, implied by the Pacific Basin strategy of international capital, to which this essay has already referred. Finally, there should be an expansion of public ownership of productive capital and employment opportunities in the public sector. The serious implementation of these propositions was seen as initiating a step towards the introduction of a real democratic socialism, instead of the usual hodgepodge of Fabianism and humanism. By 1979, it was clear that, whether for reasons of principle or opportunism, there were senior members of the Parliamentary Labour Party who were prepared to espouse them, in opposition to Hayden's capitulation to the forces of international capital.

Can Labor manage the crisis?

> The Labor Party, starting with a band of inspired Socialists, degenerated into a vast machine for capturing political power, but did not know how to use that power when attained except for the profit of individuals . . . Such is the history of all Labor organisations in Australia, and that not because they are Austrlaian, but because they are Labor.
>
> V.G. Childe, *How Labour Governs*, 1923.

What can't a successful 'rational economic management' push achieve? It cannot significantly change the effects of the developing crisis on the Australian working class. If Hayden were to be elected Prime Minister in 1980 or 1983, as a result of volunteering his services as an alternative party of capital, then he will be faced with administering Fraser's programmes with a modified rhetoric and political practice—for the programmes originate in neither the Cabinet nor the party room. A dry run of this bipartisan transformation, in reverse, was experienced when Lynch's 1976 Budget speech quoted Hayden's 1975 Budget speech with approval, as it unfolded the same strategy. On the other hand, the A.L.P. cannot get elected without subscribing to the dictates of capital, unless a thoroughgoing radical programme of transforming the distribution of wealth and power in Australia is developed. Not only is such a practice alien to the history of the Australian Labor Party—and in all probability beyond its political and ideological capacities—there is no indication of its being seriously considered at any level of its operation. Despite the formal and constitutional party structure, policy continues to be formulated in windowless rooms by machine politicans and their advisers (technocrats), beyond the control of a rank and file whose membership experiences a rapid turnover and dwindling numbers. And this is not Hayden's fault alone; the situation is not new, as explained below.

In this essay we have cited three Australian socialists whose written work and political experiences have provided invaluable insights into the Australian social democratic traditions. Combined, their analyses provide precursors for the crisis of 1979. Childe, after working at the highest level in the Australian Labor Party, in 1923 left both the party and the country. He bequeathed a scathing critique of Australian social democratic politics. Irvine was briefly able to intervene in the politics of the 1930s depression, by influencing the inaptly named 'Red Ted' Theodore towards a policy of serious fiscal stimulation. Irvine represented an early 'Left-Keynesian' posture. His pupil first abandoned the lesson and was then politically destroyed. Unlike his 1970s counterpart, he turned to business and not the counterculture. Fitzpatrick's works continually emphasise the dangers of uncontrolled integration into the world capitalist market in capital and goods. For his pains he was academically unemployable, despite having produced works that forty years later remain standard texts in university courses. In 1979 another generation of socialist intellectuals are learning the same lessons, experiencing the same results and undertaking the same programmes; fleeing, being disillusioned and cynical, or facing the unemployment queue. The is a long tradition for such practices.

Marx, from whose broad perspective we write, died in 1883. Since that time, two major developments have occurred in the capitalist mode of production: the rise of the giant corporation which now operates on an international scale; and the expansion of the state apparatus whose essential function is to preserve the capitalist mode of production. Their interlock has produced a system of state planning, the parameters of which are determined by the laws of capitalist development. This planning mechanism requires skilled personnel to operate it, and in contemporary Australian conditions these include economists, lawyers, political scientists and sociologists, apart from professional politicians and trade union officials. It should be no surprise that such technocrats dominate social democratic parties. It should also be no surprise that many start their courses as self-defined socialists. It is they who are surprised, when they discover that the social forces that determine activity in capitalist society are not the rules of the free market, constitutional law or electoral boundaries, but the needs of corporate capital. But when they, self-servingly, demand allegiance as progressive egalitarians or socialists, rather than as agents for and conduits of corporate interests—even if they genuinely believe their own claims—suspicion is well founded.

The 1970s produced a very similar configuration of political forces to those of the 1930s. It is vital that trade unionists, socialist intellectuals and progressive people carefully note the limitations of Reformism and the dangers posed by present day advocates of 'rational economic management'.

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jejeune *Arena* pamphlet, *Marxian Theories of the State*. Having promised to provide an account of 'a major breakthrough' 'in our understanding of the capitalist world', Mr Frankel gives us in 64 pages *no* new information on the Australian state; a suggested research programme for someone else to undertake (p. 62) (which has in fact been already undertaken, partly by us); and finally a six-sentence summary of the latest canons of 'Euro-communism'. We are inclined to agree that 'what often appear to be esoteric semantics, concerning epistemological, organisation and methodological questions' (p. 2) are exactly that. In the event of these 'new insights' 'bearing fruit', we will be happy to be proven wrong.

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