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

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

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

Secondly, it is pointed out that with the growth of the middle classes and the liberal democratic welfare state, the cutting edge of Marx’s proletarian revolution has been blunted. Class polarisation between labourers and capitalists has not occurred in advanced capitalist societies even one hundred years after Capital. Only in peripheral countries penetrated by the capitalist states in their search for raw materials, investment outlets and further profits, has such revolution and antagonism occurred: Russia 1917, Eastern Europe in the 1940s, China 1949, Indo-China 1945-57. While such societies may have been subject to exploitation within the world market established by the capitalist states they provide no evidence for the historical inevitability of an overthrow of an existing advanced capitalist society. Even sympathetic observers of Marx such as Paul Sweezy would concede that Marx’s time scale was far too short and his anticipation of reformist movement inadequate.

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

Finally, it has been claimed that the post-war failure of the socialist political movement left advanced capitalist societies confirmed in the historical bankruptcy. This claim deserves serious consideration. Since the 1947 Russian revolution, the socialist movement has broken into two broad streams, the embryos of which existed even before that time. They may be described as Leninism and Social Democracy. The model of the first derives from the CPSU (Bolshevik): a cadre party of trained socialist revolutionaries should penetrate the working class and in a time of crisis provide political leadership for the seizure of state power and establishment of the Dictatorship of the Proletariat. The experience of the last thirty years has indeed suggested the failure of this strategy in advanced capitalist societies. Its proponents’ defences, however, include: (1) that no deep crises have occurred in that period but that they will (most); (2) that it has worked in societies most deeply exploited by the capitalist dominated world market (e.g. Indo-China) and the Third World is the centre for socialist revolution in the contemporary world; and, further, (3) that successful Third World revolutions will, by cutting off that source of cheap labour, raw materials and markets, produce deep crises in the advanced capitalist states. In fact the majority of communist parties of advanced capitalist states, particularly those who have most successfully penetrated the working class of their society and given it political leadership, have progressively abandoned their Leninist heritage — including the Dictatorship of the Proletariat — and assumed aspects of the Social Democrat model. Lenin, and his political successors, regard these as ‘revisionist’.

Social Democrat parties spring from two main sources. Some came earlier from the same ‘revisionist’ tendencies within Marxist parties. The German leader Karl Kautsky and Benston present the historical model of Marxist theoreticians arguing for a peaceful transition to socialism and a democratically planned society achieved through a parliamentary electoral victory. Others, as in Britain and Australia, were less theoretically inclined and were established to provide parliamentary representation for the trade union movement. The later provide one focus for this essay in the form of the Australian Labor Party. Lacking the theoretical rigour of a Marxist tradition their focus has rarely been on abolishing capitalism and replacing it by a system of planned production and distribution for social need rather than profit. Rather they have emphasised the need to adapt capitalism to the advantage of workers and other disadvantaged groups by redistributing income, improving welfare benefits and, where necessary, nationalising some industry to bring it under social ownership.

In a period of sustained growth, the force of the of the left point has been typically restrained since production is, in any case, being maintained by capitalists. The social democratic programme becomes ‘welfarism’ plus redistribution. In periods of depression it is broadly the case that they have failed to maintain output. In both Britain and Australia the 1930s depression was heralded by failed social democratic governments.

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

1. The Long Boom 1945-71

Historically, economic growth in capitalist societies has rarely been smooth or steady. There is no serious dispute among economic historians about this. Periods of rapid growth lasting for up to thirty years have
been succeeded by "buss" with higher unemployment levels, slowdown in capital accumulation, increased bankruptcies and low or zero growth rates. Even when growth rates had been favourable, unemployment rates have been over five percent of the workforce, and short term economic fluctuations—trade cycles—have been causal factors.

After the brief post World War 1 recovery, economic activity bottomed, only to be curtailed by a world-wide economic depression with deeper political consequences—fascism in Europe and revolution in the depressed areas of the colonial regions.

Various explanations have been offered for these phenomena. The trade cycle of five to seven years duration—generally attributed to what economists term the imbalance between the production of consumer and investment goods. Marxists do not differ substantially in terms of a disproportionality crisis. Since a capitalist economy is not planned nor co-ordinated, overall production and output results from each capitalist seeking to maximise profits, some cut back investment and a temporary recession occurs until new machines are required. The deep depression of the 1930s occasioned more fundamental enquiries.

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

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

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

The period 1945-71 proved to be an unprecedented era of economic prosperity in the advanced capitalist countries. The record shows that they experienced per capita growth rates varying between 5 and 10 per cent, Britain, Australia and the U.S.A. towards the lower end, the E.E.C. states, especially West Germany, and Japan towards the upper end of the scale. While minorities continued to experience bad social conditions and certain regions fell behind, for most of the population living standards improved, capital was deepened and the provision of social capital was extended. (This makes no argument concerning the quality of improved material conditions, e.g., drive-in movies or hospitals, or democratic social control over their provision.)

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

By the end of the Second World War the governments in office in the liberal democratic states were fully cognizant of the dangers of recession. In the years 1944-6 they publicly committed themselves to the doctrine of full employment by placing employment as a basic public policy objective, in the U.S.A. under the Democrats as in Labour Britain. In Australia, the White Paper on Full Employment was issued in 1945 under the auspices of Ben Chifley. Keynesian demand-management policy integrated well with Labour's traditional objectives which had only been reinforced by the electoral findings of the 1931 economic failure had produced. In addition, the more radical aspects of the Keynesian school included more direct economic management of production, and hostility towards what were known as the 'rentiers' or unproductive 'coupon-clippers' of the world of valuable capital. These were readily incorporated into the period of post-war reconstruction by the A.L.P. and were even extended to the 1947 proposal to nationalise banking. This was in order to produce more
effective economic management of a capitalist economy—yet to fundamentally change it. In the event, the economic controls and the nationalisation of banks were both defeated politically; the latter in the High Court, 40 the former at the 1949 election.41 But the Liberal Country Party Coalition maintained the same responsibility for counter-cyclical demand management, deficits and cheap money when a trade cycle trough threatened.

The result, it was claimed, was that in other advanced capitalist societies the trade cycle was 'tamed out'. With suitable manipulation of fiscal (budgetary) and monetary (interest rates, lending) policy, economic growth could be even and sustained. The more radical aspects of Keynesian philosophy—for example indicative planning—were avoided in Australia even though they were taken up in Sweden, France and less successfully in Britain. Following the worst recession of the period,42 1961, and the near electoral defeat of the Menzies government which resulted, some lip service was paid to planning. The Vernon Commission was established and reported in 1965.43 It made some modest proposals for planning bodies. These were rejected by Sir Robert Menzies after 'barely open criticism from the Treasury which—despite the vast system of tariffs, subsidies and grants which McFarlane has argued amounted to a de facto system of 'hydra-headed planning'—maintained that market forces could most efficiently distribute resources. As a result of the pre-eminence of aggregate demand management, Treasury bureaucratic dominance, and a multi-levelled system of subsidies, Australia failed to develop any systematic process of institutions for the economic planning of production.

At the international level, the direction for planning came from a seemingly unlikely source: the United States of Government. At the end of the Second World War only the United States economy was stronger than at the start. It also possessed about three-quarters of the world's monetary gold. The European powers were devastated—Victor and vanquished alike—and Britain stood near bankruptcy. From the time it was clear that military victory was assured, late 1943, the U.S. Government carefully planned its policy towards the post-war economic order. It wasted no time and the dismantling of both trade blocs and planned economics. The Kolkov44 have demonstrated the efforts that put into the attainment of these objectives. The United States provided that global direction, the absence of which Kindleberger had concluded, had been vital in permitting the 1930s depression. This direction took various forms. The closed colonial empires were dismantled with U.S. encouragement and the old mother countries replaced by the U.S. as major investor and trading partner. The European capitalist states were stabilised with Marshall Plan aid, and U.S. capital invaded Europe. The American dollar became the international currency valued at $35 per ounce of gold and other currencies were at fixed exchange rates. Under American prompting the General Agreement on Tariffs and Trade later provided further impetus to free trade and access for superior American industry.

**Socialism and Reform in Contemporary Australia**

Recollective states were policed by American agencies: the International Monetary Fund, the World Bank, the C.I.A. or, if necessary, the marines and the B.I.S.45 It was to be the 'American Century'.

Australia was not immune from this global shift in the balance of power. It is most widely noted, of course, that following Curtin's 1942 appeal to the U.S. for assistance, Australian military policy moved into tandem with that of America both in Asia and globally. Australia became involved in America's Asian wars: Korea, China, Indo-China, Indonesia. It further became the site for the most important strategic installations outside the United States.46 In addition, the programme of rapid industrialisation begun after 1945 was heavily dependent on U.S. investment, and Australian trade moved away from the British imperial framework towards the U.S. and Japan.47 The increasingly bizarre slogans of a series of Australian Prime Ministers—"our great and powerful friends' (Menzies), 'all the way with L.B.J.' (Holt), 'we'll go a Waltzing Matilda with you' (Gorton)—were a colourful recognition of reality.48 Australia, like the other capitalist states, accepted U.S. orchestration of the management and defence of the capitalist world. Only when American respectfulness in that respect faltered did Australian governments change their tune.

Within this global context, Australia experienced a similar long boom to that of other advanced capitalist states. Industrial production grew steadily and with minimal trade cycle fluctuations.49 In Australia's case, this was associated with a high level of tariff protection, a large inflow of foreign labour and a typical growth of industrial concentration in monopoly enterprises, foreign-owned to an untypical degree.50 The steady growth of world trade facilitated economic development, which was buttressed in the 1960s by the rapid growth of the mineral and energy industries with a ready market in fast-growing Japan.51 The post-war Australian boom was thus a product of foreign capital inflow; the immigration of cheap labour;52 a steady growth in world trade providing ready markets for primary industry, agricultural and mineral; and the rapid development of the industrial sector under protected conditions.53 Why should this situation not last indefinitely? An atheoretical explanation for the long boom which Australia shared, would not discount the policies of governments, internal and international, but would regard their success as dependent on three other factors. First, the period 1940-45 had witnessed gross global destruction of capital, and extensive technological dislocations. As a result it was both profitable to invest on a wide front of industrial production, and a large stock of capital to be exhausted. But in two respects, until 1970 it appeared that the labour movements defeated in the 1930s offered no political challenge to profits and protected income shares remained static, or shifted to the income of capitalists; there was no evident decline in the rate of profit.54 Seconded, the American dominance of the world market and political management of
it had been maintained. Thirdly, the Third World countries provided cheap raw materials, energy and labour and despite their political enmity from the colonials, seemed unable to escape the structure of the world market imposed on them during that period. The terms of trade continued to swing against them — that is the price of their raw materials were depressed against that of their industrial goods imports. In the first half of the 1970s these conditions were altered.

The first public round of the new era was fired by the U.S. government when it unilaterally devalued the U.S. dollar and imposed import controls in August 1971. This was the result of America's spending more overseas imports, military expenditures, especially the Vietnam War, and on foreign capital investment than its exports could pay for. Further, a slower growth rate, lower level of capital accumulation and lagging unproductive military-related industry led to its exports becoming less competitive. The world market at the exchange rate level in the 1940s. Under the terms of the 1944 Bretton Woods Agreement, however, the U.S. had been able to print dollars which its partners had agreed to accept at a fixed value, $35 to an ounce of gold. Since 1968 the U.S. had lacked the gold to back its currency. Although the 1971 and 1973 devaluations, checked the outflow of gold and dollars it had been variously estimated that between 100 and 170 billion dollars had entered the international money markets. The stable international monetary structure was replaced by competitive floats and a massive boost to international liquidity that was difficult for individual governments to control. One of its effects was to lift inflationary pressures. Over $20 billion entered Australia in 1971-2 and contributed strongly to sparking the inflationary spiral. At the same time, the advanced capitalist countries experienced a concurrent trade cycle recession for the first time since 1945, the synchronisation and the anti-inflationary policies of governments strengthening its intensity. Two other phenomena also emerged in that global recession of 1971-72: the level of industrial strike action rose as workers sought compensation for increased prices. It was widely reported that the level of profitability was declining. Finally, the commodity producers of the Third World enlarged the formation of producer cartels with the intention of jointly fixing higher prices for their commodities on the world market. OPEC won its first price rise in 1970 and provided some impetus in this respect.

The global recession of 1971-2 was a dress rehearsal for the events of 1974-6. 'Stagflation' entered the international vocabulary experiencing a period of recession. Let us summarise our argument so far. The period 1945-71 was one of steady growth for the advanced capitalist countries during which their population living standards rose steadily, welfare benefits were progressively expanded and the insecurity of social life was diminished. Internal demand management maintained output, international cooperation under American leadership ensured the growth of world trade, international investment and labour flows, and currency stability. Growth in the Third World was also strong. The development of oil and gas, minerals, infrastructure and manufactures provided the investment needed for growth. The development of the Asian trade networks ensured the growth of world trade.
in twenty. He later promised the introduction of 'economic planning machinery' to produce faster growth and full employment, and a Price Justification Tribunal to deal with inflation. Nationalisation was strongly expressed with relation to foreign ownership of resources.

The Australian people shall be returned to their rightful place in their country as participants and partners in government, as owners and keepers of the national estate and the nation's resources, as fair and equal sharers in the wealth and opportunities that this nation should offer. Labor would expand the Australian Industry Development Corporation (AIDC) to join in resource development. The social and welfare programmes covered a long list including pensions, education, urban transport and development, health, a national compensation scheme, consumer protection, pre-schools, housing, sewage and waste disposal, and regional development plans. How was this programme to be paid for?

'A Labor Government will establish the machinery for containing concentration and economic planning to restore and maintain strong growth. This is the real answer to the patriot cry 'Where's the money coming from?' Even at the present low rate of growth Commonwealth income has more than doubled in the past six years.'

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

Three years later, Mr Whitlam was to concede that the entire programme rested on a central assumption: that a higher level of economic growth could be maintained. It was not then clear how this was to be achieved, though rather ritualistic reference was made to planning machinery. Since increased progressive taxation was not proposed, and the large expansion of public ownership of production by nationalisation or other means, the programme's success depended on the success of the planning machinery. It never materialised. In fact quite the opposite: in seeking to dismantle the myriad of devices accumulated over two decades that provided effective subsidies to the private sector the Labor government restored 'market forces'. As Mr Whitlam was to put it in August 1973: 'What you are experiencing now is the impact of the Australian economy of the first genuine free enterprise government in twenty-three years.' Before reviewing these developments we may consider the alternatives.

Traditional Labor party strategy for enabling greater control over economic output is generally associated with the policies of the British Attlee government, 1945-51. On that strategy, sections of private enterprise were nationalised and brought under public control in the form of a public corporation. The sectors aimed at were the 'commanding heights': particularly transport, power, and the iron and steel industry. Public control would enable the government to plan production and investment on a long term basis in accord with national needs. This was carried out by the Attlee government with a concurrent expansion of welfare services -- many means-tested -- paid for by expanded progressive taxation. In fact not only did the public enterprises prove not to be the commanding heights in determining British economic activity in the 1950s and 1960s, they also served largely to provide public subsidy for private profits by running at a loss. They also failed to provide any social model for socialist industry by maintaining managerial prerogatives and capitalist accounting procedures. For example, in a most short-sighted manner the coal industry was allowed to run down severely in the interests of short-term profitability. This model was rejected in 1972 by the Australian Labor Party for two reasons. It was afraid of raising the issue of nationalisation after Chifley's banking defeat, and it argued that any such act would be declared unconstitutional. Further, believing the 1971-72 recession to be a short term, like 1941, chiefly of liberal management, the leadership thought a nationalisation/socialism objective was not only unnecessary but harmful for its electoral prospects with middle class swing voters.

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

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

The dominance of Cabinet over the labor movement was demonstrated at the Federal Conference at Surfers Paradise in July 1973. Over fifty motions from the branches were postponed on the agenda to the final day; the conference then adjourned without dissuading them.23 Policy initiative resided in the Ministry with its coterie of seconded advisers, public servants, specialist commissions, think tanks and academic experts. While the economy functioned smoothly this occasioned little discussion. When the economic situation deteriorated a politically cohesive labor movement did not exist. The consequent differences of opinion and open conflicts were one of the important ingredients that led to the government's destruction.

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

The first Labor Ministry of seventeen months presents a record of lost opportunity. Some readers (and no doubt some reviewers) will be unmoved by this statement. It is certainly true that the period was not a period of great activity. It is its purpose that requires attention.

The economic conditions at the time were dominated by two features: rapid and continued recovery from the recession of 1971-2, and a steady rise in the inflation rate. These were both characteristic of all the advanced capitalist states. Labor utilised this period to introduce a wide range of new policies. As Lloyd and Reid document,24 it was a period of greatly increased Parliamentary activity: sixty bills presented, more power to more Parliamentary committees, more divisions. In the area of public service administration a number of new Commissions and think tanks were established: Social Welfare, Cities, Grants, Schools, Petroleum and Minerals, Industries Assistance, and the Priority Review Staff among others. By the end of 1973, Mr Whitlam reported that twenty-six enquiries, commissions, panels and task forces had been established to investigate, among other things, the public service, Post Office and the C.M.F. Six new ministries were established including Environment and Conservation, Media and Urban and Regional Development. What did all this activity produce?

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

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

The strategy for increasing economic growth contained four elements. The first related to the capital stock. The system of ad hoc "hydra-headed" planning of the industrialisation strategy had produced an industrial structure with considerable inefficiencies. On the one hand, as a result of the restrictions placed on the growth of the export industries and their share of the cost of their products by international standards, many domestic industries were inefficient according to the benchmark of international standards. Some economists agreed that their degree of tariff protection should be lowered and economic surveys frequently listed those industries.25 This was particularly true of textiles, footwear, furniture and paper. It was also discovered that these industries were improving their position and thus reducing demand in the home market. Once the tax base was reduced and the budget balance improved, the emphasis on reducing the inflationary pressure by increasing productivity would be increased.

On the other hand some industries were over-capitalised. As a result of the lead-content provisions laid down by the coalition government in the 1960s, there were four foreign-owned automobile manufacturers operating in a market that could barely support one. The strategy was not to reduce the number of manufacturers but to assist the domestic industry to increase output in order to reduce the number of cars per consumer. This was to be done through a policy that would encourage competition and reduce the number of consumers, a trend which would accelerate.

On 18 July 1973 a tariff cut of 25 percent across the board was announced. Further, in December 1972 and September 1973, the Australian dollar
was revealed by 7% and 5% respectively against the U.S. dollar.

The result was to increase considerably the cost of domestic goods relative to the now cheaper imports. It was intended that, as a result, the less competitive, and hence the least efficient, sectors of industry would be closed and new capital located in the more efficient remaining areaswhere capital-deepening could ensue. This would raise productivity and growth.

The second aspect related to the labour force. The large pool of unskilled labour that the immigration programme had provided would be confronted. This had not only reduced capitalists' incentive to increase capitalisation, it had also necessitated large expenditure on 'social capital' which was unproductive. In its place the increase in the workforce would be met from two other sources. As in other capitalist countries, married women had been entering the work force in increasing numbers (their 'participation rate' had been rising). This process would be encouraged not only ideologically through the general Women's Liberation propaganda but, more importantly, materially by the provision of day care, child care centres, and government support for equal pay for women.

This would enable the same quantity of social capital to provide a larger quantity of labour power, thus in Marx's expression 'increasing the intensity of exploitation'. For by the widespread introduction of female labour, 'the whole family must now perform more surplus labour for capital than before, even when the total amount of their wages increased which is by no means always the case'. It is to put it in more contemporary terms, we find the main potential labour reserve among the 24 million women who are listed as being at home duties. There is further scope for drawing on this reserve if suitable jobs are offered. Whereas in 1967, Justice Higgins took the standpoint appropriate to the needs of the average employee regarded as a human being living in a civilised community and established a fair and reasonable wage for a man with wife and about three dependent children to support as the labour power required from a family unit, in the 1970s two labour units would be required to attain the newly historically determined fair and reasonable wage.

The other source of labour, in addition to natural increase, would be provided by those workers eased out of the bankrupt, inefficient industries in the process of rationalising the capital stock. More than the female entrants, they would be recycled through that stage migration to the Swedish labour plan, the National Employment and Training Scheme (NEAT). As the then Labour Minister put it, 'Where technological change makes a skill obsolete we will be there to train another skill'. In the absence of immigration which provided a high mobile increment to the work force, the government was seeking to meet capital’s labour requirements from internal sources. That NEAT was too little and badly administered, became apparent later. Without being integrated into forward estimates of national planning, a labour retraining scheme would tend to degenerate into a palliative complement to the role.

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

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

Since 1949, Australia had adopted a laissez-faire policy towards foreign investors. During the four years prior to the Labor government there had been, however, some changes in both the attitudes and policies of the federal government. Gorton and McEwen had both adopted rather critical attitudes towards the unrestricted passage of the Australian economy into foreign ownership. The former had caustically referred to the 'sickly myummy' mentality, and some press commentators suggested that one reason for his replacement by McMahon (in 1971) in the Liberal leadership was his intention to place greater restrictions on foreign capital inflow. It was McEwen who coined the expression 'buy back the farm'. McMahon was more committed to free-market forces and less government restrictions—one reason for McEwan's 'black-hating' him during the Liberal leadership struggle which followed Holt's downing in 1967. But the situation changed in 1971-2. The large pool of U.S. dollars (particularly, Euro-dollars), which existed following the currency re-adjustment of 1971 and the US deficits which had preceded it, was causing considerable concern. About $31 billion entered the country in those two years, chiefly, it was assumed, in anticipation of a currency depreciation and the quick profit which would result. By increasing domestic liquidity and facilitating rapid credit expansion, this inflow stoked the inflation spiral and did little to increase the economy’s productive resources. In September 1972, the Liberal Government placed restrictions on foreign capital inflow.

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

In future we will cast a more critical eye over individual investment. We intend to make sure that future capital inflow is associated with productive
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Investment which will add to Australia's real resources and that foreign capital is employed in real partnership with Australian owned capital.

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

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

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

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

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

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

During the campaign for the May 1974 election, the A.L.P. had added some minor features to its welfare programme expansion policy - child care centres, more health programmes, structural adjustment assistance - that broadly stood on its record. It was the Opposition that introduced the new element in their effective criticism of the rising rate of inflation. A fortuitous and atypical drop in the inflation rate for the first quarter of 1974 had blunted the edge of the Opposition campaign somewhat. But the problem was still there. Following the victory of 18 May 1974, the government was faced with the need to formulate a strategy. What were its options? Up to that time the system of economic management utilised during the post-war period - Keynesian economies - had not been confronted with
inflation as a major economic problem. Certainly prices had risen during the post-war period but at a fairly steady and low rate—except briefly during the Korean War. Insofar as it entered economic policy making considerations it was attributed to two sources, demand pull and cost push. With respect to the former it was argued that in periods of export growth, particularly when an economy has been quickly recovering from a trade cycle recession, aggregate demand would expand quicker than output, thus creating a sellers’ market in which suppliers would raise prices. In this situation, the role of government was to restrain demand growth by reducing its own expenditure, running a balanced or surplus budget and tightening credit by use of interest rates, etc. Cost push related the same situation specifically to the labour market. In periods of low and falling unemployment, wages would be pushed up as a result of high demand for labour and the increased bargaining capacity of the trade union movement. This analysis added to Keynesian management policy in the form of the Phillips Curve. Named after an English academic and his empirical studies of Britain, the Phillips Curve seeks to demonstrate that wage and price increases are in inverse correlation to the rate of unemployment, more of one means less of the other. Hence, in order to reduce the rate of inflation, it would be necessary to alter the condition of the labour market. To reduce inflation required necessary unemployment. This option had been adopted in the 1971 Social Credit budget when some inflationary increases had been occurring. One way of curbing such tendencies was to cut back government spending.

Immediately following the electoral victory the government consulted its economic advisors with respect to formulating an anti-inflationary strategy. It already had the credit squeeze inaugurated in September 1973, in the pipeline, and this was assumed to take about six to nine months to have any serious impact. It was informed by its Treasury advisors that further measures would be necessary. In the first instance, this advice was accepted by Mr Whitlam and the then Treasurer Mr Crean. Treasury argued that in the light of expanding public expenditure and large wage increases the federal government would need to restrain two aspects of inflation which was to be checked. In July 1974 this advice was acted on. On 23 July, Mr Crean announced a mini-budget, the total effect of which was designed to restrain aggregate demand by cutting government expenditure and maintaining the credit squeeze. ‘The foundation of any anti-inflationary policy must be the control of demand’, he argued. The monetary situation is now very tight. We shall certainly keep it that way as long as necessary.’ Government revenue was to be increased with higher charges for postage, telephones, cigarette and spirits duties and capital gains tax. Expenditure was cut by reducing assisted immigration, deferring the means test abolition and deferring the child care program. ‘In a spectacularly candid way, the Treasurer embraced the 1971 strategy which put the McNairn Liberal-Country Government out of office, argued one newspaper.’ ‘Mini-budget may cost 180,000 jobs, trumpeted the headlines in another.’ It was reported that government advisers predicted that the measure would mean that the number of people out of work will rise to between 120,000 to 180,000, or between two and three percent of the work force.’ The deflationary package had come in for extensive criticism in the caucus on the evening of its introduction. A motion that it be deferred was supported by at least three Ministers and lost by only forty to thirty-five votes. In fact, the Prime Minister spent as much time in Parliament the following day defending himself against the critics within his own party as from the opposition. It was widely assumed that the measure of 23 July was the first blast of a tough deflationary budget to be introduced in September having been delayed by the May election.

In fact, the strategy pre-figured by the mini-budget was defeated politically within the caucus. The reason for this caucus revolt sprang from the impending downturn in the trade cycle. As early as December 1973 some Ministers, especially Clyde Cameron, had been arguing that there would be an economic downturn in late 1974. This had indeed been a common prediction in the financial press throughout the capitalist world during late 1973. It was thought that the rapid, synchronised upswing of 1973 would be equally rapid and synchronised in reverse. The large energy price rises and oil restrictions of late 1973 seemed likely to intensify this problem. In fact, at the very time that the mini-budget’s introduction was postponing deflation of the economy, this was in any case occurring. The upward movement of the rate of unemployment had begun and did not stabilise for over a year. During late July and early August, the ‘Treasury Line’ came in for repeated criticism from a wide range of sources. Within days the Deputy Prime Minister, Dr Cairns, put forward an alternative six-point package which included selective regulation of bank credit to bolster productive operations; differential tax rates to penalise speculation and favour low income; the management of real wages, social security benefits and full employment; and the regulation of prices and profit levels. Mr Bryant and Mr Cameron also circulated Caucus with plans designed to maintain economic activity yet lower inflation, including indexing of wage rates to the Consumer Price Index, in return for voluntary wage restraint and the restoration of tariffs and quotas on imports. Academic economists also became vocal proponents of alternative strategies. The Melbourne Institute for Economic and Social Research argued against deflation and for a wages/prices policy buttressed by taxation rates used as carrot and stick. A group of South Australian economists launched the ‘Adelaide Plan’, the chief feature of which was wage indexation. The Liberal Leader, Mr Snedden, was also critical of what he called a ‘forty-year-old New South Wales’ economic thinking which advocated deflation; he opposed the revenue increases and called for large tax cuts. Other ministers, including Mr Uren and Mr Hayden, took extended economic advice and became influential in the drafting of the budget. The effect of this activity was the political defeat of the Treasury line
within the Parliamentary Labor Party. Having stood at two elections on
the basic platform of extending public welfare programmes the Party was
not willing to accept their cut-back and an attack on wage levels as an
anti-inflationary strategy. This was also sound politics, insomuch as survey
already indicated a sudden drop in Labor popularity in what had been
its electoral strongholds of working class voters. These drop was
accompanied the rising unemployment during the coming year. The fed-
mulation of the September budget reflected the changed political cir-
sumstances. The July mini-budget had narrowly been accepted by Caucus.
During August it was clear that this was no longer the case. As Cabinet
dismantled the Treasury submission which was reported to advocate
a surreptitious surplus of over $1,300 million. There was no chance
into government expenditure. Dr Cairns announced that the cred-
squeeze would be relaxed. On 26 August, Mr Whittam made it clear that
he had drowned the Treasury line and Dr Cairns took over the reins of
budget policy. 4
The budget that Mr Crean introduced in Parliament on 17 September
1974 represented an entirely different strategy to that of July, to deal
with the three problems of economic downturn, rising inflation and in-
creased industrial militancy to gain compensatory wage increases. It
represented what might be termed the social contract strategy. It was
designed to mildly stimulate the economy while providing the basis for
voluntary wage restraint policy to deal with inflation.
Overall the budget was to provide for an effective domestic balance
of revenue and expenditure in fact a surplus of $23 million. Mr Crean
announced that if this were not sufficient future mini-budgets would further
stimulate employment. He added:
The Government is not prepared deliberately to create a level of 4 or 5 per
cent., or perhaps even higher unemployment ... To act an unemployment
is not not to reduce cost pressures would inhibit the cooperation with trade unions
and destroy the Government's right to claim it. The Government did
not close off its options until the possibility of cooperation has been given
a proper test.

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

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

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

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

unemployment rate reached 3.2 per cent on a seasonally adjusted basis—a post-war record level.

The government's voluntary wage restraint policy was to be buttressed by
a new package of measures to stimulate the economy. These included:

- A new package of measures to stimulate the economy.
- An increase in social welfare payments.
- An increase in public works spending.
- A new program of industrial training.
- A new program of housing construction.

Mr Crean announced that the government was prepared to work with
employers and unions to ensure a voluntary wage restraint policy.

In the meantime, the government was taking steps to ensure that
the budget's objectives were met. These included:

- A new package of measures to stimulate the economy.
- An increase in social welfare payments.
- An increase in public works spending.
- A new program of industrial training.
- A new program of housing construction.

Mr Crean announced that the government was prepared to work with
employers and unions to ensure a voluntary wage restraint policy.
cut and the P.J.T. was instructed to take into account the need for profitability in its price rise hearings. On 11 December, further depression allowances were granted and company tax payment dates deferred. On 20 November 1974, Clyde Cameron announced that it was thought the wage indexation would be quarterly from the first quarter of 1975, the reducing the need for industrial activity and large wage claims in anticipation of price rises. This, it was hoped, would stop the wage rises which Mr Whitlam had blamed for both inflation and the profits squeeze.

On 21 November, following some public criticism by Mr Whitlam of the Treasury, it was announced that Dr Cairns would replace Mr Crean as Treasurer early in December. Shortly after, Labor was defeated in the Queensland state election, following the National Party's strong showing. The rapid deterioration of the economy which followed the May election victory of 1974 produced a sharp political struggle within the Parliamentary Labor Party. It revealed many of the party’s weaknesses. After a brief flirtation with the “short, sharp, shock” Treasury line of reduced inflation by attacking the living standards of the poorer members of society, the A.L.P. opted for stimulating the economy. It also revealed its weaknesses. Lacking a social strategy that encompassed democratic social control over society’s productive forces, that would enable it to decide what should be produced, when and where, it unveiled a准则 as a new package. The press occasionally obliged it with the title of “new economics”. In its first flush, associated with the name of Dr Cairns, it was consistent with standard international practice: aggregate demand stimulation to deal with a trade cycle recession; a wage policy to deal with inflation; and tariffs, quotas and devaluation to handle foreign competition. This was the basis of policy until mid-1975 when, it was hoped, an upswing would have started.

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


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

The Australian Labor Party will:
1. Establish a Department of Economic Planning to give advice on medium and long term priorities.
2. Empower the Australian Parliament, either by referendum or state references, to make laws with respect to prices, incomes and interest rates.
3. To achieve Labor’s objectives, establish or extend public enterprise.
4. Provide money to stimulate demand and thereby stimulate production.
5. Establish a National Assistance and Development Program to stimulate investment.
6. Recognize that ours is a mixed economy, that the private sector provides employment for a substantial part of the Australian workforce and that an efficient and prosperous private sector is essential for the maximization of employment opportunities:
   (a) provide an economically healthy environment within which business and agriculture can plan on a reasonably long term basis to receive reasonable returns, an investment in order, among other things, to promote new investment and encourage innovation and research; and
   (b) protect and develop Australian industries ensuring the optimum use of the nation’s resources by the use of tariffs, import controls and other economic instruments. In the course of determining policy for the protection and development of industries the Australian Government will make full use of the Planning Department.

13. Establish clear guidelines for overseas investors, for the benefit of both these investors and of the Australian community. Overseas investment in Australia should be encouraged only where it introduces new technology and expertise, includes plans for Australian participation in the enterprise, and otherwise shows itself to be in Australia's interest.

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

Mineral Resources
Labor will achieve and maintain full ownership and control of coal, oil, natural gas, uranium and all other fuels and energy resources. To encourage the treatment and fabrication of mineral resources in Australia.
Labor will only allow the export of minerals.
(a) ... at reasonable world market price ...
(b) where they are reasonable beyond Australia’s prevailing treatment and fabrication capacity ...

Fuel and Energy
1. Labor will establish a National Fuel Energy Commission to devise and implement an integrated and coordinated national fuel and energy policy. The Commission will prepare an annual Energy Budget ...

What were the practical results of this policy manifesto? The Department of Economic Planning, which announced the program in June 1975, saw the light of day. An incomes policy was vigorously pursued, wages growth was relatively modest, the labor market showed signs of increasing slack. Efforts to stimulate the profits of private industry were continued, with increasing vigor until the government lost office. Overseas investment was increasingly sought. The policy with respect to minerals provided the disastrous Loans Affair. Before describing the new developments, however, it is necessary to pose the central question:
What was wrong with the economy?

In his address to the 1976 ANZAAS Conference, "What went wrong," a former senior Government adviser, Professor F.R. Grasby attempted to answer the same question. He provides the following series of answers:

1. The first, political economy, meant that Labor inherited both inflationary pressures and an economy with rapid cyclical movements contrary to post-war experience. Second, U.S. mismanagement had no excess international liquidity with inflationary implications. Third, Labor overstimulated the economy in 1973. Fourth, the wages explosion in 1974 overheated inflation. Fifth, the 1974 collapse revealed the economy's overproduction and was correspondingly severe. Sixth, Labor contributed to the resulting profit squeeze as did the uncertainty engendered by inflation. Nominating scapegoats by lists: "the Americans for taking too long over losing in Vietnam"; the McMahon government; the Labor government for losing its nerve from August 1974 to June 1975; academic economists for insisting on full employment; and Treasury for losing some chance to influence events. He concludes by saying that he doesn't if we gain much from looking for scapegoats and quotes: "Eustace Mirk.

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

This is indeed the point of view of this essay. While the government analysis remained at the level of the deficiencies (or otherwise) of public policy-makers, it lost sight of the objective forces creating the difficulties.

Whether these should be affected at all by the beginning of 1975 in such a manner as to retain public support must be open to question.

During the 1973 boom, most sectors of the economy had experienced very high rates of activity, despite 1.5 per cent unemployment. Despite agricultural and mineral exporters faced a sellers market with rising prices. Manufacturing industry was running at a high level of capacity and building stock levels. Construction industry was meeting the high demand of those sectors while housing was trying to keep pace with high demand. In 1974, all these conditions collapsed for inter-related reasons.

The world commodity boom came to an end and not only export receipts but investment in primary industry stalled, a process no doubt encouraged by Labor's cutting back the extensive subsidy system. Once manufacturing industry had established a high stock level, production levels slowed and investment dropped. Again this was intensified by the deliberate policy of reducing production, and only snowballed as consumers saved more in fear of unemployment. Further, as the Committee of Experts into Manufacturing Industry reported in 1975, the profit and leverage rate in that sector had been declining since the 1960s. Construction industry, particularly in Sydney and Melbourne, found it had only capacity of view of declining demand for office space, etc., and could not readily diversify into other areas. Housing construction faced both a credit squeeze and reduced population growth. This was exacerbated as declining production was translated into declining demand. This type of scenario, which will be developed later, suggests that in a capitalist economy, a general tendency to expansion will be self-reinforcing, as will a tendency to decline. With all sectors moving downwards together, exports, investment, consumption, a large stimulus would be required to reverse the trend. The stimulation of aggregate demand provided under Cairns may have in part served this purpose and slowed the decrease. But productive investment on a broad front was not forthcoming in the private sector. The government's efforts to stimulate it via public investment was a proper supplement: the administration of the policy proved less successful.

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

This basic formulation of economic management was susceptible to manipulation. Where the Left Centre or Right Centre packages. The former would emphasise consumption and public welfare spending to stimulate activity; the latter, profits and business investment. But in principle it was assumed that any point of stabilisation would produce the desired result. Put crudely, a government could determine the difference between the actual and potential national income level, divide by the multiplicity (which determines the longer term effect of putting one dollar into circulation) and in a deficit budget of that level to call the unused capacity into operation. While unused capacity existed, such a policy was thought to be neutral with respect to inflation. Increased demand would call forth production, as a level of full employment, by a restrictive credit and monetary policy. wages policy thrashed out with the unions, in terms of the social contract production could be attained by the implementation of the finance capital, resources and energy, and economic planning provisions included in the
Territorial platform. This was the programme with which Labor entered
1975.

The situation with which this strategy had to deal was unprecedented.
During 1974 fundamental changes had taken place in Australia’s econ-
omics. Profits as a percentage of G.N.P. had declined from nearly 15
per cent to 9 per cent. The growth rate of the non-farm sector had dropped
by minus 3 per cent. Unemployment hit 4 per cent in January 1975. The
growth rate of the money supply was negative until July 1974, then
reached near 30 per cent on an annual basis by October. Despite a restraint
deficit budgetary policy, which the growth of the money supply reflected,
the economy was still deteriorating. And by January it was estimated
that a budget deficit of $1,500 million was likely—six times the previous
high of 1972-3 ($215.5m.), with which Mr. McMahon had to win the
December 1972 election.81 The government continued to refrain but
within months this strategy was to encounter resistance.

In January, Cabinet determined to lift the ceiling on the growth rate
of the Public Service, thus re-energising the fastest-growing employment
sector under Labor.82 Those ‘fat cats’ Mr. Cameron had castigated were to
increase in number. On 28 January, 1975, on Dr. Cairns’ recommen-
dations, it acted to build out the motor vehicle industry. British Leyland
had already collapsed and the American big three—G.M. H., Chrysler and
Ford, had announced that sackings of up to 10,000 workers were imminent
as a result of declining sales and increased import competition. It was
thought that the overall unemployment impact would have been double
this figure. To forestall this, sales tax was greatly reduced, import quotas
were established and the budget decision to tax the use of company cars
was revoked.83 The government was forced to protect the very multina-
national it had previously criticised. Similarly, the restrictions on foreign
capital inflow eased.84 On 29 January, the government abandoned the
plans for a capital gains tax.85 At the Turrigial conference, the govern-
ment’s established direction was endorsed and no new initiatives came
from the Labor movement. The new economic platform with its emph-
phasis on the private sector and protection is more of a reflection of the
direction already adopted by the government rather than a blueprint for
the future.86 The trade practices policy was effectively reversed by ex-
tending the legality of exclusive dealing and agreements on the restric-
tion of trade.87 On 14 February, an extra $240m. was granted to the State
following a Premiers conference in an effort to hold unemployment and
cut jobs.88 Two days earlier it was announced that financial institu-
tions would be encouraged to lend more freely to land developers to
boost the housing industry.89 On 18 February, Dr. Cairns announced
that the private sector had received $1,850 million in the previous
months to help investment. In early March greater protection for the
textile industry was agreed to by Cabinet.89 Two particular corpora-
tions—Electrolytic Zinc and Australian Pulp and Paper Mills were en-
gined an outright grant of $650,000 to maintain production.90 By April
it was estimated that the budget deficit for the previous nine months had
been $3,391 m.91 This wave of pump-priming did not restore the popularity of
the government as reflected at both the Queensland state election and in
public opinion polls.92 Nor did it produce an upturn in the economy.

As Dr. Cairns lamented in February:

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

He added that the powers of the federal government were peripheral—
to imagine that the Government in Canberra has extensive powers, that
is has the machinery to use them effectively is a mistake. It’s not so.93
Lacking that power and machinery, the government was forced to attempt
as it did during the 1975 surplus, to subsidise and subsidise and subsidise.
A Liberal government’s policy depended on its success. Dr. Cairns led the
pump-priming. Mr. Whitlam did the talking-up. In a number of addresses to business groups, the Prime
Minister stressed the A.L.P.’s commitment to a mixed economy and the
role of profits. ‘During the period of the Labor Government there has
been no initiative to nationalise industry. There will not be’. He pointed
out that the Government was ‘seeking to attack inflation by reducing the
pressure for wage increases’ and sought ‘to enhance profitability’. He
concluded:

The democratic system is everywhere under challenge and great stress.
Its no coincidence that the capitalist system is equally and everywhere
under challenge and great stress... you might ponder how long capitalism
can survive if popular democracy does not survive. I venture to suggest
that the values you uphold will not go unchallenged if those who seek
to change through the parliamentary system lose faith in the capacity of
that system to provide peaceful change.94

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

The March issue of Labor’75 contained a long letter from members of
the Victorian Socialist Left criticising the Turrigial programme on two
basic counts. First, that it committed the party to the preservation
of private capital. Secondly, that, in calling for a wages-price policy it
effectively accepted that inflation was caused by workers’ wage increases.
It was reprinted in the Communist weekly, Tribune.95 The letter was
written in its prepositions, but the opportunity for an alternative direction
had been lost six months before during the budget struggle; and it had

been
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Scorn lost then because the platform of 1972 had been formulated for different circumstances. And thirty years of boom had made those circumstances appear permanent. It was that historical fact which decried the absence of an alternative programme, led the government to put reliance on manipulation of aggregate demand, persuaded social democrats to abandon the objective of social ownership of production, and had permitted the personal dominance of E.G. Whitlam, pragmatism, eclecticism and welfare. To blame him alone, as was later done, for the December 1975 coup was abstruse. The events of late 1975 were already pencilled into the diary. The private sector could not be talked up, subsidised up or touched up, as Dr Cairns' successors were to discover. The long boom was over. The crisis came home.

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

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

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

Most commentators did not think this system would last long since strong unions would break through and destroy it. At least two conditions were required for its success: a continuing high rate of unemployment and a brake on union militancy and a government determined to provide

with every support. Both proved to be forthcoming. The indication of wages effectively meant a wage freeze and in the longer term a reduction in the real wage level. In May the A.M.W.U. claimed for up to $20 a week increases above indexation was being heard. Not only was this the traditional wage leader case, but an increase had been granted in September 1974. In the Cabinet sitting of 12 May, the Labour Minister Clyde Cameron proposed that the Government support the claim. He was opposed most vociferously by the Minister for Industry, Senator J. McClelland, and 80 by Dr Cairns. It was decided that the government take a neutral stance. The claim was deferred by the Commission. On 9 June 1975, Mr Cameron was replaced by Senator J. McClelland as Labour Minister. For the remainder of the year the government was energetic in its support of the wage freeze.

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

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

The major alternative school of economic thought to the Keynesians in the post-war period had been provided not by Marxism but by monetarism. The original proponent of the school was the eighteenth century economist David Hume. The centre plank of the doctrine is the Quantity Theory of Money. It argues that if the supply of money increases faster than the supply of goods and services, and the velocity of circulation of money does not change, then prices will rise. A central element in its form of economic analysis is that the rate of growth of the money supply which is controlled by central governments, in Australia via the Reserve
Bank. The chief source of excessive growth of the money supply is, in the view of this school, the ability and policies of governments to run deficit budgets. This was considerably exacerbated after 1960 by the American Government's policies of increasing the international money supply, by running a deficit international trading account by printing unsupported dollars. The consequence of Keynesian aggregate demand stimulation, and American maintenance of the Bretton Woods system, was inflation. The consequence of inflation was recession, as currency values were everywhere thrown into doubt. The remedy proposed by such theorists was a restructuring of the international monetary system to prevent the continued excessive expansion of international liquidity—particularly the supply of American dollars—and domestic fiscal restraint.

They called for an end to Keynesian economic management and a return to market forces based on a stable currency. Supplementary to the central proposition they were critical of the welfare state expansion, arguing that the paternalistic provision of goods and services through an expanded state bureaucracy and legion of welfare officers, was not only inflationary, but ineffective. Where necessary it should be replaced by cash transfers enabling the contraction of the public sector and the use of market forces to allocate resources.

In the academic world, monetarism is closely associated with the Chicago School of which Milton Friedman is the best known member. Politically it is propelled by the Right of the political spectrum, including in Britain, Sir Keith Joseph's Centre for Policy Studies, and in New Zealand, the Chilean government, which following the 1973 military coup was closely advised by the Chicago School.121 and in Australia, the Workers Party. Its philosophical proponent's are Ayn Rand, the apostle of unbridled capitalism. Within the context of the 1974-76 recession the threat was to oppose the stimulatory budget deficits which governments were then proposing. To that extent its policy advice was not markedly different to that of the Treasury line of 'the short sharp shock' which had been defeated in Australia in 1974. Where it differed, was that it did not directly blame the government. But its policies would produce the same increase in unemployment as the Phillips Curve devotees. Previously a weak read in Australian political life, monetarism was to emerge with some force in opposition to Cairns' Left Centre Keynesian package.

One of the first signs appeared in the influential business economic magazine Money. In its July 1974 issue, it warned of the difficulties facing Australia, and argued that the government faced an unpleasant choice between unemployment and high interest rates, which made capital accumulation difficult, and possible to produce improved capital stock 'only if the Labor government is prepared to sit out a sustained period of significant unemployment'. It added 'so real growth in the economy has to move or less cease for a bit, which means a fairly severe drop into unemployment by Australians'.

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

Such rapid expansion of 'money supply' by means of central Government deficit financing has an unhealthy ring to it at the best of times, but if it is to go on in combination with the current rate of wages growth it will add to having the trading banks undertake cost inflation in Australia, without really contributing anything to new capital formation. It is a situation about which the banks themselves should become increasingly uneasy.122

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

The response of the Liberal party opposition to the developing economic crisis was at first as confused as the Labor government's. In response to the short sharp shock mini-budget of July 1974, Mr Snedden proposed retaliatory tax cuts.123 In September he 'strongly rejected the use of unemployment as a method of curbing inflation—this aligning himself with the government and against the Treasury'.124 In reply to the budget he called for large tax cuts—which Dr Cairns later introduced and although he suggested restraints in government expenditure, he did not attach any urgency to them. Indeed he called education, pensions, the elimination of poverty, medical care, foreign aid and urban development vital, important national objectives.125 In the following months the Liberal spokesman on the economy, Philip Lynch, advanced various propositions designed to stimulate economic activity chiefly by cutting income and welfare programme growth.126 The Liberals favoured a Right Centre Keynesian stimulation package expanding consumption and investment at the expense of restraint on government expenditure.

On 10 February 1975, the Opposition parties issued a new policy statement which reflected their reassessment of the economic situation.127 Its most important proposals were: large tax concessions to capital; reduce wage rise and oppose indexation as inflationary; 'immediate policy actions to prevent an excessive and dangerous inflation of the money supply'; and immediate cuts in government spending. The level of the budget deficit. In Chapter five, 'Government Policy: Source of the Crisis', it attributed the economic crisis to 'government spending'... and the continued high rate of increase in the money supply.
associated with it. Commentators widely and correctly saw this document as pushing the Liberals into monetarism, which marked a swing to the Right in terms of economic management. The move was part of a larger strategy to rely on the trade unions’ new policy on trade unions announced by the then-spokesmen on industrial relations, Mr Fraser, proposed reintroducing trade union sanctions. Later in the month, he replaced Snedden as Liberal leader.

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

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

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

By 1975 the monetarist position was also receiving widespread support in the media. The most detailed exposition was contained in three articles by Dr Jutner in the Australian,[6] who warned that ‘the real danger exists in that the attack on inflation will result in higher, not lower, rates of price increases’ and that ‘it now probably requires a higher unemployment rate to reduce inflation by a given amount than say two years ago.’ The press shortly picked up the ‘considerable debate which might be broadened as the Keynesians versus the Friedmanites’, arguing that the budget deficit had been ‘principally financed by the primary deficit’ and that ‘inflation will not fall’ until the deficit is reduced. Milton Friedman visited Australia in a blaze of publicity urging a moderate supply. The Reserve Bank was also in the mood for cutting interest rates.

At first effect of this campaign on the government was limited. Certainly Cabinet established a committee to scrutinise expenditure: February. But as late as April, Mr Whitlam said that the budget deficit would only be reduced when unemployment reached reasonable levels and Mr. Gough Whitlam continued to refuse to deflate by cutting the money supply. But by late April there were clear signs that sections of Cabinet were becoming concerned at the inflationary implications of the growing deficit. The Minister for Social Security, Bill Hayden, had already circulated a Caucus with warnings to that effect, and by late April it was clear that many members agreed with his criticisms of Cairns’ management and called for restraint. By May it was clear that Cairns was going to restrain the increase in the deficit, and he told an interviewer: ‘I will be planning to get the domestic deficit down to the lowest possible figure in the coming budget.’

His policy had been determined in April. Mr Whitlam on 23 April had circulated to Ministers to submit their expenditure proposals to the Cabinet Reorganisation Review Committee (CERC) for reduction. The long process of framing which centred around CERC and continued until August had begun. On 3 June, Mr Cairns was removed from the Treasury portfolio. A month later he was out of Cabinet. He became the Treasurer who never brought down a budget.

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

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

Having failed to get a Caucus spell of Cabinet and an election, the Prime Minister reshuffled. One paper described it as ‘The Eclipse of the Left.’ The senior ministers became Hayden (Treasury), McClelland, Woolston (Social Security) and Morrison (Defence), all committed to reducing public expenditure and cutting wage levels. The rearrangement of other portfolios facilitated cuts in those departments by the CERC. Cameron and Cairns had provided the policies: others would carry them out. Why was the Left eclipsed? A number of reasons have been advanced for the political defeat of Dr Cairns, who for over a decade epitomised...
the Parliamentary Left on issues like participation in decision making and the Vietnam War. Certainly the rearrangements of his office staff served to isolate him from his base in the Caucus, which had elected him as Deputy Prime Minister only a year earlier.

There may also have been some truth in his own allegations that his department had 'set him up'. His consideration of the establishment of a Department of Economic Planning as an alternative to Treasury and his participation in the Loans Affair against its advice may have provided motives in this respect. In addition, he had led the Treasury's political defeat in 1974. The publicity accorded Ms. Moresi may also have been thought to have harmed his political strength. But few of these considerations applied to Clyde Cameron (replaced to Rex Connor). The fact was that they presented no clear pressing strategy which could keep the party in office by the election of the majority of their colleagues. Their pump-priming Keynesianism had alienated them; they went, as its failure became more apparent. By late May, Cameron and Cameron had agreed that the new course was necessary but would not implement it. When the production statistics for April and May appeared to indicate that a recovery in the trade cycle was occurring, the Government was only too ready to accept that inflation had now to be reduced by retrenchment in the public sector while the private sector expanded. The government was now committed to a policy of slow recovery from recession while using unemployment and indexation to cut wage rates and the CERC to prune government expenditure. There were two basic obstacles to this policy's success. First, it was a difficult time in which to win an election. In June, the Bass by-election in Tasmania again showed this, where the biggest swings against the defeated Labor candidate were in working-class polling areas hit by unemployment.

The June purge could only worsen that situation. Secondly, only an economic recovery could restore Labor's electoral fortunes and was not in sight even a year later. Since the Opposition controlled the Senate and could block supply bills, an election in late 1975 was already an odd-on favourite. The Loans Affair would provide the excuse for that election.


The strategy assumed by the new look cabinet was described as that of the 'new post-Keynesian economic orthodoxy'. It contained three major elements. First, the government sought to rein in the recent increase in public expenditure and the size of the budget deficit. The central feature of this plank was the Haydon budget. Second, the Minister of Labor, Senator J. McClelland, vigorously pursued wage restraint. This depended on the maintenance of the indexation guidelines. Third, the government sought to increase foreign capital inflows. Involved here was a significant change in Coombs's restrictions on foreign investment in the mining sector. The overall objective was to reduce inflation, shift resources from the public sector and wages to profits, and to stimulate investment.

The package was deflationary unless the private sector was lifting. It was

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

By May, it was the consensus in Cabinet that the budget deficit anticipated for 1975-6, of $5.5 billion, would have to be cut. There was only disagreement about the extent and direction of the cuts. Following Cameron's removal from Treasury it was thought that he and Cameron would seek a higher deficit (less deflation) than Haydon. In fact, on 2 July, Cairns was sacked from the Cabinet as the result of a further Loans Affair episode. This ensured large cut-backs to maintain a constant deficit level since, in the words of a former adviser to the new Treasurer, the 'private sector could be crowded out'. Against a background of business (particularly finance capital) calling for government restraint, the Cabinet set about pruning the estimates and selling its strategy to the electorate. Having made the strategic decision, measures of deflation began to flow. In June the Reserve Bank urged the trading banks to restrict new lending, and the state Premiers complained bitterly that they had received inadequate grants at the Canberra conference. In July, it was announced that a 3.5 per cent growth-rate ceiling had been placed on the public service, whereas in the three previous years its average growth had been 5.5 per cent per annum. On 1 August, heavy increases in charges for telephone, telegram and telex services were announced.

At the same time within Cabinet the estimates collected by the Cabinet Economic Review Committee, and the cuts to them which the CERC (officially) had recommended, came up for consideration. Little secrecy was attached to the process as each minister fought to maintain success to maintain his department's bid. None of them, except possibly defense, and culture, and education, were considered to be the most important. The formulation of the budget was successful. My Whirlam had handed the formulation of the budget to Haydon; and through him to CERC. Haydon had risen Phoenix-like from the ashes of its two-year 'hibernation' to be the 'major departmental influence'. The result of this pruning process was that the welfare expansion programme was scrapped and in many areas, including the unemployment relief scheme, R&D, cut back severely. Since the cutting reflected no social or economic plan, other than a desire to cut aggregate expenditure, the result was across-the-board cuts modified by inter-departmental political fighting. It was a characteristic of economic planning.

Business spokesmen were in accord with this process. It was the last movement that was most concerned with these developments. Complaints were made not only about the character of the pruning but the undemocratic nature of its implementation. Such docket was only
intensified by two reports issued shortly before the budget speech. The seasonally adjusted unemployment figure for July was revised to 8.0 August, and showed it to have risen to a new peak of 4.8 per cent, suggesting that the recovery heralded in May had been a false dawn. An OECD report issued the following week confirmed this prognosis. This threw into doubt the Government's public rationalisation that the private sector was recovering sufficiently for a cut-back in public expenditure to be made. 123 In the week before the budget speech, Mr Whitlam acknowledged the real core of the problem in his Chifley Memorial Lecture. The party's main programme, the expansion and equalisation of access to public welfare programmes depended on a steadily expanding capitalist economy such as had existed to 1971. That growth had stopped and, since the party had abandoned nationalisation, its programme would need to be cut back. 124 The restoration of primary capital accumulation had become the government's primary objective.

In this context, the strategy unfolded in Mr Hayden's budget speech of 29 August offered few surprises. 125 We expect that as the expansion of public sector activity is restrained the opportunity for private sector expansion will improve though full response to greater room for growth may take time to develop. 126 We are no longer operating in that simple depression world. Today, more inflation leads to more unemployment. The projected budget domestic deficit was held to the 1974 level (about $5 billion) in order to avoid increasing either inflation or unemployment. The bill was now in the court of labour and capital.

As the Financial Review put it, 'The election of 1969 marked the era of Guattalanism. We have now entered the era of Hasenbom. 127 Many commentators on the budget observed the similarities between its strategy and that emerging in the Opposition. 128 Industry welcomed the tax concessions but called for more. 129 The welfare cuts were clear going to hit the poorest sections of the community 130 while the tax changes were egalitarian. 131 And it was quickly remarked that the budget strategy had not been unlike the strategy of the Opposition, particularly Senator J. McClelland and Mr Whitlam, for dealing with inflation and unemployment. The government's population share was 38 per cent in the opinion poll 132 taken shortly before the Opposition decided to defer the 'responsible budget' in the Senate in October.

The second element in the strategy was to maintain the pay pause, which the indexation guidelines introduced by the Arbitration Commission in April represented. By June, the state public sector and the Trades Union Congress had become convinced that this represented the best means to achieve wage restraint. 133 The major obstacle was the union movement which in 1974 had achieved the most rapid pay increases ever, by the highest incidence of industrial militancy since the 1930s. The first serious threat to the April guidelines was presented by the A.H.W.U. following the rejection of its May pay claim. 134 By July, it had abandoned its national campaign to achieve this in favour of local collective bargaining. 135 The white collar unions' peak association, A.C.S.P.A., having in June rejected a 'wages freeze' and demanded changes in the indexation system, 136 in September supported indexation. 137 Other campaigns continued but the overwhelming majority remained within the guidelines. 138 As a result the Commission granted 3.5 per cent to cover the June quarter CPI rise in September. 139 In November, it granted no rise since the C.P.I. for the September quarter rose by only 0.6 per cent. 140 The wage pause was implemented.

The government was able to achieve this rapid introduction of a pay pause for two reasons. First, unemployment had risen considerably, reaching 5.3 per cent by October. 141 The Phillips Curve effect had been brought into operation and maintained by the budget. Secondly, the government, particularly Senator J. McClelland and Mr Whitlam, appealed publicly and privately to Labor's supporters to accept wage indexation. McClelland even threatened to resign if they did not, for the government, he claimed, would then fall anyway. They were assisted in these efforts by union leaders, the A.C.T.U. President, Mr Hawke, in particular. In fact, Mr Fraser was later to accuse Mr Hawke of failing to defend union interests, saying 'If we had been in power during these past twelve months with unemployment rising to 300,000, we would have heard a lot more from Mr Hawke. 142 The combination of the stick of the reserve army of labour—strengthened by the government's campaign against welfare 'bidders' which withdrew benefits from many 143 and the carrot of political unity forced—through the pay pause.

The third major plank was to re-open the flow of foreign investment which had been checked in 1973, partly to curb liquidity growth, partly to increase Australian ownership. By mid-1975 foreign borrowing and capital inflow were minor 144 and in August it had become clear that the government had adopted a much less restrictive policy towards foreign investors. 145 Also in August, the secretary of the Minerals and Energy Department and ex-secretary of R.G. Corrigan, Sir Lennox Hewitt, was moved to QANTAS. 146 In September, a new resources committee of Cabinet was established to reduce the powers of Conner's department and enable greater concentration on mineral and non-mineral resources. 147 On 24 September, these moves culminated in the removal of the broad objectives of 100 per cent Australian ownership of energy resources and maximum equity in minerals. Except limited. 148 On 14 October, following further rumours concerning the 'Lotus Affair', Conner resigned. 149 He was replaced by Schorr Wrench who quickly made clear his intention to adopt a more conciliatory attitude towards the state governments and the mining industry. 150 As one
commentator pointed out: "Coalition and Labor policy on the contentious issue of foreign investment in mining is now almost identical."

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

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

7. The Canberra Crisis

The political battles lines have already been drawn in historical interpretations of the 1973 change of government. For coalition supporters, a reconstituted government of economic weathers was removed by constitutional methods, and the acts of the coalition parties and Sir John Kerr were suitably endorsed at the federal election. For Mr Whitlam's supporters, a reconstituted government that was dealing well in coping with a world-wide economic situation beyond its control was unconstitutionally removed when its strategy was beginning to work. For Trotskyites, the Canberra coup was possible only because the right wing Labor officials (Hawke and Dunstan in particular) and Stalinists (C.P.A.) were unwilling to lead the mass movement for a general strike. For the C.P.A. (M-A.), the heightened contradictions between the super powers, the Soviet Union and U.S.A., and the weakening of the latter has forced it to consolidate its grip on its remaining sphere of influence. Supporting evidence for this case was to be found in Sir John Kerr's long association with the intelligence apparatus in Australia and America, the growth of Soviet interest in Australia, particularly in shipping and real estate, the increased contact between the A.L.P. and the Soviet Union, and finally the "security crisis" which the United States involving Mr Whitlam's revelations about the CIA in Australia during November 1975.

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

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

When the labor government came into office, the major sectors of the economy were all recovering from the 1973-2 recession that had been sparked in 1973. In 1973 agricultural and mining activity boomed. Then the condition was determined by the world market. Mr Connor's ability to renegotiate mining export prices reflected the world commodity boom. Manufacturing industry served almost exclusively the domestic market and Labor was taught to structure it by intensifying competition, both internal and external. House-building and construction production was lifting partly as a reaction of the economy, upswing partly because of the desire of people and corporations to get out of inflating currencies and into real assets. This was a world-wide phenomenon. The public sector was fuelled by the 1973 budget and the retail and service industries reflected these broader conditions. During its last six months the Labor government was trying to grapple with the effects of the world recession. In farming this began to be felt severely in late 1975 when forward orders were exhausted and the real value of farm products had dropped by a national average of 4 per cent since 1973. This was particularly worrying by the rationalist withdrawal of various subsidies, particularly on petrol and superphosphates. A similar drop in mineral exports was experienced, and by 1976, it was the Japanese who were seeking price renegotiation. In the circumstances, it was little the government could do about either process in the short term. Both recessions would be passed on via reductions in demand.
and with bankruptcies would lead to further concentration of ownership. The housing industry was hit by two factors. The reduction in migrant intake cut demand. This was certainly intended, as part of the process of capital-deepening rather than capital-widening. In addition, it was hit by the credit squeeze of 1973-4 combined with inflation. The effect was to lift interest rates to a level where fewer people were able to make the necessary repayments: a repayment gap, not a deposit gap was established. This also applied to landlords. Hugh Stretton suggests that this was already producing a reduction in Australia's home ownership rate. Some check in this decline was reversed in the August 1975 budget.

Sydney estimated that the housing industry slumped 20 per cent in 1974, and would only lift 5 per cent in 1975. 6.61 Similarly, the non-housing construction industry which had boomed for a decade and changed the face of inner city areas, collapsed in mid-1974. The expansion of public activity during the Cairns period alleviated this problem to some degree. 6.62 Again a cut-back in public spending would worsen the situation that had resulted from an overproduction of office space and the generalised recession. 6.63

The key sector was thus the manufacturing industry employing 3.3 million people. In July 1974 the government commissioned an inquiry into it which reported in October 1975. 6.64 (the Jackson Report). Its major findings were:

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

It listed the causes of that malaise: a satiated domestic market; an inefficient win export market; and stagnation of fixed investment for ten years. Other surveys confirmed that the sector had been suffering a falling rate of profit since the 1960s. 6.65 As a result, investment had been stagnant, contributing to the 1971-2 recession. The 1973-4 experienced boom had disguised this tendency as restocking and market rises ensued. In mid-1974 the downturn was evident. Labor's efforts to restructure manufacturing had been ineffective in the boom; in the slump they would have worked they were electorally unacceptable. 6.66 The 1972 'Capital Strike' was a reflection of the longer term decline in profit rates. 6.67 By transmission through reduced gross employment the decline in investment produced classic results: bankruptcies of smaller firms; reduction in retail sales as workers faced a higher share of their income in fear of unemployment; and the existence of surplus capacity with low profits.

The problem then stemmed from two sources. First, a manufacturing sector of 30,000 firms, heavily concentrated and foreign owned, employed 1.3 million people or a quarter of the work force, which had ceased accumulating capital because of a declining profit rate. The government had not re-organised it by driving out unprofitable sectors but had instead tried to produce investment by using price policies: this failed because surplus capacity already existed and higher prices were pocketed in monopolistic sectors. 6.68 In late 1975, it moved to curb price rises by cutting wages growth and government expenditure: this would maintain recession by reducing demand and effective subsidies to industry.

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

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

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

The economic rationalists moved in other directions. It is perhaps an accident that the Cabinet coup which installed them preceded by a year the moving of Tony Benn to Britain from the Industry to the Energy portfolio. In fact, the rationalist strategy chose merely to hold the line on domestic activity in the hope that the government might have a year longer in office for an international recovery to lift it. Three days before the defeat of December, the Financial Review rightly punctuated "the hope...maybe it's not just another recession." The Labor government was elected and then re-elected on a redistributionist programme. In 1974-5, production emerged as the central problem. Since it was not a typical post-war cyclical slump, shallow and temporary, the stimulation of aggregate demand proved insufficient to produce recovery, and no plans existed for the planned expansion of production. Without growth, the Labor government's proposed "governments" would be defeated at the polls. In late 1975, it had taken the option of controlling inflation and leaving the private sector alone in the world market to produce growth. To blame the electoral defeat which followed on individuals would be incorrect. Its avoidance would have required extensive and detailed plans for the public control of production: these do not materialise overnight. Wide sections of Australian society attributed the economic decline to Labor mismanagement and voted rationalistically for the coalition parties who had presided over twenty-three years of prosperity. Alternatively, to blame the Labor Party's mismanagement is to imply a form of political nationalism, the co-option by the Australian people of Leninist parties and the dictatorship of the Proletariat, a rejection which has not been modified by the events of the last five years. The sense within a democratic framework of clearly achieve and retain majority support, providing it material output and living standards. If the coalition government is unable to achieve these objectives the question will again be raised. For socialists, however, the question in the Australian context is neither "Revolution or Reaction?" not "Leninism or Reformism" but "Moderation or electoral defeat?" It is rather the formulation of a programme that will both ensure living standards and the economic output on which welfare provisions depend. This must centre around the expansion of democratic public ownership of the means of production in the face of the opposition of its present domestic and foreign owners. Anything more has been regularly rejected by the mainstream of Australian opinion, working class people included. Anything less will preclude democratic socialism from central economic management. The lesson of 1973-5 was not that Labor cannot run a capitalist society; nor that it moved too fast; nor that revolution is the logical alternative. It was that welfare depends on production, which follows its own laws while left almost exclusively in private hands. The coalition government is rapidly teaching that lesson. It is for socialists to produce an alternative. Its absence will ensure that, at critical moments, an electorally oriented social democratic party will follow the firm and concrete lines provided to it by a combination of capitulation, the public service and the press. That is one function of the capitalist state. Either democratic socialists conquer the state or it conquers them. In that sense, 1974-5 was a re-run of 1934-5.

6. The Coalition Government

During the election campaign of 1975, the coalition parties were more anxious to attack the record of the Labor Government than to present their own policies in any detail. Since the Labor Party wanted to fight the election on the constitutional question, the coalition parties' policies remained somewhat unclear. But enough had been revealed during 1975 to indicate what general direction they would take. On a number of occasions Mr Fraser had set out his general philosophy. In his Sir Robert Menzies lecture he promised: I have no intention of leading a government which is only going to socialise Australia at a slower pace than Labor. In his 1975 address to the National Press Club, he pledged control over wages and reinforced equality in the workplace, in the economy and in education. During the by-election campaign, Mr Fraser had promised that a Liberal government would put the heart back into free enterprise, institute tax reforms to restore individual incentives, ensure adequate protection for industry, reduce government spending and abolish the P.J.T. In general, these statements amounted to a commitment to reverse the direction of the increased governments intervention in Australian economic and social life that had occurred over the post-war period. As one commentator put it, Mr Fraser's commitment...refutes the fundamental assertion of Labor under Whitlam—that...
government was installed on 11 November 1975. 

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

The Labor Party's criticisms of this programme centred on three issues. First, it warned that cuts in public expenditure of the order suggested by the coalition's programme would raise the unemployment level and deepen the recession. By depending on an investment-led recovery it would rain the delicately poised 'middle way', slow recovery with falling inflation supposedly established by the Haydon budget. Secondly, it argued that the first six months of 1976 would be devoted to planning the maximum cuts in education, health, welfare and urban policies. In these two respects, Labor was making what proved to be accurate predictions based on the government's own statements. Thirdly, Labor spokesmen argued that any of these policies would be to provoke a confrontation with the union movement which would resort to industrial action against these policies. A Labor government, however, could maintain 'delicate social consensus'. Indeed it did appear that the more stringent controls on union activity formulated by Mr Fraser earlier in 1975 were expected to be useful with precisely that contingency. In fact, as the campaign progressed it became clear that the Liberal Party had the courage as well as the wish to win. Mr Fraser welcomed the recommendations of the Jackson Committee: he expressed his determination to get on well with trade unions and to revive the National Labor Advisory Council, a consultative body of unions, employers and federal government. He promised that 'employers will be encouraged to establish wage cutting mechanisms to further the understanding of the common interests of employers and employees'; to retain unemployment relief and retraining programmes; and to deal with unemployment in secret ballots.

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

During its first two months in office the shape of the new government's strategy became clear. The Government's initial speech opening Parliament in February promised a shift in resources from the public to the private sector and a government policy that fisted as its chief aim was to control inflation.26.Mr Fraser and Mr Lynch, together with the most influential advisers, were ideologically committed to small government, laissez-faire economics, and the doctrines of monetarism.27.Mr Fraser announced a package of savings in government expenditure which, together with the public service savings already made, would result in a federal budget surplus by 1979-80.28.Mr Lynch, Federal Cabinet Secretary, was appointed to submit to the Arbitration Commission that the indexed wage rise for the first two quarters of 1976 be only half the 6.4 per cent rise in the CPI.29.As it turned out, the federal government's submission was supported by no-one, not even the Liberal state Premiers,30.and on 13 February the national pay rise of 6.4 per cent was passed on by the Arbitration Commission. The significance of these moves was not in what they achieved—very little, and the Hayden/Mclelland strategy remained in operation—but what they foreshadowed later in the year: more drastic cuts in welfare and public programmes and a more determined attack on the real wage level.31.

It was also becoming clear that despite the massive endorsement it had received at the polls in December, the government was likely to face widespread and growing opposition to a thoroughly deflationary policy. Although surveys of business opinion tended to indicate that the capital was optimistic that a recovery would occur,32. this was not borne out by the actual levels of activity.33.Already by February, it was apparent that sectors of industry could be severely hurt by a cut-back in government expenditure and, however satisfied they might be by the government's efforts to cut wages, they were likely to oppose cuts to those government programmes which ensured their profitability.34. The first sector to voice these complaints was the heavy-construction industry which, having been severely affected by the recession,35. was the year progressed, sectors of the manufacturing industry began to complain that the strategy was squeezing their markets. The non-Labor state governments also voiced complaints about the severity of the squeeze, partly no doubt because they faced the polls earlier than Canberra, and professional economists launched a round of criticisms.36. The government's chief worry, however, emerged as the trade union movement.

The Labor government had achieved wage restraint, partly as a result of unemployment, partly due to its political leverage within the trade union movement. The coalition government would require a different strategy. This was already emerging by February, and included the following elements: moderate or right-wing unions would be encouraged to co-operate with the government and some would be placed in advisory positions;37. this cooperation would be gained by concessions from the government.38. In February, negotiations produced an economic package, and its negotiation was seen as a test of the government's moderation.39. These were the tests. But, since the overall strategy of unemployment was negotiable, it seemed likely they would prove insurmountable.

In March and April an apparent fall in federal government activity led politicians off the front page. This was deceptive. On 4 March,40. the Treasurer announced a package of measures to address the recession.41. The package was not large, but it was seen as a sign that the government had moved to take direct action against the depression.42. The changes in government expenditure and in real wages were expected to result in a substantial cut in government expenditure and in real wages.43. As a result, the government's announcement was seen as a sign that the government had moved to take direct action against the depression.44. The changes in government expenditure and in real wages were expected to result in a substantial cut in government expenditure and in real wages.45. As a result, the government's announcement was seen as a sign that the government had moved to take direct action against the depression.46. The changes in government expenditure and in real wages were expected to result in a substantial cut in government expenditure and in real wages.47. As a result, the government's announcement was seen as a sign that the government had moved to take direct action against the depression.48. The changes in government expenditure and in real wages were expected to result in a substantial cut in government expenditure and in real wages.49. As a result, the government's announcement was seen as a sign that the government had moved to take direct action against the depression.50.
In other areas minor refinements continued to be made to the deflationary strategy. Criteria for unemployment benefits were further tightened by applying them more thoroughly to skilled and professional workers. It became even clearer that the "new federalism" policy would shift greater local responsibilities to the states who, lacking central bank capabilities, would be unable to produce expansionary strategies. Following the refusal of the badly prepared submission against full-wage indexation in February, the government undertook a careful examination of the means to reduce the real wage level. Treasury officials argued that indexation could be fully abandoned and that the Phillips curve effect would provide sufficient restraint. Other modifications were also envisaged. In the event, the strategy suggested by the Senior Vice-President of the A.L.P., Jack Egerton, following dinner at the Lodge with Mr. Fraser, was adopted: plateau indexation. The deflation was blinding; the government was becoming increasingly unhappy that the investment allowance was likely to be its major concession.

In two other important areas there were extensive debates within government circles. On 30 March, the Minister for Industry, Senator Cotton, made a lengthy statement on the automobile industry in which he adopted Labor's local content plans. It was widely canvassed that the government might also pursue the Labor government's rationalisation policy by planning one four-cylinder engine plant looted in Adelaide for the entire market. These intentions were clearly opposed by the existing major producers, Ford and G.M.H., and would be resisted. The second area was the minerals sector where the collapse of the world bonanza had led to Labor's modifying Connors' policies. Under the new minister, Mr. Anthony, the policy was bipartisan: 50 per cent local equity except in uranium which was 75 per cent. This came in for heavy criticism both from the foreign-dominated mining industry and the Queensland and West Australian branches of the coalition parties, who argued that the guidelines were too restrictive. The coalition government had not yet produced a polarisation of the forces of labor and capital. Indeed in certain respects its policies were seen as vociferously opposed by sections of business as seeking to "save" labor. And vociferously opposed by sections of business as seeking to cut the public sector. Its deflationary strategy took further shape in May and June and it was carefully formulated to maintain and utilise these divisions with tactical flexibility. Inflation was to be contracted; the "social wage" was to be cut; the inflation would be rapidly reduced. The real value of the wage bill was to be reduced. The government policies for two years, insisted that if this policy was not successfully accomplished during 1976, Australia could face the same decline of the productive base in Britain. "Tough internal action" was required and the government's shadow boxing to date didn't look convincing. It was "unless it means to king hit—which we doubt..."
opportunities for domestic capital would be maximised during the deflationary drive. Further concessions in the form of company tax  
indexation and a easing of the trade practices legislation against monopo-

\[\text{The social and economic implications of capital... would be...}\]

\[\text{The third step in what was evidently a run up to a tough budget was...}\]

\[\text{The way in which the various elements of the Budget slot into...}\]

\[\text{The third major objective was a redistribution of the national income...}\]

\[\text{the growth rate of the money supply, a policy launched with the Australian ...}\]

\[\text{The second was complementary and involved a reduction in the budget deficit by one billion dollars. The third...}\]

\[\text{The second priority was a reduction in what Mr Lynch termed the...}\]

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\[\text{The third major objective was a redistribution of the national income...}\]
school. The 1976 cuts in Federal expenditure—continued in the budget—had already been referred to. In addition the New Federal would reduce revenues available to state governments. The budget provided for a reduction in real terms of special grants to the states, while in the month preceding the budget Mr. Fraser had expanded the reformation of state government programmes and had warned them to match their budgets with that of the federal government.107

The fifth objective was the only one to offer serious hope for short-term economic recovery. Since the major elements of domestic activity—consumption, production, investment, public expenditure were unlikely to lift substantially as a result of the government's strategy in the coming financial year, it was hoped that the economy would receive some assistance from the world recovery. The principal hope here was the minerals industry. The Labor government had adopted less restrictive policies on foreign investment in late 1975. In early 1976 these were the guidelines adopted under Mr. Hughes, although he encountered serious criticism from his political allies in state Politics in West Australia and Queensland, for being too restrictive. The weekend before the budget, Mr. Lynch announced a new foreign investment mission would tour overseas, and that the government would be more "flexible" in the administration of its guidelines.108 The success of this element in the strategy depended on two conditions being fulfilled: world recovery needed to continue; and Australia would need to receive a massive injection of foreign capital. Even if these conditions were fulfilled, and this was unlikely, the capital-intensive nature of the minerals sector seemed to ensure that the employment generated would hardly dent the unemployment pool. In line with this policy, the budget allowed for substantial reductions in the taxation level on the minerals sector.109

It was within that strategy context that the budget was located. Mr. Lynch attacked Keynesian economic philosophy and tailored the budget to a restricted growth of the money supply. By cutting the deficit by $2 billion he hoped to achieve a single digit inflation rate by mid-1977. The overall balance is set in round figures in the accompanying table.

<table>
<thead>
<tr>
<th>The 1975 Budget</th>
<th>1976-7 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-6 Cash Blow</td>
<td>1976-7 Cash Blow</td>
</tr>
<tr>
<td>Outlays</td>
<td>Receipts</td>
</tr>
<tr>
<td>$2.8 billion</td>
<td>up 22.5%</td>
</tr>
<tr>
<td>$1.4 billion</td>
<td>up 19.7%</td>
</tr>
<tr>
<td>One-Way deficit</td>
<td>$3.6 billion</td>
</tr>
<tr>
<td>Domestic deficit</td>
<td>$2.9 billion</td>
</tr>
</tbody>
</table>

Allowing, as Mr. Lynch did, for an inflation rate of about 12.5 per cent for the year, three principal features emerge. Government outlays in real terms would be down by about 1 per cent. Revenue would be up in real terms by about 5.5 per cent. And the budget deficit would be reduced by 1 billion dollars. Take these terms separately. Expenditure had not been

studied, although the small real reduction was a reversal of the previous two years' experience and would have clearly deflationary consequences. The biggest cuts included Postal and Telecommunications (which would $200m). Aboriginal Affairs ($33 pending an inquiry). A.I.D.C. ($75m), Public Service ($22m), special grants to the states, housing and health. The biggest contribution to the anti-inflationary strategy, however, would come from increased revenue.

In real terms government receipts would rise by over 5.5 per cent. In a masterpiece of political propaganda, the government leaked to the press that indirect taxes would rise massively, the traditional basis for a "horror budget." In fact they lifted by a mere 1.5 per cent in real terms. The sight of relief could be heard in Antarctica. Company taxes also lifted slightly, by about 2 per cent, but the results of the revised stock valuation procedures were thought likely to check this trend in future years. Taxes on wages and salaries would rise by 23 per cent or 10.5 per cent in real terms. Here was the major contribution to a reduced budget deficit, a reduced growth in the money supply and, together with the National Wage Case, the redistribution of national income the government was seeking. Despite their being indexed, direct taxes on workers would rise over 10 per cent. In this rise the Medibank levy was the chief component, contributing about 50 per cent of the reduction in the deficit.110 This explains why the government risked, and got, the first national strike to implement it and why it was so carefully implemented but insisted on. Announced four months before implementation, confined by changes and minor concessions in government policy, sustained through a national strike which the government assessed as a failure, the 2 3/4 per cent Medibank levy was vital. It was designed to push most people back to the private sector for health insurance: to reduce the size of government; to increase revenue and reduce the deficit; and, while maintaining a growth in workers' taxes, not form part of the agreement whereby the States received a percentage of income tax revenues.

The budget provided, therefore, an important step in a three year programme of restructuring Australian society. Since that programme was basically deflationary and seemed unlikely to produce short term levels. Indeed Mr. Lynch made no serious effort to suggest when full employment might be reached. The full employment pledge of 1945, having been postponed in 1975, was finally abandoned in August 1976. The Long Boom was truly over. As Don Dunstan, South Australian Premier pointed out: "Australian workers were facing the gravest assault on their living standards since the late 1920s."111 That assault would be implemented piecemeal in the hope of avoiding a major confrontation with organised labour of the kind that the same policies, New Zealand under Mr. Muldoon. The level of unemployment would be determined by the political and economic requirements of the read-
9. The Socialist Alternative

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

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

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

Thirdly, Australia was experiencing what O'Conner calls a fiscal crisis of the state. 195 The rapid growth of state activity that the 1950s and 1960s witnessed, accelerated in the 1970s, financed partly by fiscal drag or the money illusion associated with inflation, and partly by record levels of deficit budgets. This rapid increase was the result of demands by both the working population for improved welfare provisions and private business for increased subsidies, contracts and, in some degree, planning. dovetailed with the corporation's own projections. Together with the international monetary breakdown which accompanied the abandoning of the Bretton Woods System this further fed up inflation. Redistributive programmes and corporate handouts were not matched by real revenue as the state lost control of its fiscal strategy and no sector of society would meet the cost. To that extent both Mr Hayden and Mr Fraser were dealing with a real problem of the capitalist state. Monopoly corporations raised prices to cover taxes; workers in the private sector used the strike weapon to maintain their own income level; the agencies of the state undertook cutbacks in their programme. Mr Hayden's budget and, more forcefully, Mr Fraser's, were designed to both raise taxes and in the end of the state undertook cutbacks in their programmes. Mr Hayden's budget and, more forcefully, Mr Fraser's, were designed to both raise taxes and in the end of the state undertook cutbacks in their sphere.

As was already apparent by mid-1976, this programme would be met by resistance not only from workers faced with declining real wages, but also from those sectors, particularly in the manufacturing and construction industry, of aggregate demand for their markets, or on public subsidies of one kind or another for their profits. The state governments were also unenthusiastic, since their expenditure would need to be increasingly financed and the multi-national corporations in particular, were more enthusiastic proponents of what Synge called the 'King Hit'.

During 1976 the reaction to the increasingly deflationary programmes was socialist alternative. Despite its thorough drubbing in the December election, sections of the Parliamentary Labor Party became appalled in 1978. One former minister argued that Mr Fraser would no longer be party leader by 1978. Hence Labor could stand on its 1975 record to return to office; no fundamental reconsideration of policies was required. In fact the resistance to the deflationary programme was severely muted as the coalition government's periodic minor concessions were not successfully undertaken by the organised labour movement. Within a short period of time, the union movement continued to discuss all anti-establishment political programmes. Votes for the strategy were folded by the party as both alternative leadership and programme remained absent. The creation of both had assumed a critical position for Australian socialism. The socialist position developed in the tradition of Leninist revo-
lutionary parties possesses a logical consistency that in large measure accounts for its intellectual survival. The capitalist system of production involves certain laws of development to which any government seeking to administer it must adhere. Profits are sacrosanct; the distribution of income and wealth are relatively immune to efforts to change it; serious government intervention against capital's prerequisites invites stagnation or political retaliation; and the agencies of the state exist primarily to protect the social institutions of market forces, private capital and the increasing concentration of economic power. Parliamentary socialism is both a contradiction and an illusion. Hence a socialist strategy must involve the destruction of the capitalist state and its replacement. This logical success is not matched, however, by the position of political theories in advanced capitalist or liberal-democratic societies. Indeed those communist parties which have achieved greatest popular support have done so by abandoning the heritage. This is, in large measure, the result of Leninists' refusal to 'advise the state on how to administer capitalism.'

Or to put the same proposition differently, they decline to offer concrete proposals for immediate improvements to the living conditions of ordinary people in the view that that amounts to reformism. Yet that is precisely the task to be undertaken if the capitalist solution to the present situation is not to run its course. Capital's deflationary programme will be painful and encounters opposition; the Leninist alternative is logically correct but politically unviable. Are there alternatives? The democratic socialist tradition incorporates the progressive development of greater equality, greater democracy, greater security in wide areas of social life and the expansion of democratic public planning of production. The last is a necessary prerequisite for the successful attainment of the others, but following the long capitalist boom 1945-71 its central importance had been forgotten. Aggregate demand management provides no adequate substitute for control of supply of production. In certain respects, 1975-6 did witness some revival of this proposition. The Jackson Report on manufacturing industry proposed the demoralisation of forward planning of the industry's future structure. Communist's objectives in the minerals/metal sector would have involved decreased dependence on world market forces. The Terrigal Conference resolutions concerning finance capital would have reduced its control over the direction and rhythm of production. The policy objectives of the Cairns social contract period offered the protection of living standards, had they been matched by intensified control over output. The expansion of public ownership into pharmaceuticals and automobile production would have provided passers for public planning. The Department of Economic Planning proposed at Terrigal could have provided a central regulating body which, linked to D.U.R.D.'s regional planning areas and Australian Assistance Plan funding, could have provided a countervailing force to corporate power. It is in this practical directions that the labor movement may be expected to reformulate its policy as the consequences of the coalition government's strategy became clearer.

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

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

NOTES
1 Capital in productive process, e.g. factories. In Marx's sense is a 'social relation'- bead to a value greater than the sum-outlaid in hiring the labour power for any rate called surplus value. the capitalists' profit.
2 A Marxist social historical theory is Karl Marx, one of whose basic concepts is the "labour theory of value". This is not rigorously applied in this course. A useful intro.
3 The countries of Western Europe, North America, Japan and Australasia. They Development (OEC).
4 The 'iron law of wages' is Feudalism. Marx thought the value of labour social and historical elements determined by the development of society. See Karl.
5 Frank Stowell, Sharing the Economic Cake. Inequality in Income and Wealth in summary of the data for Australia.
7 The Henderson enquiry into poverty has made clear this is true of Australia. See P. Courtaud, Poverty, Poverty in Australia (Australia Government, 1971), "The rural poor", Canberra (1975). Compare the study by Ben Keen, O. H. Widmer and T. J. Lynch.
8 Poverty in Australia, (Canberra: University of Melbourne Press, 1974); also "concessions in this. See also Thomas A. Azim: Accumulation on a World Scale (Monthly Review Press).
10 The 'costs' of literature are given in for considerable criticism at this time. It is impossible to provide a central regulating body which, linked to D.U.R.D.'s regional planning areas and Australian Assistance Plan funding, could have provided a countervailing force to corporate power. It is in this practical directions that the labor movement may be expected to reformulate its policy as the consequences of the coalition government's strategy became clear.
11 During the ascendency of Liao Piao and the Cultural Revolution in China, 1965/69, Beijing took a similar position.

12 This is true in varying ways of the French, Italian and Japanese Communist Parties.


15 Robin Keane, Radical and Working Class Politics in Australia (Melbourne University Press, 1979), chapter 6. This is the 1976 (dated ALP platform 'trade unionism', 'the celebration of an Australian socialism', with socialism, 'collective ownership of the means of production'.

16 Much of Capital, vol. II is devoted to this subject.


18 These include: the increasing intensity of exploitation of labour including using female labour as a family provides some surplus, depressing wages, using relative overproduction and unemployment and colonial cheap.

19 V. I. Lenin, Imperialism: The Highest Stage of Capitalism.

20 His magnum opus was J.M. Keynes, General Theory of Employment, Interest and Money (1939).


22 This is true only of those seek of threatened workers living in poverty but also of all sections of the workforce, particularly immigrant workers in Europe who together with women provided much of the expansion of the European labour force in the 1960s. See Stephen Crotty and Credic Koslay, Immigrants Workers and New Strata in Western Europe (Oxford University Press, 1972).

23 The establishment of special privileges for stagnating regions especially in France, northern British and southern Italy became a key issue in the EEC.


28 ibid, chapter 5.


30 As the Europeans later formulated, vol. 3, see D. Stevenson, The American Challenge. See also E. Mandel, Engels and Marxism (NLR, 1970) and A. Stachurski, Manifesto of Capitalism (Progress Publishers, Moscow, 1975).


39 See E. Mandel, Core Capitalism (New Left Books). Indeed one famous socialist analysis claimed that the major problem was the disposal of surplus profits. P. Stahel and F. Seidler, Monopoly Capital (Prentice-Hall, 1969).

40 Paul Lipton, The Third World in the World Economy. A. Emmanuel, Unemployment (Monthly Review Press, 1972). This was due to not the class disparity in income levels.


42 In this essay I have sought to deal with the character of the global conflict between socialism. The Chinese government and some comunists parties including the Comintern's functionally comparable but not in an inter-imperialist struggle following the resolution of capitalism in the Soviet Union.

43 See in 1975, one estimate was as high as $35.0 billion.


45 For Britain see A. Glyn & B. Stace, British Capitalism, Workers and the Product Space (Prentice, 1975) and R. McFarlane, Radical Research, inside, 1971, p. 235.


50 The bureaucratic socialist of industry, production, distribution and exchange - the fields - in accordance with the principles of action, methods and progressive reform.

51 See Bowler, op. cit, chapter 6.


53 See Hugh Strelton, Ideas for Australian Capital.


55 In sharp contrast with the EEC, 1977.


59 Australian, 15 August 1972.

60 Address to the N.S.W. Chamber of Manufacture, 30 August 1972.

61 There is some doubt as to whether this is the case.


64 The Federal Conference was a policy-making meeting in the state conference. The conference announced an agreement with the Labor Party and the Australian Council of Trade Unions to recommend to the Labor (Government) in the Labor and G.S. Reid, The Weakening, The Return of the, chapter 7.


68 In 1972 the Department of Employment, Mt. Street, described it as 'a middle class rip off.

69 See Cattley and McFarlane, op. cit.

70 National Times, 6 June 1917.


72 Commonwealth and Australian Politics, (CBA), 21 July 1974.


74 Australian, 29 July 1974.

75 Sydney Morning Herald, 6 August 1974.
National Times, 28 October 1974.

The Liberal/Country Parties Economic Policy and Ascos: National Economic Programme 1975. It was drafted with the assistance of such eminent economists as Professor Polygon of Sidney University — National Times, 10 March 1975.


Advisory, 10 March 1975, AFR, 7 March 1975.

Australian, 4 March 1975. He was later reported to have disposed quickly Mr. Paul Cunliffe, Secretary of the Tough Union Stand — AFR, 16 February 1975.


Delivered January 1975.


Ibid.

National Times, 24 March 1975.


Australian, 3-4 and 6 February 1975.


'Budg Terrace'. How to be the Tutor for the government to cut back', — Australian, 24 February 1975.

Ibid. See also P.P. McGinness, 'Deficit: The Next Take-off Point', — AFR, 22 April 1975.


Australian, 10 April 1975.

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Peter-Terry, 'Jobs first then deficit cuts — PM', Australian, 17 April 1975.

Carr's against sudden declines of jumps in the money supply — AFR, 22 April 1975. 'Carr's Won't Ease Up', — AFR, 16 April; 'We won't Cut Spending': Carr's, — Australian, 21 April 1975.

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Kilms, 'Using a Big Axe to do a little pruning', — Australian, 9 June 1975.

Target: cut inflation, but methods must not hurt people — AFR, 6 June 1975.


See Paul Kelly, The Unmaking of Gough.


Mr. Brian Moore was appointed to Dr. Carr's staff and became the centre of newspaper reporting with unfriendly boundaries. See June Morrison, 'Sev's Prepared and Policies'.


Ibid. See also the case in mid-1975.

152. AFR, 8 June 1975.


151. Carr's sacked, — Australian, 3 July 1975.

P.P. McGinness, AFR, 8 July 1975.

Carr's sacked, — Australian, 3 July 1975.

E.G. 'ANZ Aids for Tough Budget and monetary policies', — AFR, 5 August 1975;


Reserve Bank Tips the Reins', — AFR, 12 June 1975.

Australian, 20 June 1975.

Australian, 23 July 1975.

Australian, 3 August 1975.

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Fights to halt education cuts, and Budget blow for Transport, Roads, Australian, 25 July; "Give me aid to play my role", Australian, 26 July; "Good decisive on big issues in indirect taxes", Australian, 29 July; "Funds for Union Training needed", Australian, 3 August.

166 Whitlam Hands Over the Rorts, AFR, 8 May; "Treasury Win", National Times, 18 August 1975.

167 e.g., George Polste, (Employers' spokesman): It's time to call a halt to this silly kind of nonsense, Australian, 8 August.

168 See Australian, 31 July; "Union wage conference", Australian, 4 July; "Whitlam backs union call", Australian, 31 July.

169 "Jobbers worst since the Depression", Australian, 11 August.

170 "Jobbers' jobs will go worse", Australian, 14 August.

171 Recovery permits major spending ways - Whitlam, Australian, 16 July.


174 e.g., Andrew Clark, "Theollusion and its mythology is apparent in the current pantry policies", National Times, 15 September; Peter Kelly, "Labour's liberal tax scheme", Bulletin, 30 August 1975.

175 Let Down in Industry, Australian 20 August.

176 "Cutting out the Red Scare means more hard times become harder in Cuba", National Times, 13 September; "10,000 families to miss out on homes", Australian, 21 August.


178 Budget will cut costs says Hawke, Australian, 13 August.

179 "Jobbers' jobs go worse over past percent mark", Australian, 6 September.

180 AFR, 18 September 1975.

181 AFR, 10 October, 7.

182 John Edwards, "Hawke's Budget Message: Is there any room for a reform party", National Times, 16 August.

183 Adventist, 4 October 1975.

184 States agree to support wage indexation scheme; Metal trade employers also switch to indexation, National Times, 30 December 1975.

185 See Andrew Clark, "Why the Metal Unions are tough, militant and hungry", National Times, 10 October 1975.

186 Metal Men Expected to Lift Bons, Australian, 28 June; "Metal Reversal", Australian, 9 July.

187 "Big Unions reject wage restraints; Capitalist spotters must act now", Australian, 19 June.

188 "Unions campaign to smash Labour's wage indexation policy", National Times, 8 September.

189 "Unions rely on indexation", Australian, 9 September 1975.

190 AFR, 12 September.

191 AFR, 4 November. This was due to the introduction of Medbank. The underlying cause was probably the 1.9 per cent rate.

192 Australian, 8 November; "Metal Trade unemployment index leads wage demands", AFR, 9 December.

193 Australian, 28 November.


196 "Govi issue 'Key West' policy on foreign takeover", AFR, 24 August 1975. Harbottle was a vital beneficiataire of Centre's policies.

197 PM, Cairns, and Centre, Australian, 3 September.

198 "Whitlam opens door to foreign investment", Australian 25 September; "Cairns Rolled", AFR, 12 September; "Seven companies own potash leases with A.F.R.", AFR, 25 October; "Cairns Rises". There were violent protests from the unions, and in the end, the mine was sold to American companies.


200 Australian, 26 November. Only larger companies are listed in the index. AFR, 26 November. See also "Australia's largest 200 manufacturing companies and that these accounted for 25 per cent of all manufacturing production in the country", AFR, 26 November.

201 AFR, 10 November 1975.

202 Andrew Clark, "Drug Anthony on the LCP mining policy", National Times, 24 November.

203 Two good accounts are Paul Kelly, The Unmaking of Gough (Angus & Robertson, 1976), and Leslie Oates, Crisis Through or Crisis (Hambledon, 1976).


205 See also The Weekly Worker News (Sydney).


207 These are closely followed in The Financier (weekly, Melbourne).


209 See Kelly, op. cit., chapter 5.

210 Australian, 15 August 1975, AFR, 9 July 1975.

211 AFR, 28 October 1975, and 27, April 1976.

212 Rising costs drive small farmers into the clutches of the majors", National Times, 16 November 1975.

213 Sir Hugh Stretton, "Housing Policy", in Peter Scott (ed.), Australian Cities and Public Policy (Geogan House, 1976).

214 See AFR, 8 August 1975.


218 Jo Jones outlined to Sunday Conference, 24 February 1975. "After two-and-a-half years in office, we have made little lasting progress towards achieving a share rationalised role for industry", AFR, 8 May 1975.

219 AFR, 10 October, 7.


221 "Why People now more desipe inflation", AFR, 22 September; "The Savings Paradise of December", 1975: "People are Saving So Much". No. 14, National Times, 15 November 1975.

222 See report on BHP, AFR, 11 September 1975, Australian, 24 September 1975; "BHP - A Stenlopied by Goov approval", AFR, 16 June 1975; "BHP - A Stenlopied by Goov approval".

223 Which is what happened in 1975 anyway especially in the automobile industry.


225 Australian, 29 July 1975.


227 "What class way to tackle crime; Business welcomes Bm's detention", Australian, 12 June 1975.

228 AFR, 10 December 1975.

229 The similarities between the Whitlam government's last budgets and those of Scullin (Labour) are strikingly similar. The Cabinet's division on basic Labor policy (Connolly, Gough, Prime; Forrest; Forrest; Forrest; Forrest) continues to competition to foreign capital. On the question of whether foreign capital is seen as a "right" or as a "right", the opposition support for deflation (the Bank of England and the Business Standards) and the Parliamentary Left (Connolly, Theodoros) the removal from office and electoral defeat (Gallagher), deepening of the


231 "Forseion Diiferent", AFR, 1 August 1975.

232 See p. 26 above.

See for example, "PM warns States", Australian, 20 July.

114 OR, 18 August 1976.

115 Brogden, Spoff, pp. 11-3.

116 G.R. Palmer, Health Insurance in Australia —The New Model (republished paper).

117 Adelaide, 1 July 1976.

118 See for example, John Playford, Neo-Capitalism in Australia (Arena Monograph).


See also "Movitl Theories of the State", Monthly Review (November 1975).


121 Readers watching for a blueprint may find Stuart Holland, The Socialist Challenge (Quartet Books, 1975), useful. See also the A.L.P. discussion paper on economic strategy which I republished in Arena 42, and Hugh Seton, Capitalism, Socialism and the Environment.