

By the same author

Trade Unions and the Depression

The Depression of the 1930s

Menzies' Cold War

a reinterpretation

L.J. LOUIS

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INTRODUCTION

Recent studies have made impressive contributions to our understanding of that crucial period of the Cold War in Australia, 1950 to 1953.¹ They have examined the central themes of the accession of R.G. Menzies, the anti-communism, the defence policies and preparations for war. It will be necessary in this study to go over some of this ground again in order to place it under closer scrutiny. The intention is to offer a reinterpretation in terms of class and political economy, and reassess the longer term significance of the period. As there has been an historiographical tendency towards reification of the Cold War, this study attempts to strike a balance between structure and agency.

The argument, in summary, is that the Menzies Government inherited an escalating Cold War and an economy suffering fundamental structural distortions, on top of which, from 1950-1953, government policy and external events imposed a roller-coaster of a 'super boom', ruinous inflation, a 'horror' budget, a balance of payments crisis, and recession. In these dire circumstances, the Government embarked on a rearmament program that would divert already scarce resources and further worsen the economic crisis. It argued that there could be both war preparations and national development — Guns and Butter — in effect, by way of a Keynesian warfare state (Chapters 1 and 2). Threatened by economic, political and international crises, the Government, under the assertive leadership of Prime Minister Menzies, attempted a full-scale mobilisation of the nation's resources. Its stated objective was preparedness for war by the end of 1953, and the much disputed motives behind 'War in Three Years' are reassessed in Chapter 3. Insisting that in the Cold War it was impossible to distinguish between a society at war or at peace, the Government instituted, piecemeal, some key elements of a national security state.² The blanket of

national security ideology obscured the class dimension of the Cold War and the role of the state in the conflict of class interests, and an attempt to identify them is made in Chapter 5.

After dazzling early stages of mobilisation for war, the momentum was brought to an abrupt halt by economic necessity in later 1952, and fizzled out (Chapters 4 and 6). But contrary to the conventional account, that was not the end, rather the nuclear option was pursued, as argued in Chapter 8. In the early 1950s, Australian society shared most of the characteristics of the Cold War political culture of the anti-communist bloc, but not the worst excesses of McCarthyism. And this is explained in Chapters 7 and 9 by the resilience of working class and democratic traditions, and more fundamentally by the absence of a 'military/industrial complex' that drove the Cold War in the United States. In retrospect, as Chapter 9 concludes, it can be seen that in the turmoil of the postwar period (the Cold War), conflict wrought the necessary restructuring, and Australia was passing over a threshold to the long rule of Menzies and participation in the Golden Years of capitalism³ – that is, the popular, nostalgic version of the decade.

Recent historical reinterpretation of the period as the Fourth Empire has offered a new understanding of defence strategies, but economic underpinnings are ignored.⁴ This study does not attempt to make good this deficiency, though the international economic context is directly relevant. The anti-communist Menzies Government was struggling to cope in this acute phase of the Cold War, when postwar relations between the dominant power, the US, and a declining Commonwealth were fraught and unresolved. With a global defence strategy and initially a nuclear monopoly, and then a 'preponderance' of power, the US refused to countenance an independent Commonwealth strategy; and at the same time it pursued its long-term objective of breaking down barriers to trade and investment. A dependent Australia was entangled in the cross currents to abolish Commonwealth preferences and the sterling bloc, and was under pressure to bow to US interests and agree to the Treaty of Friendship, Commerce and Navigation. These larger issues, only mentioned in passing, were to be played out after 1953, when the Ottawa Agreement was renegotiated and Britain joined the European Economic Community.⁵

CHAPTER 1 A MILK BAR ECONOMY

A legacy of the Second World War had been a huge backlog of civilian demand and pent-up spending power; and a home in the suburbs and consumer goods (clothing, furniture, household appliances – and soon a car) came to be regarded as essentials, not luxuries. The basic infrastructure had been seriously run down, so that power generation and transport facilities were hopelessly inadequate. Before these deficiencies had been rectified, the ambitious immigration and development programs initiated by the Chifley Government and expanded by the Menzies Government imposed intolerable demands on an already overstrained economy. The doyen economist Douglas Copland categorised the economy of 1950 as a 'milk bar' economy in which demand far outstripped productive capacity because of an unbalanced distribution of resources, as between 'luxury' and 'basic' industries.¹ Along with these shortcomings of industry, rural production lagged seriously and also urgently required plant, equipment, labour and materials. Whatever the complexion of the federal government, it would have to meet the threatening crisis of steeply rising private and public investment exerting ever-increasing pressure on scarce resources. And a constraint on policy makers was that another widely predicted depression would have to be avoided.

By 1950, drastic remedies could not be postponed, as shortages of labour and basic materials (such as coal and steel) were contributing to soaring inflation, and lack of generating capacity was not only imposing personal hardship of electricity black-outs but was also disrupt-

ing industry. The new Prime Minister and most of his Ministers and economic advisors saw the solution in the diversion of investment away from 'luxury' (consumer) to 'essential' (basic) industries. But such a restructuring of the economy would be opposed by vested interests who were for the most part government supporters. The prominent publicist and economist Colin Clark aroused furious controversy when he argued that the parlous condition of primary production, starved as it was of resources, was the direct consequence of the misguided policy of encouraging the overdevelopment of manufacturing with its low productivity. To revive primary production, he insisted, this policy had to be reversed.² Such an advocacy stimulated the longstanding controversy over the relative merits of industrial development, and was a source of conflict between the coalition parties of the Menzies/Fadden Government.

The essentially pragmatic Coalition Government, in spite of its anti-socialist rhetoric, was not averse, in practice, to state intervention in the economy, and was to do so on an extensive scale. The constitution imposed severe limits on direct government controls, but the wartime Labor governments had demonstrated that unlimited powers could be exercised in the interests of national security, and just recently in peacetime, the Chifley Government had enlisted the defence powers to embark on the Snowy Mountains Scheme. But before any remedies were attempted, the Government's increased defence expenditure, coming on top of its development programs, and then the skyrocketing prices for wool with the onset of the Korean war, together launched the economy on its roller-coaster.

CHAPTER 2 REARMAMENT

When in opposition, the Liberal and Country parties had attacked the Chifley Labor Government's reluctance to pursue a foreign policy in terms of the polarised international relations of the Cold War. Labor's attachment to the UN was derided, and threats to regional security were highlighted as a consequence of failure to support consistently the western democracies. The Labor Government had participated in the Commonwealth conferences on defence policy and general strategy, and the establishment of the Australian, New Zealand and Malaya Area (ANZAM). While External Affairs Minister Ewart was not always consistent, Chifley had serious reservations about the Attlee Government's assessment that the Soviet Union's aim of world domination would lead to war, and he resisted contingency plans to send Australian troops to the Middle East. On the other hand, he maintained a commitment to the sterling bloc and a rejuvenated Commonwealth, even to the extent of the unpopular petrol rationing in order to save dollars.¹ The Government was wracked by internal divisions, and differences over foreign policy were exemplified by the controversies between the Secretaries of the Department of Defence (Shedden) and External Affairs (Burton).²

On election, the Menzies Government brought foreign policy into line with what it regarded as the realities of the Cold War. On 9 March 1950 the new Minister for External Affairs (Spender) delivered a considered policy statement.³ Soviet Russia, he declared, is to blame: "its ultimate objective is world communism . . . with Moscow as the controlling centre" and it intends to achieve this "by communist infiltra-

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tion in all democratic countries". Australia had to contribute to the cause of the western democracies and its security rested "on the closest possible co-operation within the British Commonwealth and with the United States of America". As well, "the Government will give continuing support to the operation of the United Nations so long as the United Nations itself operates in accordance with [the principles of the Charter]. Spender was to make a dedicated effort to secure an alliance with the US. In a remarkably short time, impeded by British officials and by Menzies, but aided by the acceptance of a 'soft' Japanese peace treaty and the commitment of troops to Korea, he succeeded with the ANZUS treaty. Meanwhile, early practical measures implemented by the government included non-recognition of the Chinese People's Republic, the despatch of RAAF transport aircraft to Malaya to assist the British fighting communist-led insurgents, and for the longer term, a rearmament program. The new Government also began a shift in international economic policy away from the Chifley Government's commitment to the sterling area. The intensely pro-British Menzies Government overrode the objections of the British Government and abolished petrol rationing, sought a dollar loan, and refused to limit dollar expenditure.

In June 1950, Field Marshal Slim (Chief of the Imperial General Staff) was sent to Australia to win support for British defence strategy. On 21 June he succeeded to the extent that the Council of Defence approved the Basic Objectives of British Commonwealth Defence Policy and General Strategy:

- (a) Defence Policy:
- (i) to join with the other Commonwealth countries, the United States and countries of Western Europe in organising essential deterrent forces;
 - (ii) to resist the spread of communism by all means short of war.
- (b) War Aims:
- (i) to ensure the abandonment by Russia of further military and ideological aggression;
 - (ii) to create conditions conducive to world peace.

- (c) Military measures to implement Allied Strategy:
- (i) to deliver the strategic air offensive from the outbreak of war;
 - (ii) to hold the air bases and sea areas essential for our offensive.⁴

From the assessment that the Third World War would be global and that the fate of Australia would be decided by the outcome of conflicts in Europe and the Middle East, it followed that Australia's major contribution should be to send forces to the Middle East. At the conferences, according to Slim, Menzies was "right on our side"; but some ministers (Spender and Holt) were unconvinced in the absence of any guarantee of security in South East Asia.⁵ In the upshot, unable to resolve the dilemma of competing priorities, the Council of Defence approved the Defence Committee recommendation that two different plans be developed concurrently – one providing for the first deployment of Australian forces to the Middle East and the other giving priority to Malaya. David Lowe has argued persuasively that Menzies' strategic thinking was moulded by his Second World War experience and that predetermined the Middle East as the destination of an expeditionary force.⁶ But as the Prime Minister was to discover, there was a countervailing historical memory of the disaster of Singapore. Then, four days after the conferences, the Cold War took another twist. The (hot) Korean War and Australia's immediate involvement threw these ambiguous longer term plans into further disarray.

The executive action to commit units of the RAN and RAAF to Korea was characteristic of the short circuiting of the decision making process during the Cold War and the encroachment by a national security state – though in this case a special sitting of both Houses of Parliament unanimously approved the action. But the circumstances in which Acting Prime Minister Fadden announced the deployment of troops on 26 July were bizarre. Menzies had been opposed to sending troops, regarding Korea as a diversionary side show, and this had been the policy of the Council of Defence, though Spender was a persistent advocate of troops in order to gain favour with the US.

Then, with Menzies in mid Atlantic on his way to the US and having just been reassured on the policy of the British government, in Australia, Spender learned that within hours there was to be an announcement that the UK would do an about face and commit troops. To forestall embarrassment, and convinced that if there was to be any possibility of securing an alliance with the US Australia would have to make a show of independence, Spender took pre-emptive action and engineered the commitment of Australian troops via a radio news item, with an hour to spare.⁷

Doubts about the constitutionality of Australia's participation in the Korean War have not been finally resolved. When pressed, the Government claimed it was acting in pursuance of the Charter of the United Nations.⁸ The practical question of great import was whether the Korean War was a 'real' war.⁹ As this study shows, Menzies attempted to use the defence powers available under the constitution in time of war to carry through far-reaching state intervention. He resorted to all manner of word juggling, and the only serviceable formulation was "we are not at peace today, except in a technical sense."¹⁰ President Truman was unhelpful, as he claimed the Korean War was not a war in order to avoid the necessity of seeking Congress approval to commit troops.¹¹

It is not possible here to deal with the significant long-term consequences of the Korean War. The immediate impact was the dramatic demonstration of the glaring inadequacy of the armed forces available to the Government to contribute to anti-communist alliances. To fulfil its commitment in Korea it could only call on 3 RAR stationed in Japan which, according to the Chief of the General Staff, was "not battleworthy",¹² and because of the terms of enlistment the men would have to volunteer. Repeatedly, in the following years, the Government was to be embarrassed when pressed by the US for additional troops. Korea gave enormous impetus to rearmament and a national security state. It provided evidence to fuel the anti-communist crusade, and the emotional reporting of the war and casualties made it easy to stigmatise any opposition as traitorous and to be eradicated. In 1947, the Labor Government had begun to increase defence expenditure with a Five Year Defence Program which provided for an average of £50 million a year. But the Menzies Government inher-

ited a low base for rapid rearmament. By mid 1950 numbers had reached only 34,300 in the permanent forces and 23,600 in the citizen forces. On 5 July the Council of Defence endorsed a new Three Year Defence Program which was costed at £458.7m.¹³ The Program also provided for a national service scheme for 18-year-olds to commence on 1 January 1952. In July and August 1950, Menzies visited the UK, US, Canada, Japan and New Zealand and engaged in high-level policy discussions. As David Lowe observes, Australia's role in global strategy was being "defined more by London and Washington than anything the Australians could do".¹⁴ But even in that, our credentials would have to be proved, and we would have to emulate the examples set when the US doubled its defence budget and the Atlee Labor Government embarked on a huge rearmament program which would involve a switch to defence production and austerity for the people. In September, after Menzies' return, Cabinet agreed that the target figures for the increases in the armed services should be substantially stepped up and the starting date for conscription brought forward to May 1951. A recruiting drive was also launched supported by an extensive anti-communist propaganda campaign.¹⁵

Menzies employed his famous persuasive powers to convince waverers of the "grave dangers" posed by communist aggression and the threat of a world war, and to enlist support for his Government's mutually dependent policies of economic reform and defence preparations. On 28 August he prepared the way by defining the three tasks confronting Australia: national development, increased production, and military preparations. Then in three broadcasts in September he issued his Defence Call to the Nation.¹⁶ He argued that to achieve the urgent and necessary level of defence preparedness, the deficiencies in the economy would have to be remedied and priorities accepted. He also argued for an extreme departure from traditional policy: that the terms of enlistment of troops should be changed so that they could be required to serve overseas. And just at this time in September 1950 when Menzies was taking the people into his confidence with "plain talk", he made, in absolute secrecy, one of the most momentous decisions of the Cold War. In response to a request from Prime Minister Atlee to test atomic weapons in Australia, he gave his assent without any consultation with his Cabinet. This secrecy was a feature of the

Cold War, and when in September 1952 he agreed to a proposal for long-term testing, again without consultation, there was a further enlargement of the secret state.¹⁷

The 1950-51 budget brought down on 12 October was a crucial test for the Government. The direct allocation for defence was £83m with an additional £50m for stockpiling strategic stores and equipment. But all attention was focused on its failure as an anti-inflationary measure.¹⁸ Since the Government had taken office, its economic woes had rapidly worsened, and the escalating inflation was compounded by a 'super boom'. Cabinet met repeatedly during September, but with the Country Party vetoing revaluation, it was unable to take effective action.¹⁹ Rumours abounded of backbench dissension and moves against Menzies whose leadership was not yet beyond challenge. The Labor Opposition and State Labor Governments exploited the situation for their own political advantage. As labour and business organisations became increasingly hostile and the *SMH* hammered it relentlessly for failures over defence, inflation and government expenditure, the Government's survival was threatened.

On 6 October in another broadcast, to confound his critics, Menzies listed a fourteen point anti-inflation program. But, as Schedvin has observed, this was "political window-dressing".²⁰ Only a wool tax prepayment, capital issues control, and anti-communist legislation survived, the rest never had a chance against vested interests. The budget was not anti-inflationary. Despite a nominal surplus, there were large increases in expenditure, and the Government was unable to reconcile the contradictory objectives of fighting inflation and cutting expenditure, and at the same time step up rearmament, and maintain the high levels of immigration and national development. It placed much store on its policy of encouraging imports, and one of its few immediate achievements was the US\$100 million loan from the International Bank which was used to import desperately needed heavy equipment from the US and Canada. The loan has persisted in left demonology as the reward for sending the troops to Korea. As we have seen, this is not strictly correct in that Menzies, as a matter of policy, was opposed to their deployment. However, he accepted the turn of events and used them to great political advantage to win American support for the loan.²¹

Public opinion, as measured by Gallup Polls, was overwhelmingly anti-communist; but this did not translate into voluntary acceptance of the sacrifices sought by Menzies, and the recruiting drive was a failure. Some historians have mistakenly pre-dated the call for 'War in Three Years', and thereby, as Chapter 3 will show, have misread its significance. Despite the stress he placed on the serious threat of war, Menzies, in late 1950, repeatedly and explicitly gave assurances that he did not intend to put the country on a "total war footing" because the government did not have such power in peacetime, the community would not tolerate wartime controls, and the consequent economic disruption would play directly into the hands of the enemy.²²

Nevertheless, as he rushed to establish the National Security Resources Board, he was moving in this direction and the Board would be central to any national security state. At the inaugural meeting of the Board on 18 December 1950, Menzies made a comprehensive statement which was widely publicised. Though a third world war was threatening; "the soundest defence policy for the present moment is to continue to build the economic and industrial foundations of the nation, and at the same time to make all preparations for a future prospective mobilisation". The defence and development programs had to "complement and reinforce each other to the maximum degree". The NSRB was designed to fill a gap in government machinery with the responsibility of "establishing the relative priority to be accorded to various national tasks, and in reaching a proper balance between defence commitments, immigration and national development plans, public and private investment programs, and the expansion of the civil economy".²³ Responses to the challenges of restructuring the economy and re-arming were heading towards a Keynesian warfare state.

CHAPTER 3 "WAR IN THREE YEARS" REASSESSED

At the Commonwealth Prime Ministers' conference in London in early January 1951, Menzies had discussions at the highest levels on global defence strategy. His fears were confirmed by the latest British assessment of Russian ambitions for world domination. The conference deliberations were in the context of the international crisis that had developed when Chinese troops entered the Korean War with a successful counterattack. There had been such a violent reaction in the US that the option of atom bombs was rumoured, and in early December Aitlee had made an emergency visit to Truman to plead restraint. Since then the UN forces had been in retreat and the US was pressuring a reluctant UK to take strong measures against China. Menzies was acutely aware of the gravity of the crisis and appalled at the prospect of a rift between what he saw as the bastions of western civilisation. Faced with these challenges and the massive rearmament programs of the US and UK which demonstrated their willingness to make sacrifices, there could have been no question for Menzies but that Australia would have to follow suit immediately. Menzies who had been ill during the conference was given credit for its final communiqué. While the threats from aggressive communism were regarded with the utmost seriousness, the search for peaceful solutions was emphasised, and there was no suggestion of war within a three-year time frame.¹ The *SMH* (15 January 1951) editorial was sceptical about its call for "sweet reasonableness", and earlier on 2 January a *Herald* (Melbourne) reporter in London had warned that Aus-

tralia was in for a big shock as commitment to UK strategy would require high defence expenditure with dire effects on the economy.

Menzies returned in February 1951 to an escalating economic and political crisis that threatened disaster. Inflation continued to soar to reach a peak of 28 per cent in the last quarter of 1950-51.² Gas and electricity were rationed in Melbourne, and Sydney regularly suffered blackouts with large-scale stand-downs and production losses. Shortages of coal, steel and other materials and the grossly inadequate capacity for power generation were exacerbated by stoppages by miners and waterside workers, which together created an 'industrial emergency'. As the Government's popularity declined and the Labor Opposition made political capital out of its failure to halt inflation, there was further dissension within government ranks and even more ominous threats to Menzies' leadership.³ On his return, Menzies was challenged by Keith Murdoch in front-page articles in his Melbourne *Herald* (22, 23 January 1951) to provide strong leadership to stabilise the economy and increase defence preparations – thus adding weight to the persistent campaign by the *SMH*.

Menzies needed no persuasion about the necessity to cut government expenditure and divert investment from 'luxury' to 'essential' industries. But the obstacles seemed insuperable. Business firms, state governments and other powerful interest groups who benefited from the existing allocation of resources would tenaciously oppose restructuring, and could never be persuaded to sacrifice voluntarily their interests by appeals to the national good. There was also the public complacency that was constantly decried by the *SMH* – people being so preoccupied with material self-interest and consumer goods that they refused to face the realities of the dangers of the international situation. And in this they were aided and abetted by the 'irresponsible' Labor Opposition which controlled the Senate and questioned whether the communist onslaught was at hand. Clearly, the people had to be spooked.

Exhortations and appeals to voluntary sacrifice had manifestly failed – the bluntest warnings, as *The Age* 5 March 1951 railed, had "petered out in the barren sands of sectional selfishness". There remained the alternative of coercion. Unlimited controls such as those available in a wartime National Security Act would quickly achieve all the objec-

tives of economic restructuring, a rearmament program, quell incipient revolt in government ranks, and shatter complacency. But the constitution limited the use of these defence powers, and resort to them in peacetime in the Communist Party Dissolution Act had been challenged, and the High Court on 9 March 1951 was, not surprisingly, to declare the Act invalid. If the defence powers were to be interpreted more expansively, a graver threat of war would have to be presented. Furthermore, controls were anathema to Liberal Party philosophy, and as a matter of practical politics, Menzies, as already noted, had repeatedly conceded in late 1950 that the electorate would not accept wartime controls. Yet there were convincing precedents for departure from peacetime norms. There was the US Defence Production Act, which Menzies was soon to cite, and on 15 December 1950, President Truman had declared a state of national emergency, and imposed price and wages controls and established the office of Defence Mobilisation with very extensive powers.

There is no evidence that Menzies mulled over these options on the convalescent sea voyage home. Speculation that he was haunted by his humiliating rejection as a war leader in 1941, because he countenanced "business as usual" and did not mobilise Australia for war, is rejected by his distinguished biographer A.W. Martin.⁴ What is known, is that the day after his arrival at Fremantle, still a sick man, he flew to Canberra on 14 February 1951 to give a press conference to issue a warning on the need to get onto a "semi-war footing" which was the first explicit intimation of mobilisation for war.⁵ After meeting with his cabinet⁶ and the NSRB, he embarked on a series of dramatic demonstrations of forceful leadership to deal with the economic, political and industrial crises that engulfed the country. On 1 March, overriding opposition, he secured Cabinet approval to double the intake of national servicemen in order to reach the mobilisation target for the Services of 183,000 by 1953. At a specially summoned Premiers' Conference on 2 March he made the shock announcement: "the possibilities of war are so real and so serious that Australia cannot with justice to itself or its allies, grant itself a day more than three years in which to get ready". To achieve at the same time both a huge increase in defence expenditure and economic restructuring, Menzies desperately needed the cooperation of the States in scaling down public

works. He proposed joint Commonwealth-State consultative committees to determine priorities, and a National Security Council to lay down national policy.⁷ After the Premiers' Conference, Menzies convened a special joint meeting of the government parties to repeat the warning and insist that everything had to be subordinated to defence, which according to some observers was designed to stifle the growing discord.⁸ When Parliament resumed on 7 March, in repeating his assessment of the threat of war, he warned that "three years is a liberal estimate".⁹ The sounding of these alarms was welcomed by *The Age* (5 March 1951) and the *SMH* (6 March 1951) which lamented that "Australians are not yet in the mood to sacrifice prosperity for defence", and "obstinate public opinion" would have to be broken down. This was not a novel tactic. Presidential advisors in the US in April 1950 had warned that the massive rearmament program of NSC-68 would meet opposition, so there would have to be a "psychological 'scare campaign'" to get public acceptance.¹⁰

Critics at the time and since have castigated the government for using the communist bogey as a subterfuge to cover its failure to deal with inflation; and it certainly gained enormous political advantage from "kicking the communist can".¹¹ But it saw its options as very limited. It was hemmed in by Country Party opposition to revaluation, and by the Labor majority in the Senate and state Labor governments opposed to deflation and offering the more popular alternative of price controls.¹² Facing the electorate on a deflationary policy had to be postponed, and so the 'Horror Budget' of September 1951 was twelve months 'too late'.¹³

When the High Court on 9 March declared the Communist Party Dissolution Act invalid, Cabinet had to examine alternative ways to achieve the Act's objectives, which Menzies explained to the House of Representatives on 13 March as the defeat of the "Communist conspiracy [that was] damaging our defence efforts and preparations, retarding much needed production, aggravating inflation, causing industrial turmoil and lowering real standards of living." On the previous day, Cabinet had decided on a double dissolution in order to secure control of the Senate, and communist influence in the trade

unions would be curbed by amending the Arbitration Act to make secret ballots compulsory.¹⁴ In the subsequent election campaign, government propaganda sought to exploit the fear of imminent war and the menace of a communist fifth column. It was successful in gaining control of the Senate, but the electorate was not stampeded and the Government lost five seats in the House of Representatives. Labor had insisted on making inflation the major issue. In Parliament and on the hustings, Eddie Ward denounced Menzies as a "war monger", and according to the leader of the Opposition (Chifley), he was creating deliberate confusion "by distorting the relationship between subversive activities and the great economic problems which he has so completely failed to tackle".¹⁵

Now rid of Labor control of the Senate which the Government claimed had obstructed its policies, the way was cleared for legislative action to defeat the communist conspiracy and put the economy on a sound basis on which to mobilise for war by the end of 1953. It turned to some of the mechanisms of war regulation of the economy, but stopped well short of a war footing. The NSRRB had made a series of recommendations, including extreme measures such as requisitioning of property and goods,¹⁶ but the Government's program as outlined at the opening of the new Parliament on 12 June was far less drastic. The major legislation proposed to facilitate war preparedness by the end of 1953 was a Defence Preparations Bill. Previously, in January 1950, to a fanfare of abolishing 'socialistic' controls, the Federal Treasurer Fadden had announced that the wartime National Security (Capital Issues) Regulations would be repealed. This had not been done, and instead applications for issues of capital were granted automatically. Then struggling to cope with inflation and rising defence expenditure, the Government reverted to defence powers in December 1950 with the Defence (Transitional Provisions) Bill by which it could control capital issues. In February 1951, in crisis conditions and on the advice of the NSRRB, these controls were re-established under a Capital Issues Board. The objective, as explained by Fadden was a reorientation of investment programs to allow for increased defence expenditure and "ensure concentration upon vital national tasks of development". Heading the list of industries to receive priority were building materials, coal mining and manufacture of iron and

steel. The validity of the regulations was challenged by a company adversely affected (Marcus Clark) in May 1951, and the case was under way when the Government introduced the Defence Preparations Bill on 5 July 1951.¹⁷ Although the Attorney-General's Department had warned of legal difficulties, the Bill, by an extraordinary application of defence powers in peacetime, potentially gave the Government power to regulate the economy. Under the Act, emergency regulations and orders could be made to effect such necessary economic reorientation as diversion of resources. In justification, the Preamble argued, "there exists a state of international emergency in which it is essential that preparations for defence against armed attack should be immediately made to an extent, and with a degree of urgency, not hitherto necessary except in time of war". The Act provoked 'shock' and near universal opposition. It was denounced as a disguised wartime National Security Act to give the government, by stealth, regulation of the economy. In fact in adopting the Bill, Cabinet had imposed the crippling limitation that there would be no compulsory direction of manpower. Further, Menzies was obliged to placate widespread fears and deny that diversion of resources would mean the closing down of 'luxury' industries. He had to give personal assurances that coercion would be used only as a last resort, and he instructed Ministers to exercise caution and refer, in the first instance, all applications for capital issues to the Prime Minister's Department.¹⁸ The twin motives of the Prime Minister were revealed when in justifying the far-reaching powers sought in the Bill, he argued that "many of the steps that will have to be taken to strengthen the economy against the danger of war will also provide firm foundations for future national development and for a stable, prosperous and peaceful community life. These measures will not be wasted [if there is no war]".¹⁹

On the grounds of urgency, the Bill had been guillotined through Parliament. But only one set of regulations (the Capital Issues Regulations on 2 August 1951) was ever gazetted. As noted above, the regulations in their previous form were already under challenge, and in January 1952 Marcus Clark was joined by R.B. Davies Industries Ltd in the High Court to challenge the Government's restriction of capital issues under the defence power when the country was not at war. The Government argued its case that defence preparations had

to be made by the end of 1953, and the Judges in effect had to form an opinion on the likelihood of war. On 12 September 1952 the Court (4-2) ruled that the Regulations were valid; and thus opened the way for the Government to impose extraordinary economic controls. These were not to be employed, and having gone this far towards a national security state, the Government turned back.²⁰

Meanwhile from early 1951, the Government staggered from crisis to crisis. The economy was hamstrung by lack of electric power and basic materials, and shortages of consumer goods caused personal inconvenience.²¹ Though the rate of inflation declined from April, prices continued to rise, and the cost of living adjustments fed the price-wage spiral and employer demands for drastic action. The NSW state Labor government raised the stakes with a partial price freeze, while the federal government floundered, with Cabinet divided on key issues.²² Following the March Premiers' Conference, the Commonwealth/State Consultative Committees were established covering electric power, transport (general), railways, roads, shipping, water conservation and supply, coal, allocation of materials, and diversion of resources from luxury production.²³ In giving directions to the Committees, Menzies identified again the nexus: "defence preparations must include not only the direct military effort but also the strengthening of the Australian economy . . ." With their brief to examine relative investment priorities and war preparations, the committees' deliberations were clearly intended to influence the next Loan Council meeting.²⁴

The Prime Minister called a conference on inflation for 30 and 31 July with the premiers, and representatives of seven employers' organisations, the ACTU, churches, and the National Council of Women. Menzies identified seventeen main causes of inflation, and the delegates delivered set speeches advocating a wide range of divergent solutions. Some mentioned communist inspired disruption, but no-one argued that its elimination would cure inflation.²⁵ Menzies excelled at such forums, making it difficult to differentiate show from substance. Necessarily, the conference was quite inconclusive, but it afforded Menzies a national platform to drive home the danger of

war and publicise his defence and economic policies, including reductions in public works programs. These public performances were part of the 'softening up' process before the decisive Premiers' and Loan Council meetings on 15 to 17 August 1951. At these meetings, however, while the federal government managed to impose a 25 per cent cut in the estimates presented, the Premiers were imperious to the necessity for sacrifices in a national emergency – the total for their loan programs would be £60m more than the previous year (and this was to have serious consequences for the September budget).²⁶ As NSW was represented on only one committee, the Commonwealth/State Consultative Committees were hamstrung from the outset.

Cabinet had decided to achieve the objectives of the failed Communist Party Dissolution Act by way of a referendum to amend the Constitution, and until the poll on 22 September 1951 the country was engulfed by bitter, divisive propaganda campaigns. When this attempt to destroy the communist fifth column, which was alleged to be wrecking the economy and causing inflation, failed and the Government lost further prestige, it faced another day of reckoning with the budget. Contrary to press execration of H.C. Coombs and other economic advisers as bureaucratic profligates, they had been alarmed by the magnitude of the development programs.²⁷ On 26 September, as critics then and since have complained, twelve months "too late", the Horror Budget was brought down. It was designed as an anti-cyclical measure, as it was proposed to "draw away" a surplus by means of higher taxes on income, profits and sales, and increased customs and excise duties.

The Budget was denounced on all sides with the *SMH* on 27 September thundering that it was "a staggering blow to the nation". It was criticised at a joint meeting of the government parties, and dissent was only held in check by Fadden's "national emergency" argument.²⁸ In fact, in 1951-52 there was to be an increase in real public expenditure in aggregate as the Government allowed the surplus to be used to underwrite the States' works programs which as we have seen had been boosted by an additional £60m.²⁹ The Horror Budget was not a war preparations budget, and the defence allocation, according to the *SMH*, was "an anti-climax" as there was an increase of only £34m, and, as well, the previous budget was underspent by £48m.³⁰ Eco-

conomic historians are of the opinion that "the timing was such that the budget simply served to hasten and deepen a pre-existing downward trend" to recession.³¹

By early 1952 the Government was struggling to survive a balance of payments crisis. Though they never made clear how the objectives would be reconciled, the press, employers and the Liberal and Country Party organisations demanded increased defence preparations and at the same time had been unremitting in their pressure on the Government to reduce expenditure and the "bloated" public service whose numbers had continued to increase since the defeat of the 'socialist' government. On 2 October 1951 Menzies announced there would be a reduction of 5 per cent, that is, 10,000 public servants. In justification, he argued that the priorities of defence preparations required the diversion of manpower resources. It will be recalled that assurances had been given that there would be no compulsory direction of labour. Now Menzies exempted the Services from the cuts, and anticipated that their numbers (and those in ASIO) would in fact increase.³²

With the collapse of wool prices in April 1951, the 'super boom' ended, and a continuous decline in export prices in all groups set in. At the same time, as an anti-inflation measure, the Government had encouraged imports (including iron, steel, timber, and coal, as well as heavy machinery and defence equipment), and had assisted with subsidies and shipping. In his speech on the Budget on 3 October 1951, Menzies sought praise for this "fruitful and constructive" policy. But when overseas supplies improved and orders were suddenly filled, there was a huge influx of imports. With declining export prices, there was a dramatic reversal in the balance of trade (from a favourable peak of £67.8m in April 1951 to a negative £49.8m in February 1952), and a consequent depletion of international reserves from a peak of £810.4m in May 1951 to £418.6m in March 1952.³³ In January 1952, an emergency conference of Commonwealth finance ministers attended by Fadden had discussed the serious economic difficulties being experienced by the UK and how the sterling crisis could be met.³⁴ The Australian Cabinet came under pressure to assist sterling and commit Australia to a policy of restricting dollar expenditure. But pro-British loyalties collided with the balance of payments crisis and the ominous signs of recession. The large-scale dismissals of textile workers had to

be reversed even at the expense of British industry. On 7 March 1952, Menzies warned of "a great economic crisis" and the next day a licensing system was applied to all imported goods (initially with the object of reducing the value of imports to about half that of the previous year). This somersault on policy and Liberal ideology was justified by Menzies as a "grievous expedient". Critics denounced it as a "panic" response, and employers were divided according to the impact on them, with the severe quotas welcomed by the textile industry. The Government promised that the controls would be lifted as soon as possible, and Fadden sternly warned local industry not to regard them as a form of protection and expand through import replacement.³⁵ In fact, this was to happen and the controls were not finally removed until February 1960.

The chronic weakness of sterling was a symptom of a more profound crisis. What had hitherto been underpinnings of Australian development, the sterling bloc and imperial preference, were turning into fetters. As Allen Brown (Secretary of the PM's Department) advised Menzies on 29 July 1952, "The British Commonwealth cannot provide enough capital for its own development", and Australia would have to look to the United States. "The real issue", he warned, "is whether we are prepared to make Australia attractive for private capital from this country . . . and maybe the price is too high."³⁶ While 'the turn to the US in December 1941' view of Australian history is far too premature, and, on the contrary, in the early 1950s the defence strategy of Britain's Fourth Empire promoted integration, its economic base was crumbling. With insufficient external income to finance its defence and development programs, Australia was at an economic and strategic crossroads, and 'War in Three Years' fast became a tattered slogan.

CHAPTER 4 MOBILISATION FOR WAR

The Government had set in train a massive mobilisation to achieve preparedness for war by the end of 1953.¹ Its objective was to mobilise all resources, military, economic, political, scientific, and ideological. This was like a mirror image of Menzies' depiction of the communists' Cold War, "a war waged relentlessly by every means – political, economic, psychological . . ." With the Second World War as a model, planning included most elements of a national security state, though controls stopped well short of a total war footing as there was not to be conscription of civilian labour.

All government departments were instructed to contribute to an urgent completion of the Commonwealth War Book. This manual set out in detail the measures required to effect a transition from peace to war and the machinery necessary to achieve a full-scale effort after war began.² To implement mobilisation, an extensive range of organisations was established in addition to new and expanded government departments. At the apex of this extraordinary apparatus, and making decisions on the mountains of reports and recommendations generated by subordinate departments and committees, was the Cabinet Committee on Defence Preparations.³ It consisted of the Prime Minister (as chairman) and the Treasurer, and the Ministers for Defence, Defence Production, Supply, National Development, and Works. Attached to the Prime Minister's Department and with the Prime Minister as chairman, the National Security Resources Board was potentially a national planning body. Its functions were, *inter alia*:

(a) The Board will examine our civil and military resources and needs, and make such recommendations to the Government as may be necessary to ensure effective planning and priorities for the best use of Australian resources in the interests of national security . . .

(b) Specifically, the Board will give advice concerning the coordination of military, industrial, and civilian mobilisation of resources for the purposes of present national tasks and any future war emergency . . .⁴

The Board did not become the centrepiece in an embryonic national security state. It was hampered by hostility from within the public service and by the suspicion of outside businessmen (fanned by press speculation), and one severe judgement was that it failed to do more than produce "a pile of theoretical reports and to impede the work of the defence departments".⁵ Though limited to an advisory role, the Board, nevertheless, was a useful instrument in Ministers' plans for mobilisation and economic reconstruction.

Central to the bureaucratic structure for mobilisation was the Department of Defence which was advised by the Defence Committee consisting of the chiefs of staff and the chairman, the extremely influential Secretary of the Department of Defence, Sir Frederick Shedden. The Defence Committee received advice from a range of committees, including the Defence Research and Development Policy Committee, and later in relation to atomic weapons the New Weapons and Equipment Development Committee. Working via the Department of Defence, the Joint War Production Committee made a substantial contribution to mobilisation. With earlier origins to promote empire coordination of defence production, the Committee's functions now included: "To correlate the current material requirements of the Services and the resultant production programs". The JWPC was assisted by sub-committees including those covering Standardisation, and Strategic Materials (stockpiling). The Key Industries Sub-Committee, among other tasks, formulated the categories of defence importance of industries.⁶ When the mobilisation of the armed services got

underway, the Cabinet Committee on Defence Preparations set up the Committee on Scales of Provisioning (Richardson Committee) which also submitted lengthy reports.⁷ The Department of Supply was reorganised and a new Department of Defence Production was established. Supply was responsible for handling the requirements of the Services and it had administrative responsibility for the Long Range Weapons Project. There were many interdepartmental committees, and the Commonwealth/State Consultative Committees have already been mentioned. Other committees were established to report on specific aspects of mobilisation.

Integral to mobilisation for national security was Menzies' intention to enlist "leaders of the community" in a national effort. The NSRB was made up of industrialists, representatives of primary industry, senior public servants, and the President of the ACTU (Monk). Sir John Storey, chairman both of the Immigration Planning Council and the Joint War Production Committee, played a key role. He was Chairman and Managing Director of Overseas Corporation Ltd and of Repco, and a director of several other companies – during the war he had been Director of the Beaufort Division of the Department of Aircraft Production. Large numbers of businessmen served on industry advisory committees (such as the Ammunition Industry Advisory Committee that advised on plans for wartime production of ammunition).⁸

A feature of the assumption of office by the Menzies Government often remarked on, was that no senior public servant appointed by the previous Labor government was dismissed, though there was pressure to do so, especially in the case of H.C. Coombs (Governor of the Commonwealth Bank); and this is regarded as a mark of the liberality of the Prime Minister. But there was also a calculation of even greater import. These men of outstanding ability had successfully put Australia on a total war footing, and more recently had been responsible for Post War Reconstruction. They would be indispensable to this new mobilisation with its extensive state intervention and 'socialistic' controls. Contributing also were economists of Keynesian persuasion, including E.R. Walker, executive officer of the NSRB.⁹ In this period of the Cold War, a central role was played by a group of permanent heads of departments who also influenced policy making. Some, like

Bland (Department of Labour and National Service), Bailey (Attorney-General's) and Shedden (Defence) were so zealous in their anti-communism that they advocated measures that were too extreme even for Cabinet. As they and Spry (ASIO) rather than ministers implemented the detail of policies, they contributed a hard edge to the Cold War.¹⁰

As shown previously, the basis for the government's preparations for war were policies to stabilise the economy and increase production. Mobilisation of economic resources was conducted in terms of the national security/national development nexus, and the government had equipped itself with the Defence Preparations Act, though it did not make use of its extraordinary powers to put the Australian economy on a war footing. Intervention was undertaken, at several levels, with more limited objectives. Comprehensive surveys were undertaken, and detailed reports were made of the capacity of various industries to supply the requirements of the Services for mobilisation. Government factories were converted to defence purposes for which £50m was authorised. The JWP and the Department of Defence Production explored a range of ways and means of assisting private industries to expand their capacity for defence production. Cabinet approved £18.9m for capital projects, such as facilities for the manufacture of machine tools, and aircraft pressed parts. The intention was that government factories would develop new techniques and provide training for professional and technical staff and tradesmen. In the short term they would meet defence orders until private industry could take over.¹¹ Though justified as an expedient to meet an emergency, it is doubtful whether these 'socialistic' enterprises were any the less an affront to advocates of private enterprise. Some projects required huge capital outlays, and to explore the complex and contentious issues involved in establishing a local industry, a case study of the aircraft industry is made in Chapter 7.

Another necessary economic measure was stockpiling of strategic materials (rubber, aluminium, tin, raw cotton, tung oil, hard fibres, manganese ore, and hog bristles). Implementing the policy was dogged by price inflation and the unresolved role of private industry. Stockpiling was suspended in 1952, yet expenditure totalled £67m (the original estimate had been £85m).¹² A critical resource was labour, and the

Department of Labour and National Service compiled a report in 1951, "War-time manpower resources and their allocation".¹³ As noted earlier, compulsion was disavowed; but it was expected that there would be transfers of labour that would assist the defence effort as a result of dismissals in the public service, credit restrictions, and capital issues controls.¹⁴ At this time much planning was also devoted to increasing food production with the objectives of meeting Australia's growing needs, assisting with the balance of payments, and contributing to Commonwealth defence strategy.¹⁵

The mobilisation of the armed forces, coming on top of the Three Year Program adopted in July 1950, was a planning enterprise of formidable proportions. Itemised returns ranged from large items of equipment like aircraft down to the details of types and sizes of screws.¹⁶ The personnel numbers to be raised by the end of 1953 totalled 189,225 (Navy 30,000, Army 124,500, Air Force 34,725). An August 1951 estimate put the total cost at £957.5m (which included £93m for stockpiling).¹⁷ Menzies believed that conscription for overseas service would be necessary, and Cabinet discussed it without arriving at a decision.¹⁸ In this, they were no doubt influenced by the memory of how divisive the issue had been in Australia's history. The Prime Minister's refusal to take this step marked the limits in the preparations for 'War in Three Years' and undermined the credibility of the threat.

On 20 August 1951, Cabinet with a couple of modifications adopted a report by the NSRB on the material requirements of the armed forces to be raised on mobilisation. It decided inter alia:

(2) the Service Departments, in association with the Joint War Production Committee and the Departments of Defence Production and Supply should immediately proceed, within the financial authorities available to them, with the preparation and placing of substantial orders for items required on mobilisation which can be supplied by Australian industry from existing capacity. These orders should be on a sufficiently substantial scale to promote the systematic conversion of industry to Defence orders. They should not, however, initially exceed 50 per cent of the present estimates of mobilisation requirements of the various items . . .

(4) in view of the present inflationary problems and the added strain imposed upon Australia's resources by new production projects a determined effort should be made, by agreement with the United Kingdom, Canada and the United States, to arrange for the supply of a much larger portion of our equipment from those countries.¹⁹

At the same time, vast paper armies to fight the Third World War were created in the Defence and the Service Departments. 'Phoenix' was the codename for the Army's battle plans for raising an expeditionary force with the Middle East as its probable destination. 'Ban-tam' dealt with the raising of forces for local defence, and 'Pelican' with base and administrative units.²⁰ Much smaller numbers of real troops were fighting in the hot war in Korea, and Malaya, and units of the RAAF were stationed in Malta. Maintaining the forces in Korea and Japan had cost £9.307m a year. And in secret, large sums were being spent on missile and atomic weapons programs.²¹

During 1951, while these preparations for war proceeded apace, Cabinet was unable to make a conclusive decision on where Australia would fight the war. It was under heavy pressure from the UK to make a commitment to the Middle East, but could not accept this strategic priority unless "Australia's contribution to the Middle East is linked with the position in South East Asia and the Pacific", and any deployment "should be linked with United States' plans for defence in the Pacific". Sending troops to the Middle East had a nostalgic attraction as David Lowe argues, though, more to the point, in the early 1950s Commonwealth strategy dictated that "the primary offensive weapon in total war must remain the atomic bomb", and the strategic importance of the Middle East rested not only on the oil-fields but also as the base for the air offensive against southern Russia. Eventually, on 4 December 1951, after receiving assurances that Malaya would be held, Cabinet agreed that the UK should be advised "that the Australian government would accept a commitment to deploy in the Middle East the first Army contingent and the first Air Force task force raised". The letter to the UK was drafted for Menzies' signature but never sent.²² Anxieties about the lack of guarantees of

security in South East Asia came to the fore again. The Department of External Affairs had been marginalised, but got a new hearing for its objections to the Middle East priority at the expense of South East Asia. The Second World War was recalled when the Japanese attacked while troops were in the Middle East. In February 1952, Allen Brown advised Menzies that since the December decision, "all relevant inter-governmental moves have emphasised the importance of South East Asia", and he warned that Australia would have to expect to be called on for forces in any US strategic plans for Asia. Following this reconsideration, planning reverted to the alternatives of either the Middle East or Malaya. But the balance was shifting, and on 23 July 1952 Menzies requested that plans be prepared for the initial deployment in South East Asia.²³ Menzies was not a nationalist in the mould of Chifley or Ewart, though he was not the mere puppet denounced by critics – at least to the extent that he made attempts (albeit futile) to gain access to the policy making machinery of his 'great and powerful friends'. With the shifts in international power relations, the times were against an Empire patriot. But Menzies did recognise that shifts were occurring and had a discussion at the US Embassy in Canberra about the December decision that was not officially transmitted to the UK.²⁴

CHAPTER 5 COLD WAR/CLASS WAR AND A NATIONAL SECURITY STATE

The heavy blanket of national security ideology obscured the class dimension of the Cold War. When the enemy was identified as a foreign aggressor and domestic dissent as its fifth column, the battle slogans of freedom and democracy masked the conflict of sectional interests. Some of the blanket is penetrated if a couple of questions are asked: in general, was it capital or labour that was required to make sacrifices for rearmament and for the passage through the turbulent postwar transition period to the Golden Years? Any hesitation in identifying labour reflects the effectiveness of Cold War ideology in equating conflict with communism. And to apply another crude gauge, who were the domestic winners and losers in the Cold War? Again, it was capital over labour in their various manifestations. In the contest to shape postwar society, despite the welfare state compromises that in fact contributed to their longer term stability, conservatism and the champions of capitalism defeated the challenge of radicalism and soon destroyed any revolutionary alternative.

The Director General of ASIO (Spry) had penetrated the Communist Party and was able to make regular detailed reports to the Attorney-General and the Prime Minister. These revealed a continuing decline in membership, influence, and financial resources – membership of the Party had fallen from 20,000 in 1943 to about 7000 in 1951.¹ In the Commonwealth public service, no members of the Party and only five sympathisers had access to classified material, and none of