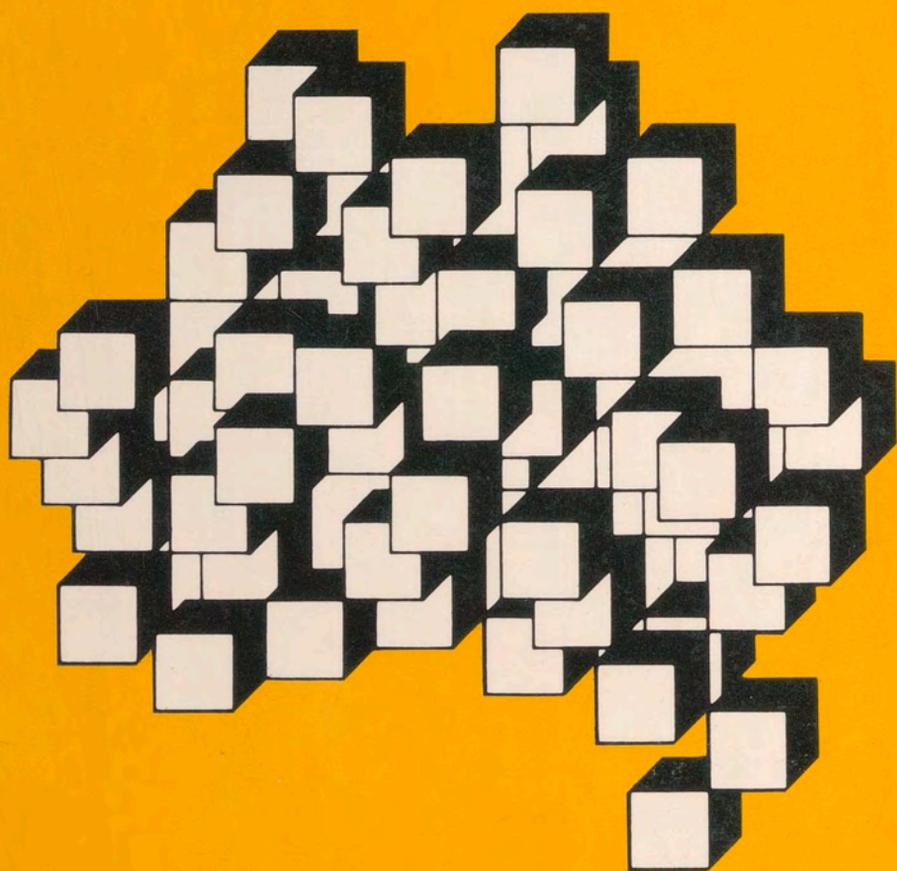


Essays in the  
**POLITICAL ECONOMY OF  
AUSTRALIAN CAPITALISM**  
Volume two



Edited by  
E.L. Wheelwright & Ken Buckley

Hg Rad  
6.21

ESSAYS IN  
THE POLITICAL ECONOMY OF AUSTRALIAN CAPITALISM

VOLUME 2

Intervention Bookshop  
2 Dixon St., Sydney. Ph. 26-2161

OTHER BOOKS BY E. L. WHEELWRIGHT

OWNERSHIP AND CONTROL OF AUSTRALIAN COMPANIES  
INDUSTRIALISATION IN MALAYSIA  
THE HIGHEST BIDDER (WITH BRIAN FITZPATRICK)  
HIGHER EDUCATION IN AUSTRALIA (EDITOR)  
ANATOMY OF AUSTRALIAN MANUFACTURING INDUSTRY (WITH JUDITH MISKELLY)  
THE CHINESE ROAD TO SOCIALISM (WITH BRUCE MCFARLANE)  
RADICAL POLITICAL ECONOMY

ESSAYS IN THE POLITICAL ECONOMY OF AUSTRALIAN CAPITALISM  
VOL. 1 AND 3 (WITH KEN BUCKLEY)  
READINGS IN POLITICAL ECONOMY VOLS 1 AND 2 (WITH FRANK J.B. STILWELL)

OTHER BOOKS BY KEN BUCKLEY

TRADE UNIONISM IN ABERDEEN 1878-1900  
THE AMALGAMATED ENGINEERS IN AUSTRALIA 1852-1920  
OFFENSIVE AND OBSCENE: A CIVIL LIBERTIES CASEBOOK  
ESSAYS IN THE POLITICAL ECONOMY OF AUSTRALIAN CAPITALISM  
VOLS. 1 AND 3 (WITH E.L. WHEELWRIGHT)

ESSAYS IN  
THE POLITICAL ECONOMY  
OF AUSTRALIAN CAPITALISM

VOLUME 2

Edited by  
E. L. Wheelwright and Ken Buckley

AUSTRALIA & NEW ZEALAND BOOK COMPANY  
SYDNEY

First published in 1978 by  
Australia & New Zealand Book Co Pty Ltd  
23 Cross Street Brookvale NSW 2100 Australia

National Library of Australia Cataloguing-in-Publication Data

Essays in the political economy of Australian  
capitalism.

ISBN 0 85552 056 6

1. Capitalism—Addresses, essays, lectures.
2. Marxian economics—Addresses, essays, lectures.
3. Australia—Politics and government—Addresses, essays, lectures. I. Wheelwright, Edward Lawrence, ed. II. Buckley, Kenneth Donald, joint ed.

330.122'994

© E. L. Wheelwright and K. D. Buckley 1978

This book is copyright  
Apart from any fair dealing for the purposes of private study  
research criticism or review as permitted under the Copyright Act  
no part of this publication may be reproduced stored in a  
retrieval system or transmitted in any form or by any means  
electronic mechanical photocopying recording or otherwise without  
the prior permission of the copyright owner.

Printed in Singapore  
for Norman J. Field and Co, Pty. Ltd. (International Division)

## CONTENTS

Introduction	<i>E.L. Wheelwright</i>	.. .. .	1
1. Socialism and Reform in Contemporary Australia	<i>Bob Catley</i>	.. .. .	15
2. The Loans Affair	<i>Darryl Foster</i>	.. .. .	81
3. Anti-trust and the Bourgeoisie: 1906 and 1965	<i>Andrew Hopkins</i>	.. .. .	87
4. Queensland Nationalism and Australian Capitalism	<i>Glen Lewis</i>	.. .. .	110
5. Capitalism, the Middle Classes and the Welfare State	<i>Sol Encel</i>	.. .. .	148
6. Towards a Political Economy of Housing	<i>Colin Bell</i>	..	169
7. Shoot the Bolshevik! Hang the Profiteer! Reconstructing Australian Capitalism 1918-21	<i>Humphrey McQueen</i>	..	185
Notes on Contributors		.. .. .	207

Much work and many volumes will be needed if we are to understand the relationship of the state to economic development . . . When the state leads the process of social change it does so because there are men with the will and the power to refine existing institutions, or to build new ones. They may represent rising new groups and new sources of power, or sophisticated men from extant structures. When the state lags it is because change is taking place away from the centers of power, as new men arise on the periphery. In such circumstances, if the issues become great, the new men may be crushed, or they may triumph, and occupy the halls of state . . .

Douglas F. Dowd, *The State, Power, and the Industrial Revolution*, (U.R.P.E. Occasional Paper No. 4, University of Michigan, 1971), pp.36-7.

# INTRODUCTION

E. L. WHEELWRIGHT

IN THE INTRODUCTION to Volume One of this series it was stated that these essays were intended to provide the bricks and straw for an eventual 'History of the Political Economy of Australian Capitalism from the Earliest Times to the Present Day', which would be best attempted from a basic Marxist standpoint. It was asserted that very little had so far been written about Australian capitalism from this point of view, despite the tremendous revival of interest in Marxist thought which has occurred in recent times in Western Europe, Britain, and both North and South America.

A number of questions which needed to be tackled were suggested. These included: In what respects has capitalism in Australia differed from capitalism elsewhere? What were the crucial stages of its growth, e.g. what period saw the foundations of industrial capitalism, and what were its characteristics? What was (and is) the relation of Australian nationalism to capitalism? What has been (and is) the impact of imperialism and international capitalism on the economic and social structure of Australia? And in all cases how has the alignment of class forces been affected?

The response to Volume One has been excellent in two senses: it created a demand for further volumes, and a supply of excellent essays, some of which are included here, and the remainder are in the forthcoming third volume. Further volumes are anticipated, and intending contributors are invited to contact either of the editors.

The essays are not intended to hang together (although on a future occasion it is hoped to follow one reviewer's suggestion of producing a volume centered round a common theme), but there are variations on a theme in some cases. Catley and Foster are as much concerned with the relation of contemporary Australian capitalism to American imperialism, as McQueen is with the relation of the Australian capitalism of 1918-21 to the British Empire, Hopkins is concerned with contradictions in the ruling class, and fractions therein, as are Lewis and McQueen. And both Encel and Bell are concerned with what may be called a new dialectic of urban capitalism, and the part played in this by the rapidly growing and upwardly mobile classes of contemporary Australian capitalism. Reading their essays reinforces the view that Marx was right when he said: 'The country that is more developed industrially only shows, to the less developed, the image of its own future'.<sup>1</sup> It also prompts the reflection

that the time is ripe for political economists and sociologists in Australia to re-read C. Wright Mills' now classic *White Collar*. First published in 1951, its conclusions are very relevant to Australia now:

The political question of the new middle classes is, Of what bloc or movement will they be most likely to stay at the tail? And the answer is, The bloc or movement that most obviously seems to be winning . . . In the shorter run, they will follow the panicky ways of prestige; in the longer run, they will follow the ways of power, for, in the end, prestige is determined by power. In the meantime, on the political market-place of American society, the new middle classes are up for sale; whoever seems respectable enough, strong enough, can probably have them. So far, nobody has made a serious bid.<sup>2</sup>

The first essay in this volume, by Bob Catley, deals with the end of the Age of Growth,<sup>3</sup> and the concomitant efforts of the Whitlam social democrat government to change Australian society. The Age of Growth lasted from 1945-71, a period in which the living standards of most of the populations of the advanced capitalist countries rose steadily, welfare benefits were expanded, and the insecurity of social life diminished. International co-operation under American tutelage ensured the growth of world trade, international investment and labour flows, and currency stability. Cold War military strategy protected the world capitalist market.

Australia accepted U.S. orchestration of the management and defence of the capitalist world more eagerly than most other advanced capitalist states. Along with them, Australia experienced a long boom, which was the product of foreign capital inflow, the immigration of cheap labour, a steady growth in world trade providing ready markets for primary industry, both agricultural and mineral, and the rapid development of the industrial sector under protected conditions.

By the time the A.L.P. came into office in December 1972 this system had suffered severe shocks, and the Age of Growth had come to an end, although this was not clear at the time—the short-lived boom of 1973 prevented general recognition of the fact until 1974. But already, in 1971-2, American leadership was eroded, international competition had intensified, price and currency stability was ended, and, in the then deeper global post-war recession the profitability of investment was in question, whilst the Third World was beginning to challenge the structure of the international market.

Catley's thesis is that the programme on which the A.L.P. was elected assumed a continuation of the long boom. It was essentially a programme of welfare services expansion designed to ameliorate the seamier results of the long boom, coupled with a moderate nationalism in economic and foreign affairs, both aimed at the swinging voters in the fastest growing section of the population—the urban middle class. Growth did not continue after the 1974 election, and the planning machinery which was supposed to ensure it never materialised; in fact the opposite happened, for, seeking a return to 'market forces', the economic rationalists were

allowed to dismantle the myriad of devices accumulated over the previous two decades, which had provided effective subsidies to the private sector, allowing it to operate profitably. This was the basic fallacy of the economic rationalists, which compounded the situation—the belief that the Australian economy could and should operate according to the dictates of world market forces. Most sectors have only been able to survive and prosper *because* of protection from world market forces, natural or contrived, and that is why, as Glen Lewis shows in his perceptive essay on Queensland in this volume, Australia developed its own version of state or neo-capitalism very early in its economic development.

Catley gives the most detailed Marxist analysis of the economic policies of the Whitlam government which has yet been presented. The real problem which seems to emerge from this is that social democrat governments, and their economic rationalist advisers do not understand the *modus operandi* of contemporary world capitalism, especially its relation to social classes and state power, and its historical development. Catley's conclusion is that the lesson of 1972-5 was not that Labor cannot run a capitalist society, nor that it moved too fast, nor that revolution is the logical alternative, but that welfarism depends on production, which follows its own laws whilst left exclusively in private hands. Aggregate demand management provides no adequate substitute for the public control of production. Private control of production will be protected by the capitalist state, which is one of its functions, as Humphrey McQueen emphasises in the last essay in this volume. Catley points out in a percipient footnote that 1974-5 was, in a sense, a re-run of 1930-1. Viewers and readers of Frank Hardy's classic *Power without Glory* are invited to compare the last months of the Whitlam government with those of the Scullin and Lang governments. Points of comparison are: the Cabinet's division on basic Labor policy versus staying in office (Cairns, Anstey); the reflationary plan accommodating capital (Connor, Cairns, Irvine, Theodore); redefining Australia's relation to foreign capital (Lang, Connor); the international support for deflation (the Bank of England and the Premier's Plan, Friedman and the monetarists); scandal and the Parliamentary Left (Cairns, Theodore); and the removal from office and electoral defeat (Game, Kerr), followed by depression.

The latter part of the essay is taken up with an analysis of the strategy of the Fraser coalition government. Its central plank was deflation, and its component parts included reductions in real wages and 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. All these had been begun by the Whitlam government, once its left wing had been eliminated.

The 1976 budget, Catley concludes, marked an important step in the restructuring of Australian society; the full employment pledge of 1945,

which was the cornerstone of public policy for thirty years, was postponed by the Whitlam government in 1975, and finally abandoned by the Fraser government in August 1976. The Age of Growth was truly over; the South Australian Premier, Don Dunstan, remarked that 'Australian workers were facing the gravest assaults on their living standards since the late 1920s'.

Since the essay was written, a further devaluation has occurred, unemployment has increased, wage indexation has been virtually abandoned, and anti-union legislation has been brought in. Dunstan was clearly referring to the activities of the Bruce-Page government in 1927, when it introduced a bill providing severe penalties for striking union leaders, secret union ballots, and requiring the Arbitration Court to correlate its awards with 'economic realities'.<sup>4</sup> Now, fifty years on in the golden jubilee year of the A.C.T.U., history seems about to repeat itself, and the stage is being set for the sharpest series of class struggles in a generation.

Darryl Foster's short essay is in the nature of an appendix to Catley's dissertation. It is a useful account of the bizarre 'Loans Affair', and contends that although the purposes for which the loans were to be used could be justified, the same could not be said of the methods used. It has never been explained why the Labor Ministers used intermediaries in their loan raising efforts when government-to-government negotiations were clearly possible, and had in fact been successfully concluded by the United Kingdom, France, Japan, Italy and Denmark, in 1974, involving \$6.3 billion. It is just possible that Rex Connor was ahead of his time; in any case the history of Australian entanglements with the world capitalist money market would make a good doctoral thesis in political economy. One fascinating episode—to which this one bears only a superficial resemblance—is the case of Theodore in Queensland, recounted by Glen Lewis in a later essay; he describes it as one of the most blatant instances of the blackmail of an Australian Labor government by financial interests. In 1920, a delegation of pastoralists and financiers led by Robert Philp went to London to persuade City investors not to take up the Queensland Labor government's loan. As a result Theodore, then Treasurer and Premier of Queensland, was forced to negotiate a loan on what was at that time the costly and unfamiliar American market. The *London Times* commented that 'flirtations with foreign financial markets will not add to the confidence that is felt by Queensland's friends in her affairs'. The *Manchester Dispatch* called him the 'Socialist Premier' of Queensland who had revised pastoral leases in a manner unfavourable to investors, and the *Daily Herald* admitted that Theodore was a moderate but then went on in the same breath to mention 'Bolsheviks, confiscators and red revolutionaries'.<sup>5</sup>

In his essay, *Anti-trust and the Bourgeoisie*, Andrew Hopkins draws our attention to interesting developments in the sociology of law, viz, the recognition that law, rather than expressing general social values, represents particular interests, frequently at the expense of other interests. The question then arises, in whose interests are particular pieces of

legislation passed? The purpose of his essay is to explore the reasons for the anti-trust legislation enacted in Australia in 1906 and 1965. The issue that dominated the early years of federal parliament was protection versus free trade, and the 1906 Act was an expression of protectionist philosophy, as its name implied—the Australian Industries Preservation Act. Hopkins shows that its object was to protect Australian manufacturers against foreign ones, and that in effect it was another kind of ‘Harvester case’. H.V. McKay and Company were manufacturers of ‘Sunshine’ harvesters, having the largest factory in Victoria (which is one reason why Mr Justice Higgins selected them as a test case on which to base his famous ‘Harvester judgement’ of 1907, delineating the first ‘minimum’ or ‘living’ wage, later called the ‘basic wage’).

There had been a price fixing agreement in the industry, to which McKay was a party, as well as the large American International Harvester Trust, and the Canadian Massey-Harris combine. In 1905 the price fixing agreement broke down and International Harvester was intent on capturing the Australian market. Hopkins quotes a representative of the International Harvester company as saying: ‘We’ll beat McKay. We have unlimited money behind us and even if we worked at a loss for three years we are bound to beat him . . . We are going to close him up’. In the modern sophisticated literature on transnational corporations, this concept is known as ‘breathing time’.

Hopkins shows clearly that the 1906 Act originated over this issue, and was primarily designed to prevent overseas business interests from engaging in unfair competition with the intention of destroying Australian industries, and was concerned only in a very marginal way with preserving competition within Australia. None of the parties were committed to the principles of competition which found their way into the Act, and neither was the judiciary. The anti-trust legislation was imported into Australia from the U.S.A. for a purpose for which it was not originally intended, the preservation of local industries against foreign competition. Once it was found that this could be achieved by other means, the Act became a dead letter.

The first part of Hopkins’ essay is an excellent starting point for a Marxist analysis of the free trade versus protection antagonisms in Australia which are still very much with us to-day. Such a study could begin with quotations from a little known speech of Karl Marx, in 1848, *On the Question of Free Trade*:

Thus, of two things one: either we must reject all political economy based upon the assumptions of free trade, or we must admit that under this free trade the whole severity of the economic laws will fall upon the workers. To sum up, what is free trade under the present condition of society? It is freedom of capital. When you have overthrown the few national barriers which still restrict the progress of capital, you will merely have given it complete freedom of action . . . Do not allow yourselves to be deluded by the abstract word *freedom*. Whose freedom? It is not the freedom of one individual in relation to another, but the freedom of capital to crush

the worker . . .

. . . To call cosmopolitan exploitation universal brotherhood is an idea that could only be engendered in the brain of the bourgeoisie. All the destructive phenomena which unlimited competition gives rise to within one country are reproduced in more gigantic proportions on the world market . . . If the free-traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another . . .

. . . Do not imagine gentlemen, that in criticising freedom of trade we have the least intention of defending the system of protection . . . the protectionist system is nothing but a system of establishing large-scale industry in any given country, that is to say of making it dependent upon the world market . . . (it) helps to develop free competition within a country . . . protective duties . . . serve the bourgeoisie as weapons against feudalism and absolute government, as a means for the concentration of its own powers and for the realisation of free trade within the same country.

But, in general, the protective system of our day is conservative, while the free trade system is destructive. It breaks up old nationalities and pushes the antagonism of the proletariat and the bourgeoisie to the extreme point. In a word, the free trade system hastens the social revolution. It is in this revolutionary sense alone, gentlemen, that I vote in favour of free trade.<sup>6</sup>

The second part of Hopkins' essay, dealing with the 1965 Trade Practices Act is an application of the Marxist theory of the state, which has been developed further quite recently by Miliband and Poulantzas, among others. The state is seen not simply as the tool of the ruling capitalist class; it has autonomy from sectional capitalist interests. This is vital to the survival of the bourgeoisie as the dominant class, for it is not a united group, but consists of what Poulantzas calls 'fractions'—financiers, traders, industrialists, pastoralists—whose interests are frequently in conflict. The capitalist state hence takes charge of the general class interests of the bourgeoisie as a whole. Under social democrat or Labor governments the state still continues to function in the interests of the bourgeoisie; although social democrat governments are inadvertent protectors, conservative governments are deliberate ones. Parker's work on Australia is cited in confirmation of these points, especially his emphasis that the effectiveness of Australian conservative parties in representing the long term interests of capital had depended on their freedom from financial dependence on any particular interest group. The failure of the United Australia Party before 1945 is held to be due to too obvious and too close dependence on vested interests. (This prompts the suggestion that the present Liberal-Country Party coalition may be approaching this situation.)

Within this framework, Hopkins aims to show that the 1965 Act served the long-term interests of capitalism, that a variety of interests were concerned, and that the government acted autonomously in relation to them. Business was divided and unable to speak with a single voice

on the issue. The main beneficiaries seem to have been new businesses, the newcomer obstructed by 'orderly marketing' arrangements which prevented his entry into the market. Many of these are small, hence the (mistaken) presumption that the legislation favoured small business. On the contrary, as Galbraith has pointed out clearly, small business needs some forms of collusion to survive against big business, and anti-trust legislation aimed equally at both favours big business.<sup>7</sup> As Marx observed: 'To treat unequals equally is to give privilege to the strong'.

The conclusion is that the over-riding function of the Act was to protect the Australian system of private enterprise, and restrain sections of the bourgeoisie from activities which were damaging the bourgeoisie as a whole. To clinch his point, Hopkins cites Snedden, attorney-general at the time of the legislation's enactment:

... it has become crystal clear that untrammelled liberty cannot be allowed to disadvantage the majority... Laissez-faire will be replaced either by socialism or control within reason... The surrender of absolute freedom in the commercial field, which restrictive trade practice legislation involves, is no more than control within reason... The alternative is socialism...

It would appear that the bourgeoisie was putting into practice the Marxist slogan that 'freedom is the recognition of necessity'.

Glen Lewis considers that contemporary Marxist studies have failed to deal adequately with the modern nationalist movement; certainly his penetrating essay is the first to deal with this deficiency in Australia at length. His thesis is that some of the most salient issues concerning the relation of nationalism and capitalism in Australia emerge from a study of the history of the political economy of Queensland, and that the result illuminates both the national question and the particular role of Queensland in the development of Australian capitalism. Lewis concludes that Queensland was and is a conservative state in which there have been sporadic outbreaks of radicalism; this is a reflection of the political economy of that state. The dominant motif in the analysis is the Marxist 'law of uneven development', i.e. that a characteristic of the capitalist system is uneven development between countries, within countries, within regions, between sectors and between industries of the same region and country. Under this rubric, Lewis uses the concept of regionalism, in various aspects, to include the relationship of Queensland to the rest of Australia in respect of geography, defence, immigration policies, and economic dependence; and within the state, the uneven pattern of urban and regional development.

Probably because of its geographical location, Queensland as a whole was a late developer—Central Queensland was not linked to the south by trunk railway line until 1903, and Cairns not until 1923. By the time the railway network had been completed—1930—road transport had emerged as a threat, so the railway system never had the chance to become remotely economic. Although, in the 19th century, Queensland had the

largest per capita assisted programme in the continent, it failed. Many immigrants moved to the South, there was no inter-marriage with Aborigines, Chinese or Kanakas, and the Italian enclave in the north kept to itself. These 'immigration' patterns made for a xenophobic social climate, and probably produced a class of local poor whites, as in the southern states of the U.S.A., which may have formed one social basis of Queensland's conservatism. The economic dependence of the state would have re-inforced this, i.e. to the extent that wealth was being siphoned off to absentee owners of the state's natural resources in other states or overseas. The latest figures show that 85% of Queensland's mineral resources are controlled overseas.<sup>8</sup>

Ideologically the most decisive force was agrarianism, strongly rooted in the sugar, dairying and forestry industries. This fostered agricultural small-holdings and petit-bourgeois conservatism, reflected in the characters of Dad and Dave created by Steele Rudd, in his *On Our Selection* stories. Queensland agrarianism was a form of populism which could be expressed through the Queensland Labor Party—itself a kind of country party dependent on a country trade union. One result was anti-intellectualism, another neglect of urban problems and industrial development, and concentration on primary production.

The state has been used in a corporatist manner primarily because of the monopolistic nature of private enterprise; the weakness of local entrepreneurship contrasted starkly with the dominance of big companies in the state. One effect has been the slow growth of manufacturing, another the concept of the state as a development agency for business, not a competitor, a third the weakness of the Liberal party.

Lewis confirms Hopkins' analysis of the forces behind the 1906 Australian Industries Preservation Act; Queensland businessmen were not strong supporters of free competition; they believed in what they called fair competition, by which they meant controlled or collusive competition. Lewis calls it 'collective competition' and regards the desire for it as a reflection of their weakness in the community, and the dependence of the Queensland economy. A new, successful, and confident locally-based middle class has only developed in the last twenty years, and this is the *nouveau-riche* class that Bjelke-Petersen represents and which, Lewis contends, is now leading the way to an Australian variety of facism. Clearly there are parallels here with California, and some of the southern states of the U.S.A., but on a much smaller scale in terms of population.

The conclusion is that some of the contradictions of Australian capitalism stand out with great clarity in Queensland. Queensland's history, like that of Australia, is a story of conservatism challenged sporadically by radicalism. The main ideological link between capitalism as an economic system, and nationalism as a social ideal has been the goal of 'collective competition', which was the economic expression of the Australian mateship ideal. Other ideals were agrarianism and co-operative self-help, state paternalism and egalitarianism. Queensland capitalism was viable because it made a workable fusion of the main

national ideals. Australia developed the techniques of corporate neo-capitalism very early in its history; a regulated or controlled capitalism was the form of business civilisation most acceptable to Australians—a fusion of American and British methods, with a style of its own, which worked of course to the benefit of the ruling élite. In short, in the past, national capitalism in Australia could only exist as a variety of state or neo-capitalism; in the present and future it can only exist as a variety of comprador capitalism, in which the local bourgeoisie are agents of international capitalism. Unfortunately the economic rationalists who continue to advise governments have not yet grasped these fundamental truths.

Unlike most economists, sociologists are well aware of these problems, and Encel's essay examines the structural features of neo-capitalism, the development of class relations therein, and the interaction between state and economy. He distinguishes ten features of neo-capitalism, shows how class relationships are affected by them, and how these relationships provide the link between the economic structures and the political behaviour of electorates in the affluent industrial countries. This is an essay in the classical Marxist manner, of trying to delineate the relationship between a changing economic base and the political superstructure.

A major feature has been the rapid expansion of the middle classes, which have more than doubled as a proportion of the work force over the last thirty years. The rate of social mobility has been amongst the highest in the world—higher even than in the U.S.A. The new class structure is a result of the fragmented labour market; in this the professional and technical occupations possess the most marketable technical knowledge. There is an argument, put forward by the French Marxist, Touraine, to the effect that classes in 'post-industrial' society should be defined by their relationships to change, and the power to manage change. The dominant classes dispose of knowledge and control information; the dominated classes are alienated rather than exploited. This condition is described as 'dependent participation'.

Other elements of fragmentation include an 'underclass' of imported immigrant workers, which may be transient, as in Europe, or not, as in Australia. This class also includes women recruited at the lower levels of the labour market.\* The prognosis in the late 1950s of the erosion of social-democratic parties and the 'end of ideology' as a result of class fragmentation within the affluent society of neo-capitalism was not fulfilled in the 1960s. A new voting coalition of working-class and middle-class elements led to a new and precarious relationship between parties and voters. As Bob Catley notes in the first essay of this volume, the political objectives of this voting coalition were limited to redressing the distributive aspects of the neo-capitalist economy. Poulantzas regards this as a new equilibrium of class relationships; the political ground for

---

\*Both these topics are dealt with in detail for Australia in essays to be published in Volume Three of this series.

social-democratic party activity has shifted into territory where the influence of middle-class rather than proletarian radicalism becomes increasingly important. Middle-class radicalism may also be seen as a direct reaction to the growth of corporatism, noted by Lewis in the previous essay, as an attribute of Australian neo-capitalism. At the same time differences *within* the middle classes have increased, especially between the lower and upper-middle strata. 'Ockerism' is seen as the surface froth of important social changes in Australia, and has been described elsewhere as a symptom of 'affluence coupled with ignorance', at least as related to bourgeois culture. 'Ockerism' is seen by Encel as some kind of backlash to these changes, which include the expansion of higher education, the growth of feminism, the movement towards cultural pluralism, the increase of sexual permissiveness, and the greater role of intellectuals in politics.

Social-democratic governments have, however, failed in achieving their objectives in most countries where they have developed and certainly the electorate has rejected most of them in recent years. Support was lost from both segments of the voting coalition—especially in Australia, from the working-class section, which was most affected by unemployment. The evidence also seems to suggest that social programmes do more to assist the professionals of the middle classes, who run them, rather than the people for whom they are intended. Encel concludes that the internal contradictions of neo-capitalism are such that no government, conservative or social democratic, can resolve them.

Capitalism ends up in the city.<sup>9</sup> Most people live in the cities, and so the problems of industrial and post-industrial capitalism are seen as urban problems. This is especially true of Australia which has been one of the most highly urbanised countries in the world for almost a hundred years. Colin Bell's essay, *Towards a Political Economy of Housing*, reminds us of these important truths and draws our attention to the work of urban sociologists who have emphasised that the processes of collective consumption which are essential in the city, give rise to new social contradictions. One of the most influential is the French Marxist, Manuel Castells, who, Bell believes, is laying the foundations of a genuinely comparative urban political economy. These foundations rest on the following propositions: advanced capitalism is increasingly concerned with the realisation of surplus value, hence processes of consumption are of key importance. More goods and services, such as housing, education and health services, are collectively consumed and the provision of such collective consumption increasingly determines where people live and work in the cities, and hence their 'life chances'; the production and distribution of the goods and services which constitute this collective consumption is increasingly managed by public authorities (i.e. the state), hence urban conflicts over the allocation of these resources become politicised, and involve social strata such as the middle class which have not previously been engaged in such struggles; hence urban conflicts over resource allocation in the cities become one of the axes of social

change in advanced capitalist societies.

Bell's essay therefore complements Encel's essay on *Capitalism, the Middle Classes and the Welfare State*; both are concerned with a new dialectic of modern capitalism. As capitalism concentrates itself in cities this increases the social costs of the system, forces the state to meet these costs and provide services which can only be collectively consumed, thus politicising the allocation of vital resources which are essential for success in the system. The rapidly growing and upwardly mobile middle classes are the first to realise this; the market can no longer serve as mystifier and obfuscator of political power, veiling the class struggle. So begins the political economy of urban capitalism, which was foreshadowed by Engels in his little known, *The Housing Question*, published over a hundred years ago, and which, as Bell shows, still has some important lessons for contemporary capitalism.

Humphrey McQueen's *Shoot the Bolshevik! Hang the Profiteer!* could be the basis for the script of an Australian television series to rival the British *Days of Hope*. It is set in the same period, the aftermath of the first world war, and the theme is roughly the same—how the ruling class made the country safe for capitalism. In 1919 there were more days of strikes than in any other year until the 1970s; there was unemployment and falling real wages affecting those who had remained in the work force, and there were some 300,000 returned soldiers to be fitted back into the system. The struggle over conscription had split the Labor Party—and Australia; rebellion in Ireland and revolution in Russia had enhanced the political consciousness of Australian workers and put fear in the hearts of the bourgeoisie. The Prime Minister remarked, in October 1919: 'The burning blasts of war have shrivelled, blackened, and destroyed the world we once knew'.

There is justification in McQueen's claim that modern Australia was spawned in this period which saw the origins of the Country Party, the R.S.L., The Communist Party, and the Greene tariffs. Certainly there are important lessons for to-day's struggles to be learned from 'the attempts to put Australian capitalism back together again'. Preparations for counter-revolution had been made during the war by the introduction of the War Precautions Regulations; offences included exhibiting the red flag, and exhibiting disloyalty or hostility to the British Empire. A leading industrialist organised the Australian Defensive League and paid agents to infiltrate trade unions in Melbourne, and police spies were planted in the executive of the red-flag marchers and the One Big Union movement in Queensland. The top brass in the army and the police met to consider the Bolshevik threat; *Smith's Weekly* led the way with appeals to organise the middle-class; an anti-Bolshevik Society was launched at a mass meeting of ex-soldiers in March 1919 in Brisbane; and returned soldiers were 'mobilised' by some of their former generals in Melbourne and in Perth.

On the ideological front, Bolsheviks were portrayed in the press as dehumanised, disloyal, destructive, and a threat to property and family

life. 'They are out to expropriate, to win, to destroy every man who owns a cottage or "uses a tooth brush"'. The *Bulletin* thought that Australian workers possessed too many household Gods to go Bolshevik, and atheistic communists were linked with Papists because of their common disloyalty to the Empire. The laws on industrial relations were changed in 1920 to limit the workers' room for legal manoeuvre, the laws on immigration were changed to permit the exclusion or deportation of anarchists, revolutionaries and other trouble-making strike leaders who had not been born in Australia. There was a Royal Commission into the Basic Wage, at which the employers argued against wage indexation, even though the cost of living was rising at 15% annually, despite an 11% unemployment rate. The industrialist Baillieu called for consultative councils of employers and workers; and Mr Justice Higgins was rendered ineffective in the Arbitration Court in a similar fashion to Mr Justice Staples in our day.<sup>10</sup> Attempts were even made to abolish the Arbitration Court for a period. As noted previously, these kinds of attacks on the working class were repeated in 1927; they occurred again in the depression of the 1930s and are recurring again in our day. It is difficult to resist the conclusion that whenever capitalism is in trouble its first reaction is to blame the workers.

There was great public concern at the rising cost of living. Anti-profiteering legislation was enacted in each of the mainland states, and it was the central argument advanced for the alteration of the Constitution to give the Commonwealth government temporary power over prices. The Inter-State Commission had prepared twelve reports on war-time price-fixing and profiteering; the Victorian Royal Commission on the subject prepared five reports in 1919; Hughes wanted to set up a Commonwealth Royal Commission in the same year; and Frank Tudor, the leader of the Federal Parliamentary Labour Party, said that profiteering was the 'most vital question' of the 1919 election.

McQueen argues that profiteers were presented as the root cause of Bolshevism, and sees the campaign against the profiteer as an ideological defence of the rate of exploitation, by segregating capitalism from profiteers, i.e. profiteering was presented as a very special category of economic activity which did not refer to the normal practice of making a profit, and was something external to normal capitalism. 'Anti-profiteering' could become the official ideology of the capitalist state because the manufacturing fraction was then dominant; the commercial fraction, which was the most exposed, opposed it. In 1920, 'a Profiteering Court has been created in Victoria, which will go into the retail price of sardines, but leave gas, meat, oil, and all the big things of life severely alone . . .' Similar sentiments have been expressed about the contemporary Trade Practices Commission.<sup>11</sup>

In conclusion, it is argued that to appreciate fully the class repression of the period, it is important to recognise that war and imperialism are linked together with class struggle; that political, industrial and ideological repression increased because of the changed nature of the capita-

list system; and that, by 1914, political and industrial working class organisations had recovered from the debacle of the 1890s. They were, during and immediately after the war, beginning to challenge the system. But as McQueen notes: 'Capitalism does not have a party, it has the state'—a fact which was brought home to the Australian working class again on 11 November 1975.

It is clear that the one common theme running through these essays is the role of the state, which was suggested in the introduction to Volume One to be the most obvious difference between a transplanted colonial capitalism and the system which gave it birth. Perhaps this overlooked the point that in the colonial microcosm we see the operation of metropolitan capitalism writ large. In any case, the conclusion of Douglas F. Dowd on the subject is pertinent to the history of Australian capitalism from the earliest times to the present day:

Much work and many volumes will be needed if we are to understand the relationship of the state to economic development, but at least one thing should be clear: the heuristic convenience of the abstract term 'state' should not mislead us into believing that there is some entity of that name with an existence separate and independent from the society of which it is a part, or with a meaning adequately inferred from laws, statutes, regulations and publicised actions . . . .

. . . the 'state' moves as the changing power complex in society requires, allows, or directs it to move . . . . When the state leads the process of social change it does so because there are men with the will and the power to refine existing institutions, or to build new ones. They may represent rising new groups and new sources of power, or sophisticated men from extant structures. When the state lags it is because change is taking place away from the centers of power, as new men arise on the periphery. In such circumstances, if the issues become great, the new men may be crushed, or they may triumph, and occupy the halls of state . . . .

The problem of relating the state to economic development thus becomes part of the much larger problem of understanding the process of social change . . . . The potential risks in that process do not seem greater than the established dangers of studies that achieve sterile exactitudes.<sup>12</sup>

Sydney  
May 1977

## NOTES

- 1 Karl Marx, *Capital* (International Publishers, New York, 1967), Vol.I, p.9.
- 2 C. Wright Mills, *White Collar* (Oxford University Press, New York, 1956), pp.353-4.
- 3 'The Age of Growth' is the title of a paper delivered by Joan Robinson in Canada in May 1976, and privately communicated to the author.
- 4 F.K. Crowley, *Modern Australia in Documents, 1901-39, Vol.I* (Wren Publishing Pty Ltd, Melbourne, 1973) pp.435-6.
- 5 Irwin Young, *Theodore, His Life and Times* (Alpha Books, Sydney, 1971), pp.38-9.
- 6 Karl Marx, *The Poverty of Philosophy* (Progress Publishers, Moscow, 1973), pp.192-5.
- 7 J.K. Galbraith, *Economics and the Public Purpose* (Andre Deutsch, London, 1974), p.256.

- 8 See *Foreign Ownership and Control of the Mining Industry 1973-4 and 1974-5* (A.B.S. Canberra, 1976), p.12; the figure is for value added; foreign ownership was 71% of value added.
- 9 J.K. Galbraith, *The Age of Uncertainty* (B.B.C. and Andre Deutsch, London, 1977), p.303.
- 10 See the *Sydney Morning Herald*, 10 May 1977: 'In October 1975 Sir John Moore removed Mr Justice Staples from responsibility for arbitrating on maritime industry matters, leaving him with responsibility in certain other industrial fields. Legal authorities said the action was unprecedented . . . . Last February it was announced that Mr Justice Staples had not been allotted any arbitration duties under a reshuffle of Commission members'.
- 11 See Commissioner Venturini's Note in Appendix 5 of the *Second Annual Report of the Trade Practices Commission, Year ended 30 June, 1976* (A.G.P.S. Canberra, 1976): ' . . . my overview of the administration of the Trade Practices Act during the last twelve months: an expression of velleity in an atmosphere of bureaucratic secretiveness'.
- 12 Douglas F. Dowd, *The State, Power and the Industrial Revolution 1750-1914* (The Union for Radical Political Economics, Occasional Paper No. 4, The University of Michigan, May 1971), pp.36-37.

# SOCIALISM AND REFORM IN CONTEMPORARY AUSTRALIA

BOB CATLEY

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<sup>1</sup> this does not constitute their major source of income; (2) Productive labour provides the source of value; (3) The ownership of the means of production is vested in a small number of persons and that ownership has become increasingly concentrated; (4) Production of goods and services is undertaken in the main only when it can be done at a profit; (5) The major source of economic growth is the re-investment of that profit in further means of production thereby increasing productivity per man-hour (the expanded reproduction of capital); (6) The society consists of different classes reflecting essentially people's situation with respect production; (7) These classes have unequal access to the products of society both material and cultural. It is from these basic features of capitalist societies that socialists have developed analyses of their structures and operations.<sup>2</sup> These may vary considerably between different times and different countries. The major additional features of the advanced capitalist societies of the post war world<sup>3</sup> have included: steady economic growth, an enlarged public sector (the welfare state), rising living standards, increased economic inter-dependence via trade and investment. As a result it has been widely alleged that the socialist characterisation of capitalism is redundant. These charges should be briefly examined.

First, it is argued that, contrary to the prediction of Marx, the working

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

Secondly, it is pointed out that with the growth of the middle classes and the liberal democratic welfare state, the cutting edge of Marx's proletarian revolution has been blunted. Class polarisation between labourers and capitalists has not occurred in advanced capitalist societies even one hundred years after *Capital*. Only in peripheral countries penetrated by the capitalist states in their search for raw materials, investment outlets and further profits, has such revolution and antagonism occurred: Russia 1917, Eastern Europe in the 1940s, China 1949, Indo-China 1945-75. While such societies may have been subject to exploitation within the world market established by the capitalist states<sup>8</sup> 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.<sup>9</sup>

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

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

thirty years has indeed suggested the failure of this strategy in advanced capitalist societies. Its proponents' defences, however, include: (1) that no deep crises have occurred in that period but that they will (must); (2) that it *has* worked in societies most deeply exploited by the capitalist dominated world market (e.g. Indo-China) and that the Third World is the centre for socialist revolution in the contemporary world; and, further, (3) that successful Third World revolutions will, by cutting off that source of cheap labour, raw materials and markets, produce deep crises in the advanced capitalist states.<sup>11</sup> 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.<sup>12</sup> Lenin, and his political successors, regard these as 'revisionist'.

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

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

### 1. The Long Boom 1945-71

Historically, economic growth in capitalist societies has rarely been smooth or steady. There is no serious dispute among economic historians about this. Periods of rapid growth lasting for up to thirty years have

been succeeded by 'busts' with higher unemployment levels; slower capital accumulation, increased bankruptcies and low or zero growth rates. Even when growth rates have been favourable, unemployment rates have been over five per cent of the work force, and short term economic fluctuations—trade or business cycles—have occurred. The Australian boom from the 1860s to 1890s<sup>14</sup> was followed by depression and concomitant political upheaval—including the formation of Labor Parties and a wave of nationalism.<sup>15</sup> After the brief post World War I recession economic activity boomed, only to be curtailed by a world wide recession with deeper political consequences—fascism in Europe and revolutionary activity in the depressed periphery of the colonial areas.

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

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

Bourgeois economists drew two related conclusions from the same historical experience. The first is now associated with the English economist Lord Keynes.<sup>20</sup> He argued that the lack of effective demand had produced a decline in production which itself—by sackings and bank-

ruptcies—only further reduced demand and production. The role of government was to maintain a high level of demand, and by running deficit budgets—putting money into the economy—and facilitating credit, to prevent a trade cycle from nose-diving into a depression. This advice was contrary to the government orthodoxy of 1930—accepted in Australia from the Bank of England with the Premiers Plan—of balanced budgets and wage cuts. Secondly, as Kindleberger puts it, the world was lacking in leadership: Britain was too weak and the U.S.A. unwilling.<sup>21</sup> Since international co-ordination was lacking, competition resulted: trade wars, currency devaluations, the dumping of goods and territorial seizures. Institutions were required to regulate international production, trade and currency fluctuations.

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

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

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

By the end of the Second World War the governments in office in the liberal democratic states were fully cognizant of the dangers of recession. In the years 1944-6 they publicly committed themselves to the doctrine of full employment as a basic public policy objective, in the U.S.A. under the Democrats as in Labour Britain. In Australia, the White Paper on Full Employment was issued in 1945 under the auspices of Ben Chifley. Keynesian demand-management policy integrated well with Labor's traditional objectives which had only been reinforced by the electoral drubbings its 1931 economic failure had produced. In addition, the more radical aspects of the Keynesian school included more direct economic management of production, and hostility towards what were seen as the 'rentiers' or unproductive 'coupon-clippers' of the world of finance capital. These were readily incorporated into the period of post-war reconstruction by the A.L.P. and were even extended to the 1947 proposal to nationalise banking. This was in order to produce more

effective economic management of a capitalist economy—not to fundamentally change it. In the event, the economic controls and the nationalisation of banks were both defeated politically: the latter in the High Court,<sup>24</sup> the former at the 1949 election.<sup>25</sup> But the Liberal Country Party Coalition maintained the same responsibility for counter-cyclical demand management, deficits and cheap money when a trade cycle trough threatened.

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

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

Recalcitrant states were policed by American agencies: the International Monetary Fund, the World Bank, the C.I.A. or, if necessary, the marines and the B.52s.<sup>31</sup> 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.<sup>32</sup> 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.<sup>33</sup> 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.<sup>34</sup> Australia, like the other capitalist states, accepted U.S. orchestration of the management and defence of the capitalist world. Only when American capacity in that respect faltered did Australian governments change their tune.

Within this global context, Australia experienced a similar long boom to that of other advanced capitalist states. Industrial production grew steadily and with minimal trade cycle fluctuations.<sup>35</sup> 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.<sup>36</sup> 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.<sup>37</sup>

The post-war Australian boom was thus a product of foreign capital inflow; the immigration of cheap labour;<sup>38</sup> 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.<sup>39</sup> Why should this situation not last indefinitely?

An alternative explanation for the long boom which Australia shared, would not discount the policies of governments, internal and international, but would regard their success as dependent on three other factors. First, the period 1930-45 had witnessed global destruction of capital, and extensive technological discoveries. As a result it was both profitable to invest on a wide front of industrial production, and a large stock of new industrial developments were in the pipeline. This impetus would prove to be exhaustible. But in two respects, until 1970 it appeared to have replaced the contradictions of capitalism with steady global growth: the labour movements defeated in the 1930s offered no political challenge to profits, and relative income shares remained static or shifted to profits; there was no evident decline in the rate of profit.<sup>40</sup> Secondly, the American dominance of the world market and political management of

it had been maintained. Thirdly, the Third World countries provided cheap raw materials, energy and labour and despite their political emancipation from the colonial era, seemed unable to escape the structure of the world market imposed on them during that period. The terms of trade continued to swing against them—that is the price of their raw material exports declined against that of their industrial goods imports.<sup>41</sup> 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.<sup>42</sup> This was the result of America's spending more on overseas imports, military expeditions, especially the Vietnam War, and on foreign capital investment than its exports could pay for. Further, its slower growth rate, lower level of capital accumulation and large, unproductive military-related industry<sup>43</sup> led to its exports becoming increasingly uncompetitive on the world market at the exchange rates fixed in the 1940s. Under the terms of the 1944 Bretton Woods Agreement, however, the U.S. had been able to print dollars which its partners had agreed to accept at a fixed value, \$35 to an ounce of gold. Since 1960, the U.S. had lacked the gold to back its currency. Although the 1971, and further devaluations, checked the outflow of gold and dollars it has been variously estimated that between 100 and 170 billion dollars had entered the international money markets.<sup>44</sup> 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.<sup>45</sup> Over A\$3 billion entered Australia in 1971-2 and contributed strongly to sparking the inflationary spiral. At the same time, the advanced capitalist countries experienced a concurrent trade cycle recession for the first time since 1945, the synchronisation and the anti-inflationary policies of governments strengthening its intensity. Two other phenomena also emerged in that global recession of 1971-72: the level of industrial strike action rose as workers sought compensation for increased prices;<sup>46</sup> and it was widely reported that the level of profitability was declining.<sup>47</sup> 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.<sup>48</sup>

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

Let us summarise our argument so far. The period 1945-71 was one of fairly steady growth for the advanced capitalist countries during which their population living standards rose steadily, welfare benefits were progressively expanded and the insecurity of social life was diminished. Internal demand management maintained output; international co-operation under American tutelage ensured the growth of world trade, international investment and labour flows, and currency stability. Cold

War military strategy protected the world capitalist market. In 1971-2 this system suffered several shocks: American leadership was eroded and international competition intensified; a deep (by post-war standards) global recession occurred; price stability was ended partly by the large stock of footloose dollars; the profitability of investment was in question; and the Third World was challenging the structure of the international market.<sup>78</sup> It was in such circumstances that the A.L.P. came into office.

## 2. The A.L.P. Electoral Victory

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

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

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

The A.L.P. policy speech for the 1972 election<sup>58</sup> focussed on four things: the Government's economic mismanagement; Australian nationalism; the need to expand government social programmes; and a new deal in foreign affairs. At the outset Mr Whitlam blamed the Liberals for the worst unemployment in ten years and the worst inflation rate

in twenty. He later promised the introduction of 'economic planning machinery' to produce faster growth and full employment, and a Prices Justification Tribunal to deal with inflation. Nationalism was strongly expressed with relation to foreign ownership of resources:

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

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

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

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

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

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

carried out by the Attlee government with a concurrent expansion of welfare services—many means-tested—paid for by expanded progressive taxation. In fact not only did the public enterprises prove *not* to be the commanding heights in determining British economic activity in the 1950s and 1960s, they also served largely to provide public subsidy for private profit by running at a loss. They also failed to provide any social model for socialist industry by maintaining managerial prerogatives and capitalist accounting 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.<sup>61</sup> Further, believing the 1971-2 recession to be a product, like 1961, chiefly of Liberal mismanagement, the leadership thought a nationalisation/socialism objective was not only unnecessary but harmful for its electoral prospects with middle class swinging voters.

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

The issue of economic *planning* versus economic *management* is a key one for a socialist movement. By 1972, management had come to mean essentially demand management in the belief that output would follow public stimulation of aggregate demand. Socialist *planning* would involve the community in a social process of deciding the quality and pace of economic activity: This necessarily means public involvement in ownership of supply and production for public need. In one sense socialism may be defined as the conquest by the plan of market forces. Yet that alone would be insufficient. A further step is required: the democratic control of the planners' preferences. In this respect the A.L.P. command structure appears to offer assurances. The biennial federal conference formulates policy from resolutions submitted by branches and affiliated trade unions; the Federal Executive periodically interprets these policies; the Caucus of Labor parliamentarians determines the

tactics for their implementation and, in government, elects a Cabinet to administer them. As has been widely observed, however, in office the power of the government with respect to the labour movement is greatly increased, and despite dire warnings of trade union control, in both Britain and Australia, Labor governments rarely submit to the instructions of extra-parliamentary bodies. This has the apparent advantage of earning the accolades of a hostile press for the integrity of Parliamentary government. It also has the major disadvantage of making social policy often as difficult to implement for Labor as for tory governments. The policy speech made clear reference to the need to utilise *expert* advice on a number of commissions to be established to advise on the formulation and implementation of a policy. In addition, 'We shall need the help and seek the advice of the best Australians. We shall rely, of course, on Australia's great public service; but we shall seek and welcome advice and co-operation from beyond the confines of Canberra'.

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

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

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

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

all this activity produce?

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

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

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

On 18 July 1973, a tariff cut of 25 per cent across the board was announced. Further, in December 1972 and September 1973, the Australian dollar

was revalued by 7 and 5 per cent respectively against the U.S. dollar. The result was to increase considerably the cost of domestic goods relative to the now cheaper imports. It was intended that, as a result, the least competitive, and hence the least efficient, sectors of industry would be closed and new capital located in the more efficient remaining areas where capital-deepening could ensue. This would raise productivity and growth.

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

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

to the dole.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Up to that time the system of economic management utilised during the post-war period—Keynesian economics—had not been confronted with

inflation as a major economic problem. Certainly prices had risen during the post-war period but at a fairly steady and low rate—except briefly during the Korean War. Insofar as it entered economic policy making considerations it was attributed to two sources, demand pull and cost push. With respect to the former it was argued that in periods of rapid growth, particularly when an economy has been quickly recovering from a trade cycle recession, aggregate demand would expand quicker than output, thus creating a sellers' market in which suppliers would raise prices. In this situation, the role of government was to restrain demand growth by reducing its own expenditure, running a balanced or surplus budget and tightening credit by use of interest rates, etc. Cost push related the same situation 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 was added to Keynesian management policy in the form of the Phillips Curve. Named after an English academic and his empirical studies of Britain, the Phillips Curve seeks to demonstrate that wage and price increases are in inverse correlation to the rate of unemployment; more of one means less of the other. Hence, in order to reduce the rate of inflation, it would be necessary to alter the condition of the labour market. To reduce inflation required increasing unemployment. This option had been adopted in the 1971 Snedden budget when some inflationary increases had been occurring. One way of curbing such tendencies was to cut back government spending.

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

On 23 July, Mr Crean announced a mini-budget, the total effect of which was designed to restrain aggregate demand by cutting government expenditure and maintaining the credit squeeze. 'The foundation of any anti-inflationary policy must be the control of demand', he argued. 'The monetary situation is now very tight. We shall certainly keep it that way as long as necessary'.<sup>74</sup> Government revenue was to be increased with higher charges for postage, telephones, cigarette and spirits duties and a capital gains tax. Expenditure was cut by reducing assisted immigration, deferring the means test abolition and deferring the child care programme. 'In a spectacularly candid way, the Treasurer embraced the 1971 strategy which put the McMahon Liberal-Country Government out of office', argued one newspaper.<sup>75</sup> 'Mini-budget may cost 180,000 jobs', trumpeted

the headlines in another.<sup>76</sup> It was reported that government advisers predicted that 'the measure would mean that the number of people out of work will rise to between 120,000 to 180,000—or between two and three per cent of the work force'.<sup>77</sup>

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

In fact, the strategy pre-figured by the mini-budget was defeated politically within the caucus. The reason for this caucus revolt sprang from the impending downswing in the trade cycle. As early as December 1973 some Ministers, especially Clyde Cameron, had been arguing that there would be an economic downturn in late 1974. This had indeed been a common prediction in the financial press throughout the capitalist world during late 1973. It was thought that the rapid, synchronised upswing of 1973 would be equally rapid and synchronised in reverse. The large energy price rises and oil restrictions of late 1973 seemed likely to intensify this problem. In fact, at the very time that the mini-budget's introduction was proposing to deflate the economy, this was in any case occurring. The upward movement of the rate of unemployment had begun and did not 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 banking credit to bolster productive operations; differential tax rates to penalise speculation and favour low incomes; the maintenance of real wages, social security benefits and full employment; and the regulation of prices and profit levels.<sup>78</sup> Mr Bryant and Mr Cameron also circulated Caucus with plans designed to maintain economic activity yet lower inflation, including indexation of wage rates to the Consumer Price Index, in return for voluntary wage restraint and the restoration of tariffs and quotas on imports. Academic economists also became vocal proponents of alternative strategies. The Melbourne Institute for Economic and Social Research argued against deflation and for a wages/prices policy buttressed by taxation rates used as carrot and stick.<sup>79</sup> A group of South Australian economists launched the 'Adelaide Plan', the chief feature of which was wage indexation.<sup>80</sup> The Liberal leader, Mr Snedden was also critical of what he called a 'forty-year-old text book' economic thinking which advocated deflation: he opposed the revenue increases and called for large tax cuts. Other ministers, including Mr Uren and Mr Hayden, took extended economic advice and became influential in the drafting of the budget.

The effect of this activity was the political defeat of the Treasury line

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

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

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

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

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

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

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

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

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

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

The policy initiatives of September-November 1974 were designed to stimulate the private, sector, lift aggregate demand by running a government budget deficit, increase protectionism and lay the basis for wage restraint. They could be summarized as a Left Centre Keynesian package. Dr Cairns lent his support to the domestic critics of the 1973 tariff cut in which he had unenthusiastically participated. In a letter to the Associated Chamber of Manufacturers on 8 October, he openly queried the tariff level which Mr Whitlam had defended as recently as 23 September when referring to the 'nervous Nellies in my Party'. On 25 September, the Australian dollar was devalued by 12 per cent and greater support for import controls was evident in Caucus.<sup>87</sup> On 24 November, Mr Whitlam announced that tariffs would not be further reduced and it seemed clear that the free-trade approach of the Industries Assistance Commission under Mr Rattigan had fallen from favour. On 9 December, he announced a range of new tariff quotas on imports and presaged others. Following the extensive reports that<sup>88</sup> 'squeezed profits' were reducing production and job opportunities, a new mini-budget designed to stimulate the private sector was announced on 12 November. Personal and company taxes were

cut and the P.J.T. was instructed to take into account the need for profitability in its price rise hearings. On 11 December, further depreciation allowances were granted and company tax payment dates deferred. On 20 November 1974, Clyde Cameron announced that it was thought that wage indexation would be quarterly from the first quarter of 1975, thus reducing the need for industrial activity and large wage claims in anticipation of price rises. This, it was hoped, would stop the wage rises which Mr Whitlam had blamed for both inflation and the 'profits squeeze'. On 21 November, following some public criticisms by Mr Whitlam of the Treasury, it was announced that Dr Cairns would replace Mr Crean as Treasurer early in December. Shortly after, Labor was decimated in the Queensland state election, following the National Party's State Premier's blaming the Federal Government for the economic situation.

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

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

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

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

The Australian Labor Party will:

1. Establish a Department of Economic Planning to give advice on medium and long term priorities . . .
4. Empower the Australian Parliament, either by referendums or State references, to make laws with respect to prices, incomes and interest rates.
5. To achieve Labor's objectives, establish or extend public enterprise,

where appropriate by nationalisation, particularly in the fields, of banking, consumer finance, insurance, marketing, housing, stevedoring, transport and in areas of anti-social monopoly.

6. Recognising that ours is a mixed economy, that the private sector provides employment for a substantial part of the Australian work force and that an efficient and 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 on investment in order, among other things, to promote new investment and encourage innovation and research; and
  - (b) protect and develop Australian industries ensuring the optimum use of the nations resources by the use of tariffs, import controls subsidies and/or other economic instruments. In the course of determining policy for the protection and development of industries the Australian Government to make full use of the Planning Department . . .
13. Establish clear guidelines for overseas investors, for the benefit both of these investors and of the Australian community. Overseas investment in Australia should be encouraged only where it introduces new technology and expertise, includes plans for Australian participation in the enterprise, and/or otherwise shows itself to be in Australia's interest.

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

#### **Mineral Resources**

Labor will achieve and maintain full ownership and control of coal, oil, natural gas, uranium and all other fuel and energy resources . . . To encourage the treatment and fabrication of mineral resources in Australia, Labor will only allow the export of minerals:

- (a) . . . at reasonable world market price . . .
- (b) where they are reasonable beyond Australia's prevailing treatment and fabrication capacity . . .

#### **Fuel and Energy**

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

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

What was wrong with the economy?

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

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

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

During the 1973 boom most, sectors of the economy had experienced very high rates of activity, despite 1.5 per cent unemployment.<sup>91</sup> Both agricultural and mineral exporters faced a sellers market with rising prices. Manufacturing industry was running at a high level of output and building stock levels. Construction industry was meeting the high demand of those sectors while housing was trying to keep pace with heavy demand. In 1974, all these conditions collapsed for inter-related reasons. The world commodity boom came to an end and not only export receipts but investment in primary industry stalled, a process no doubt encouraged by Labor's cutting back the extensive subsidy system. Once manufacturing industry had established a high stock level, production levelled out and investment dropped. Again this was intensified by the deliberate policy of reducing protection, and only snowballed as consumers saved more in fear of unemployment. Further, as the Committee of Enquiry into Manufacturing industry reported in 1975, the profit and investment rate in that sector had been declining since the 1960s.<sup>92</sup> Construction industry, particularly in Sydney and Melbourne, found it had overcapacity of view of declining demand for office space, etc., and could not

readily diversify into other areas. Housing construction faced both a credit squeeze and reduced population growth. This was exacerbated as declining production was translated into declining demand. This type of scenario, which will be developed later, suggests that in a capitalist economy, a general tendency to expansion will be self reinforcing, as will a tendency to decline. With all sectors moving downwards together, exports, investment, consumption, a large stimulus would be required to reverse the pattern. The stimulation of aggregate demand provided under Cairns may have in part served this purpose and slowed the degeneration. But productive investment on a broad front was not forthcoming in the private sector. The government's efforts to stimulate it via public investment was a proper supplement: the administration of the policy proved less successful.

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

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

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

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

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

been \$3,301 m.<sup>104</sup>

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.<sup>105</sup> 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 it has the machinery to use them effectively is a mistake. It's not so'.<sup>206</sup> Lacking that power and machinery, the government was forced to attempt to talk up and subsidise Australian capital. Its parliamentary position depended on its success. Dr Cairns led the pump-priming, Mr Whitlam the talking-up. In a number of addresses to business groups, the Prime Minister stressed the A.L.P.'s commitment to a mixed economy and the role of profits. 'During the period of the Labor Government there has been no initiative to nationalise industry. There will not be'. He pointed out that the Government was 'seeking to attack inflation by reducing the pressure for wage increases' and 'sought to enhance profitability'. He concluded:

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

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

The March issue of *Labor*'75 contained a long letter from members of the Victorian Socialist Left criticising the Terrigal programme on two basic counts. First, that it committed the party to the preservation of private capital. Secondly, that, in calling for a wages/prices policy it effectively accepted that inflation was caused by workers' wage increases. It was reprinted in the Communist weekly, *Tribune*.<sup>108</sup> The letter was correct in its propositions, but the opportunity for an alternative direction had been lost six months before during the budget struggle; and it had

been lost then because the platform of 1972 had been formulated for different circumstances. And thirty years of boom had made those circumstances appear permanent. It was that historical fact which determined the absence of an alternative programme, led the government into reliance on manipulation of aggregate demand, persuaded social democrats to abandon the objective of social ownership of production, and had permitted the personal dominance of E.G. Whitlam, pragmatist, eclectic and welfarist. To blame him alone, as was later done, for 13 December 1975 would be ahistorical. The events of late 1975 were already pencilled into the diary. The private sector could not be talked up, subsidised up nor touched up, as Dr Cairns' successors were to discover. The long boom was over. The crisis came home.

The trade union movement presented a more substantial obstacle. In 1974, the combination of high levels of employment and inflation had led to a high rate of industrial militancy.<sup>209</sup> 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.<sup>110</sup> 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'<sup>111</sup> indexation in particular. The Commission wanted to reassert the central role in wage fixation policies, which it had lost since 1969, with the 'wage drift' that followed the unions' destruction of penal clauses after the Clarrie O'Shea jailing. Within this context, different unions and employers groups had different attitudes.

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

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

Most 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 to act as a brake on union militancy; and a government determined to provide

it with every support.<sup>112</sup> Both proved to be forthcoming.

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

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

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

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

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

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

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

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

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

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

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

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

The response of the Liberal party opposition to the developing economic crisis was at first as confused as the Labor government's. In response to the short sharp shock mini-budget of July 1974, Mr Snedden proposed stimulatory tax cuts.<sup>121</sup> In September he 'strongly rejected the use of unemployment as a method of curbing inflation—thus aligning himself with the government and against the Treasury'.<sup>122</sup> In reply to the budget he called for large tax cuts—which Dr Cairns later introduced and although he suggested restraints in government expenditure, he did not attach any urgency to them. Indeed he called education, pensions, the elimination of poverty, medical care, foreign aid and urban development 'vitally important national objectives'.<sup>123</sup> In the following months the Liberal spokesman on the economy, Philip Lynch, advanced various propositions designed to stimulate economic activity chiefly by cutting taxes and welfare programme growth.<sup>124</sup> 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.<sup>125</sup> Its most important proposals were: large tax concessions to capital; reduce wage rise and oppose indexation as inflationary; 'immediate policy actions to prevent an excessive and dangerously inflationary growth of the money supply'; and immediate cuts in government spending and the level of the budget deficit. In Chapter five, 'Government Policy: Source of the Crisis', it attributed the economic crisis to 'government spending . . . and the continued high rate of increase in the money supply

associated with it'.<sup>126</sup> Commentators widely and correctly saw this document as pushing the Liberals into monetarism<sup>127</sup> which marked a swing to the Right in terms of economic management. Snedden began providing longer lists of programmes he would axe.<sup>128</sup> In early March, the new policy on trade unions announced by the then spokesmen on industrial relations, Mr Fraser, proposed reintroducing penal sanctions.<sup>129</sup> Later in the month, he replaced Snedden as Liberal leader.

The election of Malcolm Fraser to the Liberal leadership<sup>130</sup> coincided with a swing to the Right within the opposition (both in its programme of monetarism, involving a widespread dismantling of the welfare state, and more restrictions on the activity of organised labour) and in the individual leader. In his ANZAAS speech,<sup>131</sup> Mr Fraser, made clear his disdain for Keynesian policies and 'the printing press'.<sup>132</sup> He enjoyed reading Ayn Rand—'There is an element of truth in Ayn Rand's books that is sometimes overlooked'.<sup>133</sup> 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.<sup>134</sup> Certainly he seemed a more appropriate conveyor of monetarist cut-backs<sup>135</sup> than his predecessor, whose economic alternative to Labor had been dubbed 'Creddenism'<sup>136</sup> by one paper.

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

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

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

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

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

1. We must never fail to re-employ people who can be reemployed productively merely because it would add to the deficit.
2. We must not consent to surrender any significant part of our programmes for welfare, education, urban improvement and culture advances as the result of pressure from the media and other anti-Labour forces.

It is far better to be defeated while attempting to implement Labor policies than to be defeated after surrendering them. I do not believe we can win by surrendering these or, if by any chance we did win, that winning would be worthwhile.

Having failed to get a Caucus spill of Cabinet and an election, the Prime Minister reshuffled. One paper described it as 'The Eclipse of the Left'.<sup>148</sup> The senior ministers became Hayden (Treasury), McClelland, Wheeldon (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 Deputy Prime Minister only a year earlier.<sup>149</sup> There may also have been some truth in his own allegations that his department had 'set him up'. His considering the establishment of a Department of Economic Planning as an alternative to Treasury<sup>150</sup> and his participation in the Loans Affair against its advice may have provided motives in this respect. In addition, he had led the Treasury's political defeat in 1974. The publicity accorded Ms. Morosi<sup>151</sup> may also have been thought to have harmed his political strength. But few of these considerations applied to Clyde Cameron (or later to Rex Connor). The fact was that they presented no clear practical strategy which could keep the party in office by the estimation of the majority of their colleagues. Their pump-priming Keynesianism had got them up: they went, as its failure became more apparent. By late May, Cairns and Cameron had agreed that the new course was necessary but would not implement it. When the production statistics for April and May appeared to indicate that a recovery in the trade cycle was occurring, the Government was only too ready to accept that inflation had now to be reduced by reining in the public sector while the private sector expanded.

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

## **6. Economic Rationalism, June to November, 1975.**

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

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

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

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

Business spokesmen were in accord with this process.<sup>166</sup> It was the labour movement that was most concerned with these developments. Complaints were made not only about the character of the pruning but the undemocratic nature of its implementation.<sup>167</sup> Such disquiet was only

intensified by two reports issued shortly before the budget speech. The seasonally adjusted unemployment figure for July was released on 10 August, and showed it to have risen to a new peak of 4.81 per cent, suggesting that the recovery heralded in May had been a false dawn.<sup>168</sup> An OECD report issued the following week confirmed this prognosis.<sup>169</sup> 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.<sup>170</sup> In the week before the budget speech, Mr Whitlam acknowledged the real core of the problem in his Chifley Memorial Lecture. The party's main programme—the expansion of and equality of access to public welfare programmes—depended on a steadily expanding capitalist economy such as had existed to 1971. That growth had stopped and, since the party had abandoned nationalisation, its programme would need to be cut back.<sup>171</sup> The restoration of private capital accumulation had become the government's primary objective.

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

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

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

the best means to achieve wage restraint.<sup>184</sup> The major obstacle was the union movement which in 1974 had achieved the most rapid pay increases ever, by the highest incidence of industrial militancy since the 1930s. The first serious threat to the April guidelines was presented by the A.M.W.U. following the rejection of its May pay claim.<sup>185</sup> By July, it had abandoned its national campaign to achieve this in favour of local collective bargaining.<sup>186</sup> The white collar unions' peak association, A.C.S.P.A., having in June rejected a 'wages freeze' and demanded changes in the capitalist system,<sup>187</sup> in September supported indexation.<sup>188</sup> Other campaigns continued but the overwhelming majority remained within the guidelines.<sup>189</sup> As a result the Commission granted 3.5 per cent to cover the June quarter CPI rise in September.<sup>190</sup> In November, it granted no rise since the C.P.I. for the September quarter rose by only 0.8 per cent.<sup>191</sup> 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.<sup>192</sup> 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'.<sup>193</sup> The combination of the stick of the reserve army of labour—strengthened by the government's campaign against welfare 'bludgers' which withdrew benefits from many<sup>194</sup>—and the carrot of political unity forced through the pay pause.

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

commentator pointed out: 'Coalition and Labor policy on the contentious issue of foreign investment in mining is now almost identical'.<sup>202</sup>

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

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

## 7. The Canberra Crisis

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

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

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

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

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

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

and with bankruptcies would lead to further concentration of ownership.<sup>212</sup> 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.<sup>213</sup> Some check in this decline was reversed in the August 1975 budget. *Syntec* estimated that the housing industry slumped 20 per cent in 1974-5 and would only lift 5 per cent in 1975-6.<sup>214</sup> 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.<sup>215</sup> Again a cut-back in public spending would worsen the situation that had resulted from an overproduction of office space and the generalised recession.<sup>216</sup>

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

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

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

existence of surplus capacity with low profits.

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

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

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

The alternative was to increase production for social need and not profit, hence eliminating the problems of declining investment being determined by profit rates. The obstacles here were also political. The Leninist solution of seizing state power and having the plan conquer the market was out of the question. The A.L.P. was not a Leninist party and those that were, were at the lowest ebb of their political influence since the 1940s. A rapid response to the recession would have required a carefully formulated strategy for increasing publicly owned production to compensate for drops in private economic output. The policy speech of 1972 had made no reference to such a strategy, nor did it exist. Instead, the increase in public sector activity was in unproductive

areas concerned with distribution which failed to add to investment or output. Indeed it did fuel inflation.<sup>226</sup> Very few efforts were made to expand the public sector into areas of production: in Australia the term is almost synonymous with public service. The major exceptions included the Minerals and Energy Department's plans for expansion of the Pipeline Authority and other enterprises which collapsed in the fiasco of the Loans Affair; and the proposition that was initiated in November 1974 to gain public equity in a four-cylinder engine plant in Adelaide. In July 1975, it was also announced that the government would buy a pharmaceutical producing group.<sup>227</sup> To this could be added the efforts to establish the A.G.I.C.<sup>228</sup> In fact one of the most enterprising suggestions in this respect came from the A.C.T.U., when in a submission to the P.J.T., then hearing another BHP price rise claim, it argued that the government should pay for any investment expansion by the company, thus not only ensuring expansion, but also gaining some control over it.<sup>229</sup> The report of the enquiry into manufacturing industry also produced extensive suggestions for the establishment of new social institutions, including industry councils, to widen democratic participation in social planning of production.

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

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

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

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

## 8. The Coalition Government

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

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

political action, taken federally, is required to alleviate inequalities in Australian society.

But as well, this considered and deeply felt assertion runs counter to the movement in Liberal Party policy which began under Prime Minister Gorton and McMahon and was not reversed by Opposition leader Mr Bill Snedden.<sup>236</sup>

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

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

government was installed on 11 November 1975.<sup>247</sup>

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

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

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

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

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

out by the actual levels of activity.<sup>271</sup> Already by February it was apparent that sectors of industry could be severely hurt by a cut-back in government expenditure and, however satisfied they might be by the government's efforts to cut wages, they would be opponents of cuts to those government programmes which ensured their profitability.<sup>272</sup> The first sector to voice these complaints was the heavy-construction industry which had been severely affected by the recession.<sup>273</sup> As the year progressed, sectors of the manufacturing industry began to complain that the strategy was squeezing their markets. The non-Labor state governments also voiced 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.<sup>274</sup> The government's chief worry, however, emerged as the trade union movement.

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

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

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

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

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

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

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

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

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

opportunities for domestic capital would be maximised during the deflationary drive. Further concessions in the form of company tax indexation and on easing of the trade practices legislation against monopolies and mergers were also foreshadowed.<sup>299</sup>

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

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

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

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

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

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

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

The third major objective was a redistribution of the national income away from wages, salaries and government expenditure and towards profits. Or as Mr Lynch expressed it: 'the sooner wages and profits return to a more normal relativity, the sooner job prospects will improve', and a 'downward adjustment in the wage share' '. . . is now required'.<sup>314</sup> The rationale for this objective was twofold. First, in a capitalist economy the mechanism for economic growth is provided by the reinvestment by capitalists of their profits, in anticipation of being able to make further profits. If this mechanism is not replaced by another—the expansion of productive facilities in the public sector or by the establishment of a socialist economy—then adequate profit rates *are* a prerequisite for economic growth. For nearly two years the financial press had been referring to the sudden drop in profits' percentage share of the non-farm G.D.P., from 15.6 per cent to 10-11 per cent. In April, *Syntec* had urged that profits' level would need to be increased by 50 per cent.<sup>315</sup> At stable G.D.P. this would involve a loss *per worker* of approximately \$11.00 per week on the estimate of one trade union.<sup>316</sup> Secondly the coalition argued, like Mr Hayden, that the private sector was being squeezed out by the too rapid growth of the public sector. The redistribution would be accomplished by two principal devices. As the economy grew modestly, the reduction in the real wage level would allow profits to rapidly recover. Further, the contraction in the public sector would be accompanied by increases in the level of tax paid by wage and salary earners but by a gradual reduction in the tax rate on corporations.

The fourth objective was to cut the size of the public sector. This partly reflected the ideological commitment to free enterprise and individual initiative which Mr Fraser had frequently stated. It was also in concert with the advocacy of allowing free market forces to determine the distribution of income and resources—a central plank of the monetarist

school. The 1976 cuts in Federal expenditure—continued in the budget—have already been referred to. In addition the New Federalism would reduce revenues available to state governments. The budget provided for a reduction in real terms of special grants to the states, while in the month preceding the budget Mr Fraser had criticised the expansion of state government programmes and had warned them to match their budgets with that of the federal government.<sup>317</sup>

The fifth objective was the only one to offer serious hope for short term economic recovery. Since the major elements of domestic activity—consumption, production, investment, public expenditure—were unlikely to lift substantially as a result of the government's strategy in the coming financial year, it was hoped that the economy would receive some assistance from the world recovery. The principal hope here was the minerals industry. The Labor government had adopted less restrictive policies on foreign investment in late 1975. In early 1976 these were the guidelines adopted under Mr Anthony, although he encountered serious criticism from his political allies in state politics in West Australia and Queensland, for being too restrictive. The weekend before the budget, Mr Lynch announced a new foreign investment mission would tour overseas, and that the government would be more 'flexible' in the administration of its guidelines.<sup>318</sup> 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.<sup>319</sup>

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

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

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

slashed, although the small real reduction was a reversal of the previous two years' experience and would have clearly deflationary consequences. The biggest cuts included Postal and Telecommunications (which would borrow \$200m). Aboriginal 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 sigh of relief could be heard in Antarctica. Company taxes also lifted slightly, by about 2 per cent, but the results of the revised stock valuation procedures were thought likely to check this trend in future years. Taxes on wages and salaries would rise by 23 per cent or 10.5 per cent in real terms. Here was the major contribution to a reduced budget deficit, a reduced growth in the money supply and, together with the National Wage Case, the redistribution of national income the government was seeking. Despite their being indexed, direct taxes on workers would rise over 10 per cent. In this rise the Medibank levy was the chief component, contributing about 50 per cent of the reduction in the deficit.<sup>320</sup> This explains why the government risked, and got, the first national strike to implement it and why it was so carefully implemented but insisted on. Announced four months before implementation, confused by changes and minor concessions in government policy, sustained through a national strike which the government assessed as a fizzer, the 2.5 per cent Medibank levy was vital. It was designed to push most people back to the private sector for health insurance; to reduce the size of government; to increase revenue and reduce the deficit; and, while maintaining a growth in workers' taxes, not form part of the agreement whereby the States' received a percentage of income tax revenues.

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

justment.

## 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,<sup>322</sup> as from the objective function of profits as the engine of economic growth in a capitalist society. The solution involved the application of those policies Marx described as tendencies offsetting the declining rate of profit—reducing wage levels, increasing the rate of exploitation, maintaining a reserve army of unemployment, improving the terms of foreign trade and wearing out the capital stock. In this process, smaller capitals (firms) would be eliminated and the larger ones would expand their control.

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

Thirdly, Australia was experiencing what O'Connor calls a fiscal crisis of the state.<sup>323</sup> The rapid growth of state activity that the 1950s and 1960s witnessed, accelerated in the 1970s, financed partly by fiscal drag or

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

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

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

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

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

clearer.

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

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

#### NOTES

- 1 Capital is productive resources, e.g., factories. In Marx's terms it is a 'social relationship'. Its owner hires wage labour to work with it to produce a commodity which can be sold at a value greater than the sum outlaid in hiring the labour, paying for any raw materials used and covering the wear and tear on the machinery. The difference he called 'surplus value', the capitalists' profit.
- 2 A major source of socialist theory is Karl Marx, one of whose basic concepts is the labour theory of value. This is *not* rigorously applied in this essay. A useful introduction to the theory is found in Ernest Mandel, *Marxist Economic Theory* (Merlin Press, 1971) Chapter One.
- 3 The countries of Western Europe, North America, Japan and Australasia. They correspond to the membership of the Organisation for Economic Co-operation and Development (OECD).
- 4 This 'iron law of wages' is Ferdinand Lassalle's. Marx thought the value of labour (e.g. wages) would be determined not only by minimum physical requirements but by social and historical elements determined by the development of society. See Karl Marx, *Wages, Prices, Profit*.
- 5 Frank Stilwell, *Sharing the Economic Cake: Inequality in Income and Wealth in Australia* (paper presented to A.I.P.S. Summer School, 1976), provides a useful summary of the data for Australia.
- 6 See C.P. Kindleberger (ed.), *The International Corporation: A Symposium* (M.I.T. Press, 1970); and Hugo Radice (ed.), *International Firms and Modern Imperialism* (Penguin, 1975).
- 7 The Henderson enquiry into poverty has made clear this is true of Australia. See Commission of Enquiry Into Poverty, *Poverty in Australia* (Australian Government Printing Service, Canberra, 1975). Compare the Study on Britain, D. Wedderburn (ed.), *Poverty Inequality and Class Structure* (Cambridge University Press, 1974).
- 8 Pierre Jalée, *The Pillage of the Third World* (Monthly Review Press, 1970), provides a classic description of this. See also Samir Amin, *Accumulation on a World Scale* (Monthly Review Press).
- 9 P. Sweezy, *Modern Capitalism and Other Essays* (Monthly Review Press, 1972), esp. pp. 141-3.
- 10 The 'coupist' element of Lenin's theories came in for considerable criticism at the time for its undemocratic connotations as for example by Rosa Luxemburg. Indeed Lenin himself had some doubts about it. See Rosa Luxemburg, *The Russian Revolution and Leninism or Marxism?* (University of Michigan Press, 1976); and Roy Green, *Imperialism and Revolution* (unpublished Honours thesis, University of Adelaide, Politics Department).

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

- Sweezy, *Monopoly Capital* (Penguin, 1966).
- 41 P. Jalée, *The Third World in the World Economy*. A. Emmanuel, *Unequal Exchange* (Monthly Review Press, 1972), argues this was due to, not the cause of, the disparity in income levels.
- 42 See 'The End of U.S. Hegemony', *Monthly Review* (October 1971).
- 43 In this essay I have not sought to deal with the character of the global conflict between the U.S.A. and the U.S.S.R., generally viewed as a struggle between capitalism and socialism. The Chinese government and some communist parties including the Communist Party of Australia (Marxist-Leninist) view it as an inter-imperialist struggle following the restoration of capitalism in the Soviet Union.
- 44 By 1975, one estimate was as high as \$300 billion.
- 45 See J. Hinkson, 'Currency Crisis', *Arena* 36.
- 46 See Anthony Barnett, 'Class Struggle and the Heath Government', *New Left Review* 77(1973), pp.23-5.
- 47 For Britain see A. Glyn & B. Sutcliffe, *British Capitalism, Workers and the Profits Squeeze* (Penguin, 1972). Compare B. McFarlane, 'Radical Ricadians', *Arena* 39(1975).
- 48 See Angus Hone, 'The Primary Commodities Boom', *New Left Review* 81(1973).
- 49 See 'Third World Struggle Against Hegemony in the Economic Sphere', *Peking Review* (26 September 1975); and G. Barraclough, 'The World Economic Struggle', *New York Review of Books* (7 August 1975).
- 50 See Henry Mayer (ed.), *Labor to Power; Australia's 1972 Election* (Angus & Robertson, 1973).
- 51 'The democratic Socialisation of industry, production, distribution and exchange—to the extent necessary to eliminate exploitation and other anti-social features in those fields—in accordance with the principles of action, methods and progressive reforms set out in this Platform.'
- 52 See Boehm, *op.cit.*, chapter 6.
- 53 OECD Economic Surveys, *Australia, 1972*.
- 54 See Hugh Stretton, *Ideas For Australian Cities*.
- 55 OECD Survey, *Australia, 1972*, 'Basic Statistics: International Comparisons', pp.100-1.
- 56 In sharp contrast with the E.E.C. states.
- 57 See Bob Catley & Bruce McFarlane, 'Technocratic Laborism—The Whitlam Government', in E.L. Wheelwright & Ken Buckley (edd.), *Essays in the Political Economy of Australian Capitalism* (Australia & New Zealand and Book Co., Sydney, 1975), vol. 1, pp.242-69.
- 58 *A.L.P. Policy Speech*, A.L.P. 1972.
- 59 *Australian*, 15 August 1975.
- 60 Address to N.S.W. Chamber of Manufacturers, 30 August 1973.
- 61 There is some doubt as to whether this is the case.
- 62 See B. McFarlane, 'The Swedish School Revisited' (paper to Conference of Economists, Adelaide, 1973).
- 63 See A. Lindbeck, *Swedish Economic Policy* (Macmillan, 1975).
- 64 'The (Federal) Conference was a policy-making instrument of great vitality for Labor in Opposition during the years of the Whitlam leadership; on the evidence of the Surfers Paradise Conference, the conference languished as a dominant influence with Labor in Government': C.J. Lloyd & G.S. Reid, *Out of the Wilderness, The Return of Labor* (Cassell, 1974), p.229.
- 65 *ibid.*, chapter 7.
- 66 See for example, OECD Economic Survey, *Australia, 1972* p.31.
- 67 *Capital*, vol. III, p. 233.
- 68 R. Horne, *The Australian Labour Market*, p.28.
- 69 *Australian Financial Review (AFR)*, 14 March 1973.
- 70 In 1976 the Liberal Minister for Employment, Mr. Street, described it as 'a middle class rip off'.
- 71 Catley & McFarlane, *op. cit.*
- 72 *National Times*, 4 June 1973.
- 73 John Edwards 'In 7 Momentous Months turned to Refloating a Sinking Ship', *National Times*, 18-23 November 1974.
- 74 *Commonwealth Parliamentary Debates, (CPD)*, 23 July 1974.
- 75 *AFR*, 24 July 1974.
- 76 *Australian*, 24 July 1974.
- 77 *ibid.*
- 78 *Australian*, 29 July 1974.
- 79 *AFR*, 6 August 1974.

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

- National Times*, 28 October 1974.
- 125 *The Liberal/Country Parties Economic Policy and Assessment: National Economic Programme 1975*. It was drafted with the assistance of such apolitical economists as Professor Hogan of Sydney University—*National Times*, 10 March 1975.
- 126 *ibid.*, p.47.
- 127 Alan Wood, 'Liberals See the Errors of the Past—Money Supply does Matter', *National Times*, 17 February 1975; Barry Hughes, 'Towards Monetarism with some zigs and zags', *Australian*, 13 February; Robert Haupt, *AFR*, 11 February.
- 128 *Advertiser*, 10 March 1975; *AFR*, 7 March 1975.
- 129 *Australian*, 4 March 1975. He was later reported to have discussed jailing Laurie Cairnsmichael. See also 'Fraser's Tough Union Stance', *AFR*, 14 February 1975.
- 130 See Paul Kelly, *The Unmaking of Gough* (Angus & Robertson, 1976).
- 131 Delivered January 1975.
- 132 Interview with Peter Samuel, 'The Liberal's Great White Hope', *Bulletin*, 29 March 1975.
- 133 *ibid.*
- 134 *National Times*, 24 March 1975.
- 135 See 'Fraser's Alternatives—Increased Defence—more selective welfare programmes', *Australian* 29 March 1975.
- 136 P.P. McGuiness, *National Times*, 11-16 September 1972.
- 137 *Australian*, 3, 4 and 6 February 1975.
- 138 Alan Wood, 'Budget Deficit: Now is the Time for the government to cut back', *National Times*, 24 February 1975.
- 139 *ibid.* See also P.P. McGuiness, 'Inflation's New Take-off Point', *AFR*, 22 April 1975; 'No Painless Way to Cut Spending', *AFR*, 13 May; and 'Cairns Brand of Keynesian Economics is confusing', *National Times*, 21 April.
- 140 *Australian*, 10 April 1975.
- 141 *Australian*, 19 February 1975.
- 142 Peter Tery, 'Jobs first then deficit cuts—PM', *Australian*, 17 April 1975.
- 143 'Cairns against sudden declines or jumps in the money supply', *AFR*, 22 April 1975; 'Cairns Won't Ease Up', *AFR*, 16 April; 'We won't Cut Spending: Cairns', *Australian* 16 April 1975.
- 144 'Cairns Faces Caucus', *AFR*, 21 April 1975.
- 145 'Cairns on PTJ, Wages, budget, money', *AFR*, 9 May 1975.
- 146 Paul Kelly, 'Taking a Big Axe to do a little pruning', *Australian*, 9 June 1975.
- 147 'Target: cut inflation; but methods must not hurt people', *Age*, 6 June 1975.
- 148 *AFR*, 4 June 1975. See also 'Cabinet Changes Course', *AFR*, 6 June 1975; and A. Clark 'How Gough Whitlam Destroyed the Power of Labor's Old Guard', *National Times*, 9 June 1975.
- 149 See Paul Kelly, *The Unmaking of Gough*.
- 150 See J. Edwards, 'Treasury and its Rivals', *Current Affairs Bulletin* (May 1975) and Peter Cross, *Australian*, 13 March 1975.
- 151 Ms. Junie Morosi was appointed to Dr. Cairns' staff and became the centre of newspaper reporting with unfriendly innuendos. See Junie Morosi, *Sex, Prejudice and Politics*.
- 152 Robert Haupt, 'Labor's Heartland Deserts', *AFR*, 30 June 1975.
- 153 There was ample evidence that this was the case in mid-1975.
- 154 *AFR*, 6 June 1975.
- 155 R. Haupt, 'Whitlam-Hayden Face a Cairns-Cameron Axis as Battle Lines Form for the Do or Die Budget', *AFR*, 20 June 1975.
- 156 'Cairns Sacked', *Australian*, 3 July 1975.
- 157 P.P. McGuiness, *AFR*, 8 July 1975.
- 158 e.g., 'ANZ Opts for Tough Budget and monetary policies', *AFR*, 5 August 1975; 'CBA advises Govt to renew Inflation Attack', *AFR*, 13 June 1975; 'Public Sector Restraint welcome: LOA Leader', *AFR*, 10 June 1975.
- 159 'Prepare for big cuts in tough budget—PM', *Australian*, 28 July 1975; 'Hayden's Bid to allay businessmen's fear', *Australian*, 24 June, 1975.
- 160 'Reserve Bank Tugs the Reins', *AFR*, 12 June 1975.
- 161 *Australian*, 20 June 1975.
- 162 *Australian*, 22 July 1975.
- 163 *Australian*, 2 August 1975.
- 164 See 'P.M. Handed New Report on how to cut spending', *Australian*, 14 July; 'Whitlam Backs the Hayden Line', *AFR*, 16 July; 'Cuts Threaten key Programmes', *Australian*, 9 July; 'Cabinet Told to Slash \$2,100m from Spending', *Australian*, 8 July; 'Beazely

- Fights to halt education cuts', and Budget chop for Transport, Roads', *Australian*, 25 July; 'Give more aid to poor-Riorden', *Australian*, 26 July; 'Govt decides on big rises in indirect taxes', *Australian*, 29 July; 'Funds for Union Training Slashed', *Australian*, 2 August.
- 165 'Whitlam Hands Over the Reins', *AFR*, 8 May; 'Treasury Win', *National Times*, 18 August 1975.
- 166 e.g., George Polites, (Employers' spokesman): 'It's Time to call a halt to fantasyland philosophy', *Australian*, 7 August.
- 167 See *Australian*, 30 July; 'Unions want conference', *Australian*, 4 July; 'Whitlam has lost contact with people', *Australian*, 5 July.
- 168 'Jobless worst since the Depression', *Australian*, 11 August.
- 169 'Inflation Jobless will get worse', *Australian*, 18 August.
- 170 'Recovery Permits major spending cuts—Whitlam', *Australian*, 16 July.
- 171 Reprinted in *Australian*, 15 August.
- 172 1975-6 *Budget Paper No. 1* (Australian Government Publishing Service, Canberra, 1975). The philosophy behind it is expounded more fully in Mr Hayden's 'Arthur Calwell Memorial Lecture 1975', *Fabian Newsletter* 15, 6, pp.4-13. See my note on the budget, *Arena* 40, (1975).
- 173 'Haserism—The New Consensus', *AFR*, 24 September.
- 174 e.g., Andrew Clark, 'Tweedledum and Tweedledee thinking is apparent in current party policies', *National Times*, 15 September; Peter Samuel, 'Labor's Liberal tax scheme', *Bulletin*, 30 August 1975.
- 175 'Let Down for Industry', *Australian* 20 August.
- 176 'Cutting out the Red Scheme means hard times become harder in Cobar', *National Times*, 15 September; '10,000 families to miss out on homes', *Australian* 21 August.
- 177 'New Tax Slug for Workers', *Adelaide News*, 21 August.
- 178 'Budget will cost votes says Hawke', *Australian*, 13 August.
- 179 'Jobless Total goes over 5 per cent mark', *Australian* 8 September.
- 180 *AFR*, 18 September 1975.
- 181 *AFR*, 16 October, p. 7.
- 182 John Edwards, 'Hayden's Budget Message: Is there any room for a reform party', *National Times*, 18 August.
- 183 *Advertiser*, 18 October 1975.
- 184 'States Agree to support wage indexation scheme; Metal trades employers also switch policy', *Australian* 21 June.
- 185 See Andrew Clark, 'Why the Metal Unions are tough, militant and hungry', *National Times*, 6 October 1975.
- 186 'Metal Men Expected to Lift Bans', *Australian*, 28 June; 'Metals Reversal', *Australian*, 9 July.
- 187 'Big Unions reject wage restraints: Capitalist system must alter it says', *Australian*, 19 June.
- 188 'Unions campaign to smash Labor's wage indexation policy', *National Times*, 8 September.
- 189 'Unions relent on indexation', *Australian*, 9 September 1975.
- 190 *AFR*, 19 September.
- 191 *AFR*, 4 November. This was due to the introduction of Medibank. The underlying increase was thought to be 2.9 per cent.
- 192 *Australian*, 8 November, 'Metal Trades unemployment halts wage demands', *AFR*, 8 December.
- 193 *Australian*, 28 November.
- 194 See 'Thousands of cheats lose dole', *Australian*, 23 September 1975, and 'Investigation stops 3,671 dole cheats', *Australian*, 27 October.
- 195 'Net Overseas borrowing still just a trickle', *AFR*, 9 June; 'Australia "less attractive" for mineral exploitation', *AFR*, 12 June; 'Survey: The Mining Industry', *AFR*, 7 July.
- 196 'Govt drops "Key industries" policy on foreign takeovers', *AFR*, 29 August 1975.
- 197 Hewitt was a vital bureaucratic arm of Connor's policies.
- 198 'PM puts brake on Connor', *Australian*, 3 September.
- 199 'Whitlam opens door to foreign investment', *Australian* 25 September; 'Connor Rolled', *AFR*, 25 September; 'Resources master plan leaves with R.F.X.', *AFR*, 23 October.
- 200 The same day it was announced that foreign interests controlled 87 of Australia's largest 200 manufacturing companies and that these accounted for 23 per cent of all manufacturing output.
- 201 *AFR*, 10 November 1975.
- 202 Andrew Clark, 'Doug Anthony on the L-CP mining policy', *National Times*, 24

- November.
- 203 Two good accounts are Paul Kelly, *The Unmaking of Gough* (Angus & Robertson, 1976); and Laurie Oakes, *Crash Through or Crash* (Drummond, 1976).
- 204 See Donald Horne, *The Death of the Lucky Country* (Penguin, 1976).
- 205 'The Canberra Coup', *Workers News* (1976). See also the *Weekly Workers News* (Sydney).
- 206 See Clem Lloyd & Andrew Clark, *Kerr's King Hit!* (Cassell, 1976), p.1-53.
- 207 These are closely followed in *The Vanguard* (weekly, Melbourne).
- 208 Corroborated by (1) Whitlam's letter in *The Socialist*, September 1975, organ of the Socialist Party of Australia; (2) the (abortive) Iraqi loans negotiations of December 1975: see Kelly, *op. cit.*, chapter 24.
- 209 See Kelly, *op. cit.*, chapter 5.
- 210 *Australian*, 13 August 1975, *AFR*, 9 July 1975.
- 211 *AFR*, 28 October 1975, and 21 April 1976.
- 212 'Rising costs drive small miners into the clutches of the majors', *National Times*, 16 June 1975.
- 213 See Hugh Stretton, 'Housing Policy', in Peter Scott (ed.), *Australian Cities and Public Policy* (Georgian House, 1976).
- 214 See *AFR*, 8 August 1975.
- 215 See 'Grim Outlook for building', *AFR*, 9 April 1975; 'Govt Projects buoy construction commencements', *AFR*, 8 July 1975.
- 216 'Building approval point up extent to Government prop', *AFR*, 29 October 1975.
- 217 *Policies for Development of Manufacturing Industry, A Green Paper* (Australian Government Publishing Service, 1975), vol. 1.
- 218 See Urwick International survey, *AFR*, 5 May 1975.
- 219 As J. Cairns outlined to Monday Conference, 24 February 1975. 'After two-and-a-half years we have made little lasting progress towards achieving a more rational use of resources within and by the manufacturing sector', Sen. McClelland when Minister for Industry, *AFR*, 8 May 1975.
- 220 e.g., 'Capital goes on strike and freezes spending', *National Times*, 14 March 1975.
- 221 See 'Profits are on a toboggan run', *Australian*, 24 October 1974; 'Profit for manufacturers on downward slide for 18 years,' *AFR*, 11 September 1975.
- 222 '5000 smaller firms on verge of bankruptcy', *Australian*, 22 October; 'Small Business, Big Bust', *Australian*, 12 August; 'Slump Puts Shutters on 3000 Firms', *Australian*, 2 September 1975.
- 223 'Why People save more despite inflation', *AFR*, 22 September; 'The Savings Paradox of Inflation'; 'Why are People Saving So much? No one knows', *National Times*, 15 December 1975.
- 224 See reports on BHP, *AFR*, 11 September 75, *Australian*, 24 September 75; 'BHP—A monopolist by Govt approval', *AFR*, 18 June, 1975; 'BHP cuts back to the Bone', *AFR*, 4 July, 1975.
- 225 Which is what happened in 1975 anyway especially in the automobile industry.
- 226 See OECD Survey, *Australia*, 1974, p. 28 ff.
- 227 *Australian*, 2 July 1975.
- 228 See L. Rivers & J. Hyde, 'The Dominance of Finance Capital', *Arena* 39(1975).
- 229 'Federal share in Steel Mills Urged', *Australian*, 21 May 1975.
- 230 'Wilson clears way to tackle crisis; Business welcomes Benn's demotion', *Australian*, 12 June 1975.
- 231 *AFR*, 10 December 1975.
- 232 The similarities between the Whitlam government's last months and those of Scullin (Lang) are superficially considerable. The Cabinet's division on basic Labor policy vs. staying in office (Cairns/Anstey); the reflationary plan accommodating capital (Connor, Cairns/Irvine, Theodore); redefining Australia's relation to foreign capital (Lang/Connor); the international support for deflation (the Bank of England and the Premiers Plan/Friedman and monetarism); Scandal and the Parliamentary Left (Cairns/Theodore); the removal from office and electoral defeat (Game/Kerr); deepening of recession.
- 233 Edited version reprinted in the *Australian*, 26 September 1975. See also interview, 'When big government has gone mad', *Australian*, 28 August 1975.
- 234 'Fraserism is Different', *AFR*, 1 August 1975.
- 235 *Australian*, 12 June 1975.
- 236 Robert Haupt, *AFR*, 1 August, 1975.
- 237 See p. 46 above.
- 238 George Negus, 'Mr Fraser opts for a trade union confrontation', *AFR*, 14 January 1975.

- 239 *AFR*, February 1975; and Bob Mills, 'Liberals' Tough Industrial Policy', *AFR*, 25 July 1975.
- 240 'No commitments in Lib.-NCP social welfare policy', *AFR*, 21 October 1975.
- 241 'L-CP education policy will end tied grants', *AFR*, 17 October 1975.
- 242 'Federalism Fraser Style', *AFR*, 25 September 1975.
- 243 'Chipp backs down over Medibank', *Australian*, 2 September 1975.
- 244 *Australian*, 27 August 1975.
- 245 See 'Treasury versus Fraser's Opposition', *Australian*, 28 August; 'Fraser Calls for the Axe', *AFR*, 27 August 1975; 'A Genuine Conservative Emerges', *Australian*, 29 September; 'Malcolm Fraser Talking: We Want Power in our own right', *National Times*, 1 September 1975.
- 246 *Australian*, 25 June 1975.
- 247 An extensive statement of these policies is to be found in *The New Government Policies* (Hoquara, P.O., Box 181 Civic Square, Canberra).
- 248 See 'Fraser Strategy for recovery', *AFR*, 28 November.
- 249 'The Answers to the big economic questions', *National Times*, 1 December 1975.
- 250 'Fraser's Grim Warning', *Australian*, 26 November.
- 251 'Liberals plan will hit economy says Hayden', *Australian* 19 November.
- 252 'Liberals have timetable to cut aid—Whitlam', *Australian* 11 December 1975.
- 253 'Fraser will spark battle with Unions warns McClelland', *Australian*, 22 November 1975; 'Dunstan warns of anarchy', *Australian*, 17 November.
- 254 Which included involving the labour movement more extensively in decision-making relating to the restructuring of manufacturing industry.
- 255 *AFR*, 2 December.
- 256 'P.M.'s Olive Branch for Unions', *AFR*, 3 December.
- 257 *Australian*, 5 December.
- 258 *ibid.*, 2 December. See also interview with Minister for Employment, Tony Street, *AFR*, 21 November.
- 259 *CPD*, 17 February 87. See also interview with Mr. Fraser, *AFR*, 2 February 76.
- 260 See 'The Fraser-Lynch Team', *AFR*, 21 November 1975; 'How the Bureaucrats forced Malcolm's hand', *National Times*, 9-14 February 1976; 'P.M.'s New Advisers', *AFR*, 18 February 1976; and 'Fraserism is Really Quite Trendy', *AFR*, 11 December 1975.
- 261 'Lynch Blueprint for Investment Recovery', *AFR*, 23 December 1975.
- 262 'Fraser Wields Axe on Govt spending', *AFR*, 22 December 1975; 'Govt freezes public Service Growth', *AFR*, 24 December 1975; 'Fraser slams door on 17,500 PS jobs', *Australian*, 10 February.
- 263 'Govt Sells Off Connor Legacy', *AFR*, 8 January 1976.
- 264 'Govt mops up excess liquidity', *AFR*, 8 January; 'Lynch's monetary time bomb', 24 January; 'Fraser's New Monetary Package', *AFR*, 23 January.
- 265 'Fraser's tough new Federalism Timetable', *AFR* 31 December; 'Fraser's Federalism', *AFR*, 16 January; 'No Extra Funds for States', *Australian*, 24 January; 'No More loans, Fraser tells the States', *Australian*, 5 February.
- 266 See *Workers Without Jobs* (Brotherhood of St. Lawrence, Melbourne 1975).
- 267 *CPD*, 3 February 1976.
- 268 'Fraser furious over Hamer's Pay Rebuff', *Australian*, 6 February 1976.
- 269 'Cabinet Plots Strategy to keep Lid on Wages', *Australian*, 14 February 1976.
- 270 J.P. Young Survey, *AFR*, 30 January; ANZ Bank, *AFR*, 22 January; Victorian Chamber of Manufacturers, *AFR*, 20 February; Chamber of Commerce and National Bank, *AFR*, 11 February.
- 271 'Sales Blow to Fraser', *Australian*, 28 February; 'Still no sign of consumer spending revival', *AFR*, 4 February; 'Business is Unswayed on Recovery', *Australian*, 9 February 1976; 'Survey shows Fraser has done little for business confidence', *AFR*, 9 February.
- 272 'Private sector may feel weight of spending cuts', *AFR*, 5 February; 'For Malcolm Fraser and us 1976 could be a nasty year', *National Times*, 2-7 February 1975.
- 273 'Fraser Govt policies recipe for building industry collapse', *AFR*, 20 February; 'More Public sector work needed in construction', *AFR*, 30 January; 'Building groups join forces for Govt aid', *AFR*, 7 January 1976.
- 274 See e.g., 'Malcolm's Medicine: Can our fragile economy take it', *National Times*, 16-21 1976.
- 275 'P.M.'s new early warning system', *AFR*, 21 January 1976, Mr. Egerton and Mr. Thompson (V.B.U.) joined the Government's economic consultative group.
- 276 See 'Fraser Govt-A.C.T.U.-Employer talks the key to the shape of 1976', *AFR*, 9 January.

- 277 A decision widely supported by business as a survey indicated: 'Major firms support the P.J.T.', *Australian*, 27 March.
- 278 *CPD*, 4 March 1976.
- 279 Bank of New South Wales survey, *Australian*, 23 March; 'Thousands Quit Dole Queues', *Australian*, 6 March.
- 280 'No recovery in Sight' (Bureau of Statistics) *AFR*, 25 March 1976; 'Outlook Stays Murky' (Dept of Industry) *AFR*, 16 March; 'Consumers hold back' (Bureau of Statistics), *AFR*, 30 March; 'More are going to lose jobs, says secret report' (Dept of Employment); Adelaide *Advertiser*, 19 April; 'Jump in Jobless slows recovery', *Australian*, 10 April; 'Lynch optimistic but output down', *AFR*, 29 April; 'Upturn has yet to Appear', *Australian*, 27 April; 'Economy is stagnating says Scott', *Australian*, 21 April 1976.
- 281 See 'Cabinet's Inner Power Circle', *AFR*, 30 April; and 'Cabinet rejects special aid for building sector', *AFR*, 14 April.
- 282 'Dole ultimatum to stop cheats', *Australian*, 24 March.
- 283 'How the States were sold a pup', *National Times*, 19-24 March.
- 284 See 'Cabinet's New Wage Stance', *AFR*, 5 April; 'Fraser walks a wage tightrope', *Australian*, 8 April; 'Four months of inactivity', *National Times*, 12-17 April; 'Egerton talks wages with PM over dinner', *AFR*, 14 April; 'Percentage pay rises condemned', *Australian*, 23 April; 'ACTU split on wage index policy', *Australian* 24 April. Mr Egerton became Sir John Egerton in the June honours list.
- 285 '\$470m subsidy leaves business cool', *AFR*, 27 April; 'Why business is disenchanted with the Fraser Government', *National Times*, 26 April—1 May; 'Firms Scrap \$400m Plans', *Australian*, 12 April.
- 286 'New Car Plan', *AFR*, 31 March; 'A New Road Map for Car Markets', *Australian*, 1 April.
- 287 See 'Australia showing signs of 'British Disease'', *AFR*, 4 March; also 'Stable Australia at risk if profit levels not raised', *AFR*, 8 April.
- 288 'Grit with Gravy', *AFR*, 21 May, *National Times*, 24-29 May.
- 289 'Confidential Report reveals Govt's anti Medibank tactics', *AFR*, 3 June; 'Govt Plan for Private Hospitals', *Australian*, 24 May; 'Medibank shattered', *AFR*, 28 May; 'Health fees to Double', *Australian*, 19 May.
- 290 'National strike threat growing. Militants hit Hawke's "soft line on cuts"', *Australian*, 31 May.
- 291 'Medibank sets up own funds', *Australian*, 9 June.
- 292 'Medibank change widens split in unions', *Australian*, 10 June.
- 293 'Big Business does a bit of Government bashing', *Australian*, 31 May; 'Employers warn of job losses', *Australian*, 14 June; 'Industries call for urgent aid', 26 May 1976.
294. *AFR*, 25 May; *AFR*, 1 June.
- 295 'Investment Allowance is a big flop', *National Times*, 7-12 June.
- 296 'Financiers Warn Govt against spending spree', *Australian*, 2 June 1976.
- 297 *Australian*, 4 and 7 June.
- 298 'Up go trade barriers', *AFR*, 10 June; 'Fraser—A Protectionist a Heart', *AFR*, 11 June.
- 299 'Trade laws under fire', *Australian*, 8 June; 'We've got to have indexing too by George', *Australian* 3 June.
- 300 *Australian*, 11 June 1976, Bureau of Statistics. Figures.
- 301 *Australian*, 1 June.
- 302 *AFR*, 31 May 1976.
- 303 *Advertiser*, 29 May 1976.
- 304 'Treasury warns Fraser', *AFR*, 14 May 1976.
- 305: 'Medibank: States Challenge Fraser', *Australian*, 28 May.
- 306 'End of the Punch and Judy Show', *AFR*, 4 June.
- 307 'States Retire Hurt', *AFR*, 11 June.
- 308 'Premiers warn of Jobless rise', *Australian*, 11 June. See also George Munster, 'Harlot's Prerogative', *National Review*, 11-17 June.
- 309 But the second non-Labour budget.
- 310 Budget Speech, Budget Paper No. 1, Canberra, 1976), p. 8.
- 311 *ibid.*, p. 5.
- 312 *ibid.*, p. 4.
- 313 *ibid.*, p. 8.
- 314 *ibid.*, p. 5.
- 315 See 'Stable Australia at Risk if profit levels not raised', *AFR*, 8 April 1976.
- 316 Private correspondence with A.M.W.U.

- 317 See for example, 'PM warns States', *Australian*, 20 July.
- 318 *AFR*, 16 August 1976.
- 319 Budget Speech, pp. 31-3.
- 320 G.R. Palmer, Health Insurance in Australia—The New Model (unpublished paper).
- 321 *Advertiser*, 1 July 1976.
- 322 See for example, John Playford, *Neo-Capitalism in Australian* (Arena Monographs).
- 323 James O'Connor, *The Fiscal Crisis of the State* (St. Martin's Press, New York, 1973).  
See also 'Marxist Theories of the State', *Monthly Review* (November 1975).
- 324 Sen. J. McClelland, *Australian*, 28 June 1976.
- 325 Readers searching 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 Stretton, *Capitalism, Socialism and the Environment*.

## 2

# THE LOANS AFFAIR

DARRYL FOSTER

DURING 1974, THE Whitlam Labor Government became aware that as a result of OPEC's four-fold increase in oil prices, large petro-dollars surpluses were becoming available on the international money markets to governments wanting to borrow. This possibility presented a number of attractions to a government frustrated by an opposition-controlled Senate's refusal to pass the Australian Industry Development Corporation Bill<sup>1</sup> and by a High Court ruling which invalidated the newly created Petroleum and Minerals Authority.

Secondly, and more importantly, because the Arabs do not have the same sorts of multi-national corporations as the Western world, loans were available with fewer strings attached than the traditional sources of Chase Manhattan, Morgan Guarantee and other finance capital corporations were willing to allow. Ted Wheelwright states that 'America has always said in effect that we aren't going to lend money to people to buy out our companies'.<sup>2</sup> This didn't deter American multinationals from buying out Australian enterprises though. On this very subject one American executive declared, 'Now you tell me that there may be some obstacles. Well they'll have to be big ones to stop us. No outburst of blind nationalism is going to make us change our minds'.<sup>3</sup>

It was this 'blind nationalism' that inspired Minerals and Energy Minister, Rex Connor, in late 1974, to seek a loan from Middle East sources in order to mount a massive programme of mining and natural gas development including the upgrading of deep sea harbours and the electrification of freight rail areas to increase export earnings.<sup>4</sup>

Moreover the possibility of a 'buy back the farm' operation, resulting from the financial difficulties being experienced by a number of overseas owned mining corporations, wouldn't have escaped the attentions of so astute an industry observer as Connor. The Burmah Oil Company, in deep debt, had to be rescued by the British authorities and its share of a natural gas consortium could have passed under Australian control. In Queensland, the Peabody coal assets looked like coming on to the market as a result of a U.S. anti-trust order against its major shareholder, Kennecott Copper.<sup>5</sup>

Although none of these intended projects were costed, it seems

reasonable to suggest that the \$4 billion loan Connor was seeking could easily have been absorbed.

The 'unconventional sources' of overseas loans obtainable in the Middle East had already been tapped by a number of countries. 'Leading international borrowers such as the United Kingdom, France, Japan, Italy and Denmark had arranged large government-to-government loans on a bilateral basis, amounting to \$6.3 billion during the second half of 1974'.<sup>6</sup> Moreover, Middle East financiers were becoming increasingly aware of their potential as challengers to the traditional finance institutions of New York and London by declaring that 'The time for SAMA (Saudi-Arabian Monetary Authority) or its counterparts in other oil-producing nations to replace Chase or Morgan as a prime direct source of finance is very near, we predict'.<sup>7</sup>

The purposes for which the loan was to be used were in Australia's best interest and for its long-term benefit. The same cannot be said for the actual loan-raising operation that followed. On 11 November 1974, Tirath Khemlani, a London-based Pakistani commodities dealer arrived in Canberra to discuss with Rex Connor the raising of a \$4 billion loan. From the outset the Treasury and Reserve Bank were suspicious of Khemlani, as a result of a multitude of previous approaches by 'funny-money' men offering loans that on subsequent investigation Treasury found they could not obtain.

Both Connor and his departmental head, Sir Lennox Hewitt, interpreted this attitude as a reflection of Treasury conservatism and attachment to traditional financial institutions. This was a view also shared by Prime Minister Whitlam who, as Laurie Oakes points out, 'recognised that there was a risk involved, but he had always been contemptuous of people afraid to take risks. He would have seen the stakes as worth the gamble'.<sup>8</sup> He gave Connor his full support. Additionally Whitlam's relationship with Treasury had distinctly soured as a result of the advice his government was receiving concerning the economy, and he was seriously considering replacing Sir Frederick Wheeler as head of Treasury, with Hewitt.<sup>9</sup>

On 7 December 1974, following negotiations overseas, Khemlani arrived back in Australia. A meeting was convened that day with officers from Connor's Department, the Attorney-General's Department and representatives from merchant bankers Darling and Co. and their legal advisers. As well, Whitlam held meetings with officers from the Treasury and Attorney-General's Department, the Governor of the Reserve Bank and the Chairman of the Commonwealth Banking Corporation, while the Board of the Commonwealth Bank was also told of the loan-raising plans. Obviously, a number of people including some from outside the public service knew of Khemlani's activities before a meeting of the Executive Council was ordered to authorise the loan raising. It is no great surprise, therefore, to learn from Andrew Clark that 'Opposition Leader Phillip Lynch was tipped off within four days of the Council's meeting',<sup>10</sup> or indeed from Oakes that 'Lynch had heard about

the loan even before the meeting'.<sup>11</sup>

The Executive Council meeting was hastily arranged, as Whitlam was leaving Australia on the following day, 14 December. A meeting of the A.L.P. Federal executive being held simultaneously was continually interrupted by ministers ducking in and out between the two meetings. Amazingly, the Deputy Prime Minister and Treasurer Jim Cairns hadn't been informed of the Executive Council meeting and was asked by Whitlam to sign the minute after the meeting concluded.<sup>12</sup> The Governor-General Sir John Kerr whose signature was also required was attending a ballet in Sydney and he too signed the minute some time later.

On 20 December, Connor sent copies of the Executive Council minute and a copy of the Draft Acceptance to Khemlani and the Union Bank of Switzerland where the funds were to be mobilised.<sup>13</sup> On the following day Connor informed Khemlani that 'The loan proposals have been examined by the Australian government and in the light of information now available to it, it will not further pursue the matter'. What accounted for Connor's abrupt termination of the negotiations at this late stage?

It certainly wasn't, as Wheelwright suggests, 'revoked at the insistence of bureaucrats in the Treasury'.<sup>15</sup> It was revoked by Connor himself after the Union Bank informed him that it knew nothing of the loan referred to.<sup>16</sup> Reports from officers of the Treasury and Minerals and Energy who were in Switzerland during this period reached Australia and indicated that Khemlani was not telling the truth.<sup>17</sup> A meeting was arranged by Cairns with Connor, the Attorney-General Lionel Murphy, Wheeler and other officials. At that meeting, according to Cairns, Connor 'quickly agreed that the matter should not be proceeded with and the authority to borrow \$4b. was revoked on 7 January 1975'.<sup>18</sup>

The Minister for Minerals and Energy did not table any documents in the Parliament during the special sitting of 9 July, relating to those events (except the telex informing Khemlani that the deal was off) because it would have made a mockery of the contact he continued to have with Khemlani following the debacle of December.

On 28 January 1975, Connor was again given an authority to seek a loan this time of \$2,000m. He had frequent contact with Khemlani right up until 20 May, when Whitlam revoked the authority.<sup>19</sup> During this five months period no evidence appeared that a loan would be secured. The interchange between Connor and Khemlani degenerated into farce as both Bob Sorby, Connor's press secretary, and his departmental head warned him of the consequences of continuing the Khemlani negotiations.

By the time Whitlam revoked the authority it was too late—the damage had been done. In the intervening months, the 'fringe operators' and 'carpetbaggers' of the international money market became aware of Australian loan raising efforts and alleged letters of communication between Australian officials and intermediaries were given widespread publicity in the media. The opposition and the media, keen to force a federal election at the earliest possible opportunity, sought to extract

as much political advantage as possible from a situation that was clearly damaging the government's morale and credibility.

But if Whitlam believed his May decision would see an end to the painful loans exercise he was wrong. A new crisis emerged involving Deputy P.M. and Treasurer, Jim Cairns.

In the middle of December 1974, Cairns received a letter from George Harris, a Melbourne businessman, concerning the possibility of overseas loan raisings. On 31 December 1974, Treasury submitted to Cairns a minute pointing out the dangers of approaches of this kind<sup>20</sup>—less than a fortnight after Treasury's predictions of the Khemlani loan were proved correct. In his book *Oil in Troubled Waters* Cairns omits to mention this minute. Indeed his chapters on the loans affair are more important for what they do not contain than the contrary. Humphrey McQueen may well be correct in describing parts of Cairns' book as 'brilliantly lucid'—he is not correct in suggesting, however, that 'It is packed with information and details not to be found in the gaggle of books by journalists'.<sup>21</sup> Much of what Cairns has to say was already in Hansard almost twelve months earlier, or in the accounts written by Laurie Oakes and Paul Kelly and published in book form in early 1976.

The Cairns crisis stemmed from a letter he had given to Harris on 7 March 1975 in which, a legal opinion concluded,<sup>22</sup> he established a client relationship between the Treasurer and Harris. Cairns makes much of the point that 'It was fully within my authority as Treasurer to give to Mr Harris the letter... of 7 March even if those letters had established an agency between the Australian government and Harris. At no time did the Attorney-General's Department, or anyone else, ever suggest otherwise'.<sup>23</sup>

This may well be the case but it wasn't the point at issue. Whitlam's decision of 2 July to advise the Governor-General to terminate Cairns' commission stemmed both from a discrepancy between a reply given by him on 4 June and the letter written on 7 March 1975, and from reported activities of a Cairns staff-member, his son-in-law Phillip Cairns, which would have made it possible for the latter to make a profit from his position on his minister's staff and from whom Whitlam believed he had not received satisfactory explanations. In his speech to the Parliament on 9 July 1975, a week following his dismissal of Cairns, Whitlam said. 'The explanation I sought from the minister did not concern the proprietary or prudence of any activities he had entered into as Treasurer concerning petro-dollar raisings'.<sup>24</sup>

Had Cairns followed the instructions that he gave to his own staff-members to refer all loan-raising offers to Treasury it is likely that the debacle would have been avoided. He seems to reach the same conclusion himself and now says. 'I was never keen to try to do business with intermediaries. I do not like shrewd money dealers of any kind. Perhaps the only one I took seriously, and it was a mistake, was George Harris'.<sup>25</sup>

Ironically the only petro-dollar loan that appeared likely to become available was a loan from the Saudi Arabian Monetary Authority being

negotiated by those who had vociferously opposed Connor's efforts—Cairns and in particular the Treasury.

The deal fell through, however, when Whitlam sacked Cairns as Treasurer on 3 June 1976. It is a measure of Whitlam's total ignorance of loan-raising methods that he unwittingly sabotaged the government's only likely source of success. The only reason he offered the Parliament on 9 July for dismissing Cairns as Treasurer a month earlier was a 'belief in the unwisdom of his (Cairns') action'.<sup>26</sup> The more likely reason was that he wanted to clear the decks of a Treasurer who he knew would oppose the deflationary economic strategies that Whitlam was being persuaded to adopt by Treasury in the August budget.

Tirath Khemlani re-appeared again in Australia in early October 1975 and in a statutory declaration declared that Connor had continued loan negotiations with him after his authority had been revoked by Whitlam on May 20.<sup>27</sup>

Khemlani's allegation conflicted with Connor's July 9 speech tabled in the Senate where it was revealed that 'The Executive Council authority of January 28 was rescinded on May 20 to permit the finalising of a \$100m loan to Australia in New York. Matters have not been further pursued with Mr Khemlani'.<sup>28</sup> Connor clearly had misled the Parliament, and Whitlam asked for Connor's resignation. Connor refused. When caucus convened the following morning, a motion 'accepting Connor's resignation was passed by caucus following a ballot in which Connor supported the motion. The Prime Minister had called for the resignation of his minister on the basis of a speech *tabled* in the Senate—a chamber which was later to prove instrumental in the destruction of his government.

Much of the detail concerning the 1975 Loans Affair remains obscure, particularly the role played by the institutions which dominate the international money market. The following broad conclusions may, however, be drawn.

1. A large loan to the government would have enabled the A.L.P. to implement its proposals for greater local ownership of the Australian economy and an expansion of the productive public sector. In 1974-5 such policies would, in addition, have provided some stimulus to an economy experiencing its worst post-war recession.

2. Such a loan was clearly available as the other loans have demonstrated. It may, however, have been the case that a large loan for the purposes that the A.L.P. had in mind was less acceptable to the international finance market.

3. It is not clear why the Labor Ministers—Connor in particular—used intermediaries in their loan-raising efforts when government-to-government negotiations would appear to have presented a more logical channel. These intermediaries provided the occasion for the spectacular allegations raised by the Opposition and the press concerning financial maladministration.

4. The publicity campaign, secrecy and administrative mistakes made

by Cairns and Connor permitted their removal on grounds of parliamentary and administrative incompetence. Those Ministers most concerned to alleviate the recession and to introduce structural reform to the Australian economy were thus most easily removed in the interests of the introduction of economic rationalism.

5. The legacy of the Loans Affair is most certainly going to make any future efforts to break out of the central economic plank imposed during the Liberal era—private foreign investment, largely uncontrolled—that much more difficult. Of the lost opportunities of 1974-5 the Loans Affair may prove to have been the greatest.

## NOTES

- 1 This Bill was designed to allow a degree of Government participation in new development projects; although it was passed at a joint sitting of both Federal Houses in August 1974, the Senate was likely to refuse finance to fund the AIDC.
- 2 Ted Wheelwright, 'The Loans Affair', *Arena* 39 (1975), p.77.
- 3 'Conglomerate Trip—Its Aquisitions in Australia.' Mr. Bobby Smith, ITT Vice-President, *Age*, 3 May 1972.
- 4 See Connor's speech to the House of Representatives—*Hansard*, 9 July 1975, p.3611-12. See also Cairns' list of projects requiring developmental funds in *Oil In Troubled Waters*, (Widescope, (1976), p.163-6.
- 5 See *Nation Review*, Editorial, 11-17 July 1975.
- 6 Bill Hayden, *Hansard*, House of Representatives, 9 July 1975 p.3641.
- 7 Mr. Kikmat Nashashib, Investment Manager of the Arab Fund for Economic and social Development in *Euromoney* (August 1974), p.49.
- 8 Laurie Oakes, *Crash Through or Crash* (Drummond, 1976), p.58.
- 9 *Ibid*, p.58.
- 10 Andrew Clark, 'Hay: First Away on the Funny Money Trail', *National Times*, 7-12 July 1975, p.6.
- 11 Oakes, *op. cit.*, p.62.
- 12 See Jim Cairns, *Oil In Troubled Waters* (Widescope, 1976) p.93-4.
- 13 Copy of the telex in *Hansard* (House of Representatives, 9 July 1975), p.3617.
- 14 Copy of the telex in *Hansard* (House of Representatives, 9 July 1975), p. 3619.
- 15 Ted Wheelwright, in *Arena* 39 (1975), p.82.
- 16 Paul Kelly, *The Unmaking of Gough* (Angus & Robertson, 1976), p.165-6.
- 17 Oakes, *op. cit.*, p.63-4.
- 18 Cairns, *op. cit.*, p.94.
- 19 *Hansard*, House of Representatives, 9 July 1975, p.3621 ff.
- 20 A copy of the minute appears in *Hansard*, (House of Representative, 9 July 1975), pp. 3568-9.
- 21 Humphrey McQueen reviewing *Oil In Troubled Waters*, in *Nation Review*, 6-12 August 1976.
- 22 *Hansard* (House of Representatives, 9 July 1975), p.3565, for opinion of Attorney-General's Department.
- 23 Cairns, *op. cit.*, p.99.
- 24 *Hansard* (House of Representatives, 9 July 1975), p.3556.
- 25 Cairns, *op. cit.*, p.71.
- 26 *Hansard* (House of Representatives, 9 July 1975) p.3557.
- 27 See *Melbourne Herald*, 13 October 1975.
- 28 Oakes, *op. cit.*, p.131.

# 3

## ANTI-TRUST AND THE BOURGEOISIE: 1906 AND 1965

ANDREW HOPKINS

### **The 1906 Act: Serving Australian Manufacturers**

AN ASSUMPTION WHICH underlies much contemporary work in the sociology of law is that law, rather than expressing general social value, represents particular interests, frequently at the expense of other interests.<sup>1</sup> Whose then, are the favoured interests? The question is particularly intriguing in the case of anti-monopoly law. Monopoly interests are usually well organised and forcefully expressed and might be expected to resist vigorously the introduction of, from their point of view, unfavourable legislation. Yet such legislation has been enacted in a number of countries. How has this occurred? The answer, of course, requires a detailed examination of the circumstances in which such acts were passed.

A considerable amount of work has already been done on America's first anti-trust statute, the Sherman Act of 1890. Some writers have argued that it was a result of the convergence of a number of interests

---

The trust was a legal device, popular in the United States towards the end of last century, by which rival firms eliminated competition among themselves. 'To form a trust, majority stockholders of a number of independent companies turned over their shares, carrying voting control over the affairs of their companies, to a single group of "trustees"'. They received in return trust certificates entitling them to share in the profits of their companies operated by the trustees as a group. The trustees could then run the formerly competing companies as a single enterprise, extracting whatever monopoly profits might be available'. (R. Caves, *American Industry: Structure, Conduct, Performance* [Prentice-Hall, 1967], p.57.)

The term 'antitrust' is loosely used to describe legislation not only against trusts but also against single firm monopolies, price rings (price agreements among competitors) and various other collusive and restrictive trade practices.

This essay consists of two papers on Australian antitrust law—*The 1906 Act: Serving Australian Manufacturers* and *The 1965 Act: Managing the Affairs of the Bourgeoisie*. These were written separately, the latter for presentation to a conference on class analysis held in Sydney in 1975. Their substance is to be incorporated in a more detailed study provisionally entitled, 'Regulating Capitalism: The Sociological Sources of Australian Monopoly Law'.

farmers, consumers and others—which, at least in the political arena and for the time being, proved more powerful than the trusts.<sup>2</sup> Others suggest that a close examination of the way in which the legislation was introduced reveals that it was not in fact contrary to monopoly interests. Nor was it even intended to be. It was simply a conciliatory and empty gesture designed to allay public hostility which had been aroused by the scandalous behaviour of the ‘captains of industry’ of the day.<sup>3</sup> The difference between these two accounts is perhaps more a matter of emphasis than of substance. Both recognise the existence of politically powerful anti-monopoly forces, the latter merely stressing that the monopolists organised their retreat in such a way as to minimise their losses.

In Australia, the Australian Industries Preservation Act, which contained sections directly modelled on the Sherman Act, was passed in the federal parliament in 1906. But the circumstances of its introduction were quite different. It is the purpose of this essay to explore the reasons for the advent in the Australian context of antitrust legislation apparently antagonistic to powerful monopoly interests.

Soon after the Australian states federated in 1901, the new federal government turned its attention to the problem of monopolies. Monopolies, or effective monopolies, brought about by agreements among competitors existed in a number of industries most notably, sugar, shipping, coal and tobacco and in 1904 a senate committee was set up to enquire into the tobacco monopoly.<sup>4</sup> Twice in 1903, and again in 1904, the government promised to legislate against ‘rings and trusts’.<sup>5</sup> On the basis of such evidence, some writers have concluded that the 1906 act was simply the response of a democratic parliament to public concern about the growth of monopoly in Australia.<sup>6</sup>

But this is hardly an adequate explanation. In order to understand the apparent defeat of monopolistic interests entailed by the passage of the Australian Industries Preservation Act of 1906, we must examine in greater detail the genesis of the legislation and the interests which it in fact represented. To begin with, we need some knowledge of the political groupings in the early federal parliament.<sup>7</sup>

Prior to federation, the Australian states had protected their local industries to varying degrees by erecting tariff barriers against imports from interstate and overseas. Federation meant the end of tariffs between states but it also meant that the new parliament now had responsibility for determining tariff policy for Australia as a whole and deciding on levels of tariff protection for Australian industries which would be common to all states. This was the issue which dominated the early years of the parliament. On the one hand the protectionists, representing local manufacturing interests, argued for tariffs which would restrict overseas competition and allow the development of Australian industries. On the other, the free traders, who represented both commercial (more specifically importing) interests and farmers, concerned to buy their agricultural machinery in the cheapest market, argued against the

imposition of barriers to foreign trade.

The early parliament was divided into three roughly equal groupings: the protectionists, the free traders and the Labor party which, because of its concern for the jobs of workers in Australian industries, advocated a protectionist tariff policy. This identity of interests allowed the protectionists to govern with Labor support, and although the tariff issue was largely settled by 1905, the rather unusual political groupings to which it had given rise persisted until towards the end of the decade. In what follows, I hope to show that the A.I.P. (Australian Industries Preservation) Act of 1906 was an expression of this dominant protectionist philosophy rather than of any serious concern to strike at the anti-competitive practices of rings and trusts in Australia.

### *The 1905 Bill*

The bill which became the A.I.P. Act was introduced in parliament in June 1906. It was, however, a substantially revised version of an earlier bill introduced in December 1905 following representations made to government by, amongst others, Mr H.V. McKay, Australia's largest manufacturer of harvesting machinery. McKay had, until 1905, been a party to a price-fixing agreement which included not only other Australian manufacturers of harvesters but also the huge American International Harvester trust and the Canadian Massey-Harris combine which were selling their harvesters on the Australian market. It was not the operation of this ring but rather its breakdown which prompted McKay's representations. With the breakdown of the agreement, International Harvester, which already claimed 90 per cent of the world market, decided to capture the Australian market. It made McKay an offer, which he refused, and thereupon set out to destroy him by lowering its prices and selling harvesters on the Australian market at a price which McKay said he could not afford to match. Evidence of the trust's intention to destroy McKay was given before a royal commission enquiring into the harvester industry by a witness who recounted the following conversation with a travelling representative of the International Harvester Company:

The representative said, 'The International Harvester Company is determined to get hold of the trade in harvesting machinery, and it's only a matter of a little time before we knock out all the local men'. I said, 'You can't beat McKay'. 'Yes', he replied, 'We'll beat McKay. We have unlimited money behind us and even if we worked at a loss for three years we are bound to beat him...We don't care what money it costs, we shall secure the trade. McKay had an offer from us to buy him out, and he will live to regret the day that he refused that offer. We are going to close him up'.<sup>8</sup>

Not only was a native industry threatened but so also were the jobs of 150 of McKay's workers, a fact which he made sure was widely publicized.<sup>9</sup> The protectionists and their Labor supporters were thus convinced of

the need for government intervention and the A.I.P. Bill of 1905 was their response.

Introducing the bill to parliament, the minister responsible for it said the measure was needed to deal with 'rings and trusts (which) dump their various productions on our shores, with the absolute intention of destroying the industries of our country'.<sup>10</sup> He made much of the 'enormous octopus trusts' in the U.S. which were menacing Australia, a metaphor subsequently elaborated by one government supporter who warned that the International Harvester combine 'has fastened one of its long tentacles upon the heart of Australia and threatens the very existence of industries which have been established at considerable cost'.<sup>11</sup> Much of the minister's speech was devoted to the harvester issue and he referred to a rumour that 2,000 harvesters were, even as he spoke, 'on the water', bound for Australia. He added (although there is no authentic verification of this rumour): 'I have no doubt that a large number of orders have or will be given and that unless we pass this legislation, the machines will be here before next spring'.<sup>12</sup> Referring again to the harvester threat he said: 'this bill has been introduced to prevent the possibility of serious trouble occurring during the next nine or twelve months'.<sup>13</sup> Given this motivation it is not surprising that the principal provisions of the 1905 bill were designed to prevent overseas business interests, be they trusts or otherwise, from engaging in unfair competition with the intention of destroying Australian industries. These were the so-called anti-dumping provisions.

Though predominantly an anti-dumping bill, then, there were, as has been indicated, specifically anti-trust sections, modelled on the Sherman Act, which might have been used to deal with trusts of local origin. But the government was so little concerned with the activities of local monopolies that the minister in charge of the bill was unsure of whether it would even affect them. When challenged in parliament, he was doubtful about whether the shipping ring, perhaps the most notorious of the local monopolies, would come under the act. Similarly, the sugar monopoly, he thought, would be untouched.<sup>14</sup> Reading the debates one is left with the impression that the anti-trust sections of the bill were an after-thought, added for no more rational reason than that the unfair competition from overseas about which the government was concerned happened at the time to be mounted by trusts.

Further evidence of the government's lack of any serious commitment to an anti-monopoly policy can be gained by a closer examination of the anti-trust sections of the bill. Section 1 of the Sherman Act provides that:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations, is hereby declared to be illegal.

This was the model for section 10 of the Australian bill.<sup>15</sup> However, the Australian provision differed from the American in a number of ways. First, the American section applies regardless of who the parties to the

restraint of trade are; the Australian section applied only when at least one of the parties was a trust or its agent. Why this changed was made is not clear, but it does not seem to have been made with any deliberation because when it was pointed out in debate that the Colonial Sugar Refining Company, whose control of the market had often been criticized, was a single firm monopoly and not a trust, the attorney-general conceded that the section would not apply to it. When asked if it could be made to apply, he replied: 'Certainly, we can do that without any difficulty whatever. It can be accomplished by the insertion of a few words'.<sup>16</sup> The government did modify the bill accordingly, but its failure to insert these 'few words' in the first place, illustrates, its lack of interest in the issue of local monopolies.

A second departure from the American model was that in Australia restraint of trade was to be illegal only if it was 'to the detriment of the public', and if this detriment was 'wilful', that is, intentional. It was widely recognised at the time that this would make it more difficult to secure a conviction, and critics argued that the difficulty of proving intent, in particular was notorious. But the government was more interested in protecting those whom it felt ought not to be caught up in its legislation. As the attorney-general explained, it would be wrong to prosecute those who *inadvertently* restrained trade to the detriment of the public.<sup>17</sup> It was an important principle of law, he said, that a defendant was guilty of an offence only if he *intended* to commit it.

A final significant addition to the section was that it banned not only certain actions in restraint of trade, but also unfair competition by trusts aimed at destroying or injuring Australian industries. Since unfair competition by overseas trusts was already banned by the anti-dumping provisions, the function of this addition was to extend the prohibition to cover unfair competition by *Australian* trusts. Thus even this anti-trust section of the bill was made to serve a protectionist purpose. It was not so much the existence of or even the monopolistic profits extracted by local trusts but their occasional predatory actions against other Australian industries which roused the government's ire.

A second section of the Sherman Act copied in the Australian bill was its prohibition of monopolization. This, too, was weakened by modifications similar to those discussed above and need not be dwelt on here.

One other feature of the anti-trust sections of the 1905 bill deserves comment. The American constitution gives the federal government power to legislate with respect to trade and commerce between the states and with foreign nations; it does not permit the regulation of trade that takes place entirely within state boundaries. Hence the American anti-trust laws apply only to interstate and overseas trade. The Australian constitution gives the federal government similar powers and, in conformity with the American model, the Australian bill of 1905 aimed solely at interstate and overseas trade. However the Australian constitution also gives the federal government power to legislate with respect to 'trading or financial corporations formed within the limits of the

Commonwealth'. Although this power might appear to allow the government to control monopolistic practices engaged in by corporations within state boundaries, no attempt was made to invoke it in the 1905 bill. Since the majority of trade combinations which had given rise to public concern in Australia did not extend beyond state limits,<sup>18</sup> this oversight seriously restricted the effectiveness of the measure. The difficulty was drawn to the government's attention during the debate on the 1905 bill, and in the 1906 revision the relevant provisions were extended to cover the purely intra-state operations of corporations (although intra-state practices engaged in by unincorporated firms and individuals necessarily remained untouched).

This examination of the anti-trust provisions of the 1905 bill shows that the government was not motivated by any serious concern to promote competition. Although modelled on the rather stringent Sherman Act, the Australian provisions were altered in such a way as to render successful prosecutions most unlikely, and in addition, the government's failure to make full use of its constitutional powers meant that the majority of combines would, in any case, have been immune from prosecution. The fact that the government incorporated a prohibition on unfair competition in the anti-trust provisions of the bill is symptomatic of the philosophy of protectionism rather than of competition which underlay the measure.

The fundamentally protectionist character of the legislation infuriated the opposition free traders. One spoke of it as 'protection run stark staring mad'<sup>19</sup> Another argued that the departures of the Australian Industries Preservation bill from the Sherman Act made it quite opposite in its effects. The Sherman Act sought to promote competition, he said, while the Australian bill would diminish it.<sup>20</sup> From this it followed that the proposed legislation would encourage higher prices and was thus contrary to the consumer interest, which opposition members saw themselves as representing. In the words of one:

We should pay some attention to...the interests of the general consumers, who have not been consulted in regard to this measure, although they comprise the great body of the electors. I admit that the manufacturers must be fairly considered, but the consumers who far outnumber them and particularly the consumers of machinery in connection with the primary industries, are entitled to be remembered.<sup>21</sup>

Sensitivity to the consumer interest led one free trader to ask why consumers were placed last in one of the bill's clauses which spoke of the need to have 'due regard for the interest of producers, workers and consumers' to which the minister replied: "One must come last—goods cannot be consumed until they are produced".<sup>22</sup> This response was obviously lighthearted and no great weight can be placed upon it, but it is symptomatic of the producer rather than consumer orientation which lay behind the bill.

Government members did not reject the opposition's characterization

of the measure as protectionist rather than antitrust. The attorney-general declared that both the anti-trust and the anti-dumping sections were designed to protect Australian industry. The bill as a whole was a necessary accompaniment of a protective tariff, he said, since tariffs alone could not deter foreign trusts which were prepared to suffer temporary loss in order to ruin a local competitor.<sup>23</sup>

But while the government could afford to ignore the protests of the free traders, it was obliged to deal more circumspectly with the Labor Party upon which it relied for its parliamentary majority. The Labor Party supported the legislation generally but was critical of the many weaknesses in the anti-trust provisions of the bill. It was concerned to make the bill effective against local combines and monopolies, particularly the shipping combine and the sugar monopoly.<sup>24</sup> Actually though, the very concept of American style anti-trust legislation was not particularly to Labor's liking; at its federal conference earlier in 1905, the party had adopted a policy of nationalization of monopolies.<sup>25</sup> Indeed, the earlier-mentioned senate committee of enquiry into the tobacco monopoly had been initiated by a short-lived minority Labor government in 1904 for the purpose of enquiring into the desirability of nationalizing the tobacco industry. But, out of government, the party was prepared to accept anti-trust legislation as a compromise and to work for the most effective such legislation it could win from the protectionists. Thus, it was largely Labor's obvious determination to strengthen the anti-trust sections of the measure that forced the government to defer action on its bill at the end of 1905 and to submit a substantially revised version in June 1906.

#### *The 1906 Bill*

The Australian Industries Preservation Bill of 1906 laid considerably more stress on the monopoly problem than did its predecessor. The anti-trust sections now preceded the antidumping provisions. They had been rewritten, moreover, so as to strike at single firm monopolies and at the purely intra-state activities of corporations. The minister saw the new bill as affecting the tobacco combine, the sugar monopoly and the shipping ring. In fact he announced the legislation was now urgently needed in order to deal with the shipping combine.<sup>26</sup>

But though it had been prodded into action against local monopolies the government still saw its task as one of protecting local enterprises against the predatory behaviour of monopolists rather than of promoting competition in the interest of the consumer. For example, the minister's principal objection to the tobacco combine was not that it raised the price of tobacco paid by the consumer (which it did), but that it imported its tobacco from overseas to the detriment of the local tobacco growing industry. 'I believe that the operations of the trust are proving injurious to the industry in Australia, and that they will ultimately destroy it', he said.<sup>27</sup>

And in the case of the shipping combination, the government's prime

concern was the high freight rates which the combine imposed on the various commercial and industrial interests which relied on the coastal shipping service for the transport of their goods and raw materials.<sup>28</sup> Particularly objectionable, from the point of view of a government committed to the protection of Australian industries, was the high price which industries in the southern states were forced to pay to have their coal shipped from the northern coal fields.<sup>29</sup> Moreover, the shipping ring was known to have forced out of business at least one ship-owner who had not joined the ring, which might have been expected to anger almost any government.<sup>30</sup> These concerns, then, coupled with the need to accede to Labor party demands for strong anti-monopoly legislation account for the apparently quite stringent anti-trust provisions of the Australian Industries Preservation Act as it was finally passed by parliament towards the end of 1906.

#### *The Fate of the 1906 Act*

The mere passage of anti-trust legislation does not in itself usher in an era of 'trust-busting' and enhanced competition. The subsequent fate of the legislation suggests that none of those responsible for the administration and interpretation of the act paid much more than lip service to the value of competition which the legislation, on the face of it, embodied.

Part of the reason for this lack of enthusiasm was that the government's original purpose in introducing the legislation, the protection of Australian harvester manufacturers, had been achieved by other means. Despite its earlier claim that tariff barriers were ineffective against foreign enterprises intent on dumping their products on Australian shores, the government proposed to parliament in 1906 a new form of tariff which was indeed sufficient to protect local harvester manufacturers against dumping.<sup>31</sup> Its interest in the legislation as a whole might thus have been expected to wane.

But with anti-trust legislation on the books and constant demands from the Labor party that it be enforced, in particular against the tobacco combine, and the restrictive practices engaged in by coal mining companies in association with the shipping ring,<sup>32</sup> the government did launch several investigations. It was hampered, however, by the difficulty of obtaining information on the activities of trusts which could be used as evidence in prosecutions, and in 1907 the government amended the act so as to allow it to compel companies under investigation to disclose information. Armed with this new power it sought information from one of the companies in the shipping ring concerning its coal trade. The company refused to provide the information and challenged the constitutional validity of the legislation on the grounds that its particular restrictive arrangements were on an intra-state basis and that, despite appearances, the corporation power in the constitution did not allow the federal government to regulate the purely intra-state activities of corporations.

Judges of the Australian High Court were generally more concerned to protect the rights of states against federal encroachment than they were to ensure the effectiveness of the government's anti-trust legislation,<sup>33</sup> and accordingly upheld the challenge, thus depriving the government of the ability to control the intra-state activities of corporations and severely restricting the scope of the act. Nevertheless the government went ahead with its investigations and, in 1909, in an effort to strengthen the act and simplify the procedures of proof, made further amendments specifying two new classes of offence. One was the use of rebates, refunds, discounts and other rewards to induce exclusive dealing and the other was the refusal to sell to a buyer for the reason that he did not belong to a ring or trust. Both these techniques were used by the shipping and coal combines to maintain their monopoly. But it was left to the Labor party, which assumed office in 1910, to begin the first substantive prosecution under the act, against the coal mining and interstate shipping firms whose various agreements had kept the price of coal higher than it would otherwise have been. The companies were convicted on charges of combining with intent to restrain the interstate trade in coal to the detriment of the public, and of monopolizing that trade with similar intent. Each company was fined, and injunctions were issued against the continuance of these practices. For a moment it appeared that, six years after the introduction of the legislation in parliament, Australia was finally to embark on an era of government-sponsored competition.

But that appearance was short-lived, for on appeal the convictions were overturned. The appeal judges were quite unconcerned about the preservation of competition. On the contrary, they pronounced on the evils of 'cut-throat competition', and argued that the agreements were necessary to prevent 'unlimited and ruinous competition'. The fact is, however, that there was no evidence of ruinous competition before the shipping and coal combination came into existence, leading one student of the judgements to conclude that 'if the Full Court found cut-throat competition, it was because a common law training had led its members to *expect* that all competition would be ruinous'.<sup>34</sup>

Moreover, the appeal judges tended to interpret the public interest as synonymous with the interest of producers. According to the same commentator:

...since in the court's view the only alternative to restriction and monopoly was the total dislocation of the industry by cut-throat competition, it followed that entrepreneurs who combined to guarantee themselves an income (and so ensure the survival of the industry), could not be regarded as acting with intent to injure the public. Even if the combination raised its prices, restricted its output, excluded new entrants and forced inferior coal on the consumer, the public was better off accepting such inconveniences than losing an industry altogether.<sup>35</sup>

In the face of this complete lack of sympathy displayed by the appeal court judges for the anti-trust principles embodied in the legislation, the government capitulated and made no further efforts to enforce the

act.

It is of some interest that while the case against the shipping and coal companies was in progress, the Labor government amended the act removing the need to prove *intent* to cause public detriment, and modifying the need to prove public detriment itself. Despite these amendments, the government proceeded with the case on the basis of the old legislation and thereby failed to maximise the chance of conviction.

But even had the government made use of its amended legislation, it is doubtful whether the final outcome would have been materially different. First, it is obvious from the reasoning of the appeal court judges that the question of intent was not the crucial factor in their decision, because public detriment itself had not been established. Secondly, while the amended legislation did specify some offences for which it was not necessary to establish public detriment, it seems quite probable that, given their belief in the evils of competition, the appeal court judges would have introduced some such a test at their own initiative. After all, although the Sherman Act banned restraint of trade and monopolization, without regard to whether in any particular case public detriment was involved, the United States supreme court modified the law in 1911 by adopting a 'rule of reason' which construed the statute as prohibiting only those restraints of trade and monopolies which were 'unreasonable'. Australian judges of the day might have been expected to follow this lead and modify the Australian legislation in a similar manner.

Nevertheless, Labor's failure to give the prosecution the best chance of success, and its subsequent failure to seek further amendments which might have strengthened the act, do provide evidence of its lack of enthusiasm for such legislation. As Labor's attorney-general expressed it, proceeding against trusts in this way was 'like trying to divert a cataract with a straw'.<sup>36</sup> The party's preferred policy of dealing with the problem of monopolies was to nationalize them, and even before the prosecution under the act began, Labor had initiated moves to change the constitution so as to allow nationalization. In 1911 and again in 1913, referenda seeking such powers were held but both were lost. There was thus an insuperable constitutional obstacle in the path of nationalization, and although Labor maintained its commitment to a policy of nationalizing monopolies, its initiative was spent. So ended an era of anti-trust in Australia.<sup>37</sup>

### *Conclusion*

It is evident that the Australian Industries Preservation Act, though modelled in part on an act which gave expression to a philosophy of competition, was never itself intended to promote competition. Rather, the aim of the government which introduced the measure was to protect Australian industries against unfair competition engaged in by overseas enterprises, many of which were trusts, and to a lesser extent to protect certain Australian enterprises against victimization by other Australian businesses. There was little explicit recognition of the consumer interest,

and the government certainly did not see the legislation as enforcing competition for the benefit of the consumer. The act was designed to regulate the affairs of business in the interests of certain sections of business.

The Labor party, upon whose support the government depended and at whose instigation the specifically anti-trust sections of the legislation were strengthened, was, paradoxically, never committed to the philosophy of competition which those sections embodied. It opposed monopoly in the interests of the consumer, and given its general hostility towards a system of private enterprise, it believed this purpose was best served by a policy of nationalization rather than enforced competition. Its support for an anti-trust measure modelled on the Sherman Act was necessitated by its minority position in parliament.

The passage of strong antitrust legislation through the early federal parliament was thus a result of political compromise. The act expressed principles of competition which neither party responsible for it endorsed. Moreover, as we have seen, the judiciary was generally antipathetic to the notion of competition. In the absence of any climate of opinion in favour of competition in Australia it was almost predictable that an act to enforce it would be ineffective. The fact is that anti-trust legislation was imported into Australia to serve a purpose for which it was not originally intended, the preservation of local industries against foreign competition. When it became evident that this purpose could be achieved by other means, interest in the legislation waned and, but for the equivocal efforts of Labor, the act would have become a dead letter even sooner than it did.

\*

\*

\*

### **The 1965 Act: Managing the Affairs of the Bourgeoisie**

Watching the alternation in office of Liberals and Conservatives in the days before Labor appeared in the British Parliament, Marx and Engels concluded that, regardless of the party in power, 'the executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie.'<sup>38</sup> Whether this statement still applies to the capitalist state, and if so, in what sense, is the central problem of two books, *The State in Capitalist Society* by Ralph Miliband<sup>39</sup> and *Political Power and Social Class* by the French Marxist, Nicos Poulantzas.<sup>40</sup> although these two writers differ on a number of points and have debated their differences at length in the pages of the *New Left Review*,<sup>41</sup> they agree that, properly understood, Marx and Engels' insight is as applicable today as it was then.

In the first place, the state is not simply the tool of a ruling capitalist class. The personnel of the state—its politicians and administrators—are frequently not themselves businessmen and are free to institute policies which may run counter to the particular interests of important sections of the capitalist class.

Moreover, this autonomy of the state from sectional capitalist interests

is vital to the survival of the bourgeoisie as the dominant class. The bourgeoisie is not a united group but consists of various 'fractions' (to use Poulantzas' term)—financiers, traders, industrialists, intellectuals and others—whose interests are frequently in conflict and whose antagonisms are surpassed only by the fundamental opposition between capital and labour. The bourgeoisie is normally incapable of united class action and sacrifices constantly its general class interest for narrow private gain.

The state therefore takes charge, as it were, of the bourgeoisie's political interests and realizes the function of political hegemony which the bourgeoisie is unable to achieve. But in order to do this, the capitalist state assumes a relative autonomy with regard to the bourgeoisie... which allows the state to intervene not only to arrange compromises *vis-a-vis* the dominated classes or fractions; but also...to intervene against the long term interests of one or other fraction of the dominant class for the sake of the bourgeoisie as a whole.<sup>42</sup>

Miliband maintains that all this is implicit in the original formulation by Marx and Engels:

For what they are saying is that 'the modern state is but a committee for managing the *common* affairs of the *whole* bourgeoisie: the notion of common affairs assumes the existence of particular ones; and the notion of the whole bourgeoisie implies the existence of separate elements which make up that whole. This being the case, there is an obvious need for an institution of the kind they refer to, namely the state; and the state *cannot* meet this need without enjoying a certain degree of autonomy. In other words the notion of autonomy is embedded in the definition itself and is an intrinsic part of it.<sup>43</sup>

But this autonomy is by no means absolute. Poulantzas emphasises that the state is constrained to operate within limits imposed by the capitalist mode of production. He does not specify what these limits are, but he certainly sees the state as not sufficiently independent of bourgeois interests to be able, for example, to initiate a transition to socialism. The point is that while the capitalist state is autonomous *vis-a-vis* the economic interests of specific fractions of the bourgeoisie it is not free to jeopardize the general class interests of the whole bourgeoisie. Its autonomy is therefore relative.

Nor is this general relationship between the state and the bourgeoisie much affected by the particular party in power. Many writers have pointed out that though England was governed by aristocrats during the 19th century, government was on behalf of the bourgeoisie and the period was one of thriving capitalist enterprise. And despite the advent in the 20th century of social democratic or Labor governments supposedly hostile to the bourgeoisie, the state continues to function in the interests of the bourgeoisie.<sup>44</sup> This last point has been stressed by Miliband in particular. He argues that though a government may be concerned to improve the operation of the economy rather than to serve

the interests of the bourgeoisie, in a capitalist economy capitalists stand to gain most from any improvement effected in it.<sup>45</sup> Moreover, even a government concerned specifically to promote the interests of workers is nevertheless at the mercy of businessmen, for if the business community experiences a 'loss of confidence', recession follows and the whole society suffers.<sup>46</sup> There have been at least two dramatic demonstrations of this in Australia recently. First, by late 1974 the Labor government's policy of price control had reduced profits to levels which business found unacceptably low; the result was a slow-down in investment. To counteract this trend, the Prime Minister found it necessary to issue a request to the prices justification tribunal to take into account company needs for adequate profit margins when determining applications for price increases.<sup>47</sup> Secondly, in early 1975, local car manufacturers were faced with declining sales and threatened to lay off a number of workers. The government remonstrated with the managements but in the end could only persuade them not to carry out their threats by reducing sales tax on cars thus assuring the companies of the volume of sales and the profit they required.<sup>48</sup> These instances demonstrate the inherent bias of the capitalist system in favour of bourgeois interests and the inability of any government attempting to operate within that system seriously to threaten those interests.

While Miliband and Poulantzas are no doubt correct in claiming that the capitalist state operates in the interests of the bourgeoisie regardless of the party in power, there are I think important differences between the state under conservative party management and under social democratic management. Social democratic governments are to varying degrees inadvertent protectors of bourgeois interests; conservative parties are deliberately involved in the protection of those interests. Moreover when it comes to a detailed analysis of the way in which the state actually functions in the interests of the bourgeoisie, the composition and attitudes of the party in power become important variables, so much so that a separate analysis is required for each case. In this paper I wish to narrow the focus and concentrate on the ways in which conservative parties manage the affairs of the bourgeoisie.

\*

\*

\*

Much of the Miliband/Poulantzas analysis of the state can be applied with minor modifications to the role of conservative parties in government. Indeed, approaching the matter from a rather different perspective and without reference to the capitalist state or the writings of Miliband and Poulantzas, Parker has analysed the relationship between conservative parties and business interests in Australia in strikingly similar terms.<sup>49</sup> He argues that although conservative parties in Australia are the parties of capital, the relationship is complicated by the fact that there is not a single capitalist class but rather a variety of capitalist groupings—importers, wholesale traders, retailers, private banks and insurance companies, farmers and others. 'Except on broad issues involving the

rights of property and of employers, there is not the same homogeneity of interests among these groupings ...as there is among wage earners as such.' Indeed so divergent are these interests that manufacturers have, on issues like the tariff, been allied with organized labour against commerce and primary industry. Parker goes on to argue that the effectiveness of Australian conservative parties in representing the long term interests of capital (more concretely, their ability to gain and hold office) has depended on their freedom from financial dependence on any particular interest group. Only under these circumstances have they been able to make the compromises and adopt the policies necessary to win majority electoral support. The electoral failure of the United Australia Party prior to 1945 was a result of public dissatisfaction with the party's close association with and financial dependence on outside vested interests. Only after the reorganization of conservative interests as the Liberal Party, with a fund raising organization of its own such that it could no longer be held to ransom by individual backers, were conservatives able to win office.

While Parker demonstrates both the fragmentation of the capitalist class and the necessity for conservative parties to achieve a degree of independence from all fractions of the bourgeoisie if they are to govern, he does not discuss the way in which conservative parties in government manage the affairs of the bourgeoisie. A clear understanding of the role of conservative parties in this connection depends upon a close examination of their actions on specific issues. The remainder of this paper is an examination from this point of view of the Trade Practices Act introduced by the Liberal-Country Party government in 1965. I shall aim to demonstrate three things: first, that a variety of interests existed within the bourgeoisie in relation to this act; second, that the act served the long-term interests of capitalism; and third, that the government acted autonomously in relation to the specific business interests which sought to influence it. In the process I shall hope to achieve two inter-related purposes: to clarify the management role of conservative parties and to provide some understanding of the function of this particular legislation.

#### *The Fractionation of the Bourgeoisie*

On first investigating the attitudes of various vested interests to the introduction of trade practice legislation one gains the impression that business was able to present a remarkably united front. When the government presented to parliament an outline of the intended legislation in 1962, four major organized business lobbies found themselves sufficiently in agreement to be able to produce a joint submission opposing many of the fundamental features of the proposed legislation. The groups concerned—the Associated Chambers of Manufactures of Australia, the Associated Chambers of Commerce of Australia, the Australian Council of Retailers and the Federal Chamber of Automotive Industries—represented a wide range of manufacturing, importing,

wholesale and retailing interests. In addition to this submission and the continuing representations made by these four organizations, a number of other influential groups and individuals stated their opposition to the proposals, among them, the Manufacturing Industry Advisory Council, the Metal Trades Employers Association, the Hardware and Allied Trades Association, the NSW branch of the Institute of Directors and the Victorian, South Australian and West Australian Liberal party governments.<sup>50</sup> At first glance, then, it would appear that on this occasion business exhibited the kind of unity which is usually called forth only when governments threaten the foundations of the private enterprise system, as for example when the Labor government tried to nationalize the banks after World War II.<sup>51</sup>

Business unanimity might have been expected if all sections of the business community benefited from the restrictive trade practices in question; but they do not. According to its initiator, Sir Garfield Barwick, the legislation was in part intended to protect small traders who were sometimes discriminated against or even forced out of business by the predatory or exclusive practices of other business groups. So it is not surprising that a number of organizations expressed themselves as being in favour of trade practice legislation. Among these was a variety of retailer organizations which felt that their members were victimized by distributors, for example the Queensland Retail Traders Association, the NSW Retail Tobacco Traders Association and the Victorian Automobile Chamber of Commerce (motor industry retailers). Individual retail companies also supported the legislation. Franklins, a food chain store, expressed the hope the legislation would break up a price agreement among chocolate manufacturers which had forced the store to pay high prices for the chocolates it retailed.

Another block of interests which supported the proposals was the farming lobby which had what amounted to a consumer interest in the legislation. Grazier, stockowner and various other farming organizations all favoured legislation against the price agreements among manufacturers which kept the price of farm machinery higher than it would otherwise be.

Further support came from government authorities and local governments aggrieved by the collusive tendering practiced by companies supposedly competing for government business.

Moreover, although many organizations expressed a single view to government on its proposed legislation there was by no means complete unanimity within organizations as to what that view should be. For example, while the South Australian Chamber of Manufactures opposed the legislation, one of its members, a firm of manufacturing engineers, supported it because of a price agreement among the ball-bearing distributors from whom it bought ball-bearings. Again, a Queensland manufacturer of footballs, though a member of the Chamber of Manufactures, supported the idea of legislation because he was excluded from the Victorian market in footballs by that state's Sports Goods Federation.

Finally, the NSW branch of the Employers Federation decided neither to oppose nor support the legislation because it recognized that there was a divergence in attitude among its members.

It is evident, then, that despite the unanimity of leading national business organizations, there was considerable disagreement within the business community on the desirability of legislation against restrictive trade practices. It should also be recognized that while various groups spoke forcefully both for and against the legislation, most businessmen paid little attention to the matter. In 1971 when tougher legislation was being discussed, the NSW Chamber of Manufactures surveyed its members on their attitudes to such legislation. Only 3 per cent responded to the questionnaire mailed to them. There is no reason to think that the general level of concern among businessmen would have been dramatically different prior to the introduction of the 1965 legislation.

Any attempt to characterize the business interests which supported the legislation is fraught with difficulty. Both Prime Minister Menzies<sup>52</sup> and Attorney-General Barwick<sup>53</sup> saw it as benefiting small businessmen, as did some small businessmen themselves. However, in some circumstances, trade practice legislation favours large corporations at the expense of small and medium businesses because large corporations can stand alone, whereas it is often in the interest of small businesses to act collectively to restrict competition. The Franklin chain was one large business which obviously stood to gain. And in 1971 a discount chain store, Sydney Wide, was able to use the legislation to force a distributor to supply it with Mikasa china ware. These examples suggest that perhaps it was retailers who as a group were the principal beneficiaries of the legislation. But again this is inaccurate. While a number of specialized retailer organizations supported the legislation, the major such organization, the Australian Council of Retailers, did not. The fact is that the legislation aimed to keep the competitive arena open to new entrants and to prevent established businesses from organizing their business environment in such a way as to exclude new or aspiring competitors. It is thus probably nearest the truth to say that it was the new or expanding business which had most to gain from the act, be it a large discount retailer or a small football manufacturer. In as much as new business ventures usually start small, it was the small man who stood to benefit, not simply because he was small but because he was a newcomer obstructed by the 'orderly marketing' arrangements with which established business protected its interests.

Even if valid, this characterization can at best summarize the diversity of attitudes which various segments of business took to the legislation. The act itself was exceedingly complex with different sections affecting different interests. Indeed a given business might stand to benefit from some sections and lose from others, making it impossible to characterize the business as, in any simple fashion, for or against. What emerges then is that on this specific issue, as on almost all, business was divided and unable to speak with a single voice. There was no business lobby

promoting the interest of capitalism as such. Even the national umbrella organizations, ACMA, ACCA and others, which claimed to speak for business as a whole, represented in fact specific elements within the bourgeoisie. Only the Liberal party, standing above specific capitalist interests, was in a position to see and pursue the general interest of the bourgeoisie.

### *The Liberal Party and the Defence of Capitalism*

It can be argued that, potentially, the over-arching function of the act was to protect the free enterprise system as it existed in Australia from various factors which might endanger its stability. Several of the government's reasons for introducing the legislation were consistent with this function. For example, one argument which Attorney-General Barwick relied on in speaking about the need for such legislation was that restrictive trade practices tended to suppress the incentive to efficiency and enterprise, thereby hindering the development of the economy.<sup>54</sup> A sluggish economy was in itself undesirable, he felt. But the argument can be extended. If the economy stagnates and fails to deliver the goods in ever increasing quantities, the legitimacy of the system itself might well be called into question. Legislation which promotes economic growth thus serves to safeguard the system against radical social change.

Again, one of the more obvious functions of the legislation was to protect individual traders who fell victim to the restrictive practices of others. For some government members this was its principal purpose. Traders subjected to collective boycotts suffered an injustice and, in the name of justice, deserved protection from the practices concerned. But it can also be argued that preventing such injustice protects the free enterprise system against potential social disruption. The allegiance of voters to free enterprise parties depends in part on their belief that the system is one in which an individual with initiative can succeed. If small traders trying to establish themselves are squeezed out by the unfair practices of those already established this belief might be called into question and the system itself threatened. This argument was put very clearly by one supporter and subsequently administrator of the legislation who wrote as follows:

If monopolists or other commercial interests are allowed to prevent other citizens from entering trade and commerce, they perpetrate a major social injustice; widespread injustice leads to widespread discontent, and to disillusionment with free enterprise as a socio-economic system. From then on, social and political changes can be needlessly sudden and ill-considered.<sup>55</sup>

Members of the Liberal Party were well aware of this system-preserving function of their legislation. They recognized that long-term changes were taking place in the economy and society and that intervention in more and more areas of the economy was inevitable. The choice was not whether to intervene but how and in whose interests to intervene.

Either the government imposed some restrictions on business in such a way as to ensure the viability of the capitalist system or that system would be replaced by socialism. Here are words of Billie Snedden, Attorney-General at the time of the legislation's enactment:

As the twentieth century has unfolded, and has developed the concept of control within reason, it has become crystal clear that untrammelled liberty cannot be allowed to disadvantage the majority. Democracy must protect itself to survive. *Laissez-faire* will be replaced either by socialism or control within reason...The surrender of absolute freedom in the commercial field, which restrictive trade practice legislation involves, is no more than 'control within reason'...The alternative is socialism, which appals me...Were the Labor Party to draft legislation it would undoubtedly be criminal in nature, absolute in terms and extreme in penalty.<sup>56</sup>

And a future Prime Minister, Malcolm Fraser expressed the following view:

[The Labor Party's] solution to the problems the government is trying to tackle would be diametrically opposed to the kind of solution the government would hope to achieve. I believe it would be their intention to let abuses develop until they had an opportunity to build up a case for either nationalization, if that were permitted under the constitution, or a socialist cure of one kind or another which would bring industries much more directly within government control. That is something we certainly do not want to see and something which I believe industry should not want to see. Industry should understand and appreciate the government's motives from this point of view.<sup>57</sup>

These statements leave no doubt that the defence of the capitalist system was one of the purposes the government hoped its legislation would achieve.

#### *The Autonomy of the Liberal Party in Relation to Business Interests*

In December 1962 the then Attorney-General, Sir Garfield Barwick, presented to parliament his proposals for trade practice legislation. These required that certain restrictive agreements and practices be examinable by a tribunal and then declared to be unlawful in individual cases if found contrary to the public interests; certain other practices were to be prohibited outright. Barwick intended the drafting of actual legislation to be delayed by some months to give business time to express its views. In the event the legislation was delayed by three years. Moreover, the major business lobbies were successful in having substantial modifications made to the original proposals, the most dramatic of which was the virtual elimination of outright prohibitions. Various writers have seen this as a demonstration of the power of big business and the subservience of government to vested interests, in other words, of the lack of any real autonomy on the part of government.<sup>58</sup> But this interpretation is, I believe, incorrect. The government did not simply cave in under big business pressure; rather it invited business representations and was concerned to accommodate business objections as far as it

possibly could without abandoning its objective of strengthening the free enterprise system. Probably the most successful pressure group was one which the government itself had brought into existence, the Manufacturing Industry Advisory Council. This group, consisting of a number of prominent industrialists, had been set up in 1958 by the Minister for Trade to advise him on matters affecting Australian manufacturing industry. The members of MIAC were thoroughly alarmed by the Barwick proposals and, in September 1963, met with the inner cabinet to express their views, views which according to Menzies 'were the most balanced and constructive that we had had presented to us'.<sup>59</sup> Other organized business groups were also invited to present their views from time to time, both to cabinet and to the attorney-general.

But business did not always have the ear of the government. Early in 1963 the federal president of ACMA asked the Prime Minister for a private discussion on the political aspects of the legislation; he was refused. Clearly, the government listened to business only on its own terms.

Moreover, business leaders rapidly realized that though the government was generally ready to listen sympathetically to their representations, it felt free not to act on them. ACMA's director, for example, recognized that there was no hope of persuading the government to abandon its intention to legislate against restrictive trade practices. 'Although we would, given the opportunity, reject outright the introduction of legislation', he wrote, 'our cognizance of the political situation of the government compels us to seek not a withdrawal but an amendment of the present government proposals'. The amendments initially proposed by ACMA were substantial. It argued amongst other things that no practice should be prohibited outright and that the tribunal which, in the Barwick scheme, would examine questionable practices and agreements and prohibit those which it found against the public interest, should not have this power to prohibit, but should be confined to reporting and making recommendations to parliament. However, ACMA officials soon concluded that the government was not receptive to this latter suggestion and so abandoned it, thereafter confining themselves to seeking amendments which were consistent with the basic Barwick framework.

A rather nice illustration of the independence of attitude of which the government was capable can be found in the reply of one government minister to a submission sent to him by the Perth Chamber of Commerce. He wrote:

I have read this document and can hardly credit that a body such as yours comprised of responsible members in the Perth business community can genuinely subscribe to the ideas expressed in this document. A great deal of it is demonstrably false. Most comments are intemperate and irrational and it is hard to find any objective criticism. It largely consists of propaganda statements which to say the least are arguable.

That a government minister was prepared to reject business submissions in such derogatory terms suggests that those recommendations the government *did* accept it did so because it agreed with them not because it was forced to.

Of course the act as passed was a weakened version of the original proposals and in the event was largely ineffective, mainly because of constitutional difficulties and the very cumbersome enforcement procedures on which it relied. It was not until 1971 that the act really began to take effect with an order by the trade practices tribunal that a price-fixing agreement among frozen-vegetable processors be terminated. But it is obvious that were it not for the change in government and the new trade practices act, the Liberal legislation would have had an increasing effect on restrictive trade practices in Australia. Evidently, the Liberal government's trade practices legislation was contrary to a variety of business interests and the very fact that such legislation was enacted at all is a demonstration of the independence of the conservative Liberal Party government from the various segments of the bourgeoisie which sought to influence it.

Finally, a word on the relative or qualified nature of this independence. The Trade Practices Act did not bring the government into conflict with fundamental aspects of the capitalist system and so does not provide us with any insight into the limitations on the government's ability to act against the bourgeoisie. Since conservative parties are unlikely to want to challenge basic capitalist interests, the limitations on their freedom of action in this sense will usually remain theoretical rather than demonstrable.

### *Conclusion*

We have seen that, at least potentially, the act prevented the bourgeoisie or fractions of it from taking action which might engender such widespread disillusionment with the capitalist system as to threaten its survival. In short, it served to restrain sections of the bourgeoisie in the interests of the bourgeoisie as a whole. Moreover, the government was well aware of this system-preserving function and regarded it as one of the purposes of the act. However I am not suggesting that the act can necessarily be *explained* in these terms. A complete understanding of the process by which the act came into existence requires a more detailed account than has been presented here.<sup>60</sup> The aim of this analysis has been more limited. It has sought to demonstrate the utility of notions such as 'relative autonomy' and 'class fraction' in understanding the role of conservative parties in the modern capitalist state and to use these notions to provide some insight into an important function of the Liberal government's Trade Practices Act of 1965.

### NOTES

1 For discussions of this assumption see W. Carson, 'The Sociology of Crime and the Emergence of Criminal Laws', in P. Rock & M. McIntosh (edd.), *Deviance and Social*

- Control* (Tavistock, London, 1974); and A. Hopkins, 'On the Sociology of Criminal Law', *Social Problems* 22,5 (June 1975).
- 2 e.g. R. Quinney, *The Social Reality of Crime* (Little Brown, Boston, 1970), p. 74.
- 3 e.g. W. Chambliss & R. Seidman, *Law, Order and Power* (Addison-Wesley, Reading, Mass., 1971), p. 66.
- 4 This committee was subsequently converted into a royal commission and its report was presented in 1906.
- 5 *Commonwealth Parliamentary Debates (C.P.D.)* vol. 13, p. 6; *C.P.D.* 18, p. 9; W. Murdoch, *Alfred Deakin* (Constable, London, 1923), p. 230.
- 6 D.B. Copland & J.G. Norris, 'Some Reciprocal Effects of Our Antitrust Laws, with Special Reference to Australia', *The Annals of the American Academy of Political and Social Science* 147 (January 1930), p. 117; H.L. Wilkinson, *The Trust Movement in Australia* (Critchley Parker, Melbourne, 1914), p. 188.
- 7 The following information on the early federal parliament is taken from J. Jupp, *Australian Party Politics* (M.U.P., Melbourne, 1964); L.F. Crisp, *Australian National Government* (Longmans, Melbourne, 1968); L.C. Webb, 'The Australian Party System', in C.H. Hughes (ed.), *Readings in Australian Government* (Queensland University Press, Brisbane, 1968); J.A. La Nauze, *Alfred Deakin: A Biography* (M.U.P., Melbourne, 1965), vol. 2.
- 8 Report of the Royal Commission on Stripper-Harvesters, *Parliamentary Papers of the Commonwealth of Australia*, vol. 4, 1906, pp. 138-9.
- 9 See *C.P.D.* 31, p. 1097.
- 10 *C.P.D.* 30, p. 6820.
- 11 *C.P.D.* 30, p. 6989. Octopus imagery was frequently invoked during the debate. In one speech by an opposition member the following interchange took place.
- Opp. Memb. : '...if Ministers only seek to clip the claws of a few large octopus combinations—'
- Minister : 'An octopus would not have claws!'
- Opp. Memb. : 'To cut away the suckers of these octopus combinations shall I say; to cut away their grip,...' (*C.P.D.* 31, p. 991).
- Again, according to one speaker, 'the Rockefeller trust is an octopus, and if we catch hold of its tentacles the responsibility is at once removed to another, and another, and yet another, until it is impossible to say where is the centre. In other words, if we get hold of a trust of this kind by one leg, as the saying is, it hops away on another' (*C.P.D.* 33, p. 3404).
- 12 *C.P.D.* 30, p. 6821.
- 13 *C.P.D.* 30, p. 6826.
- 14 *C.P.D.* 30, p. 6820.
- 15 Section 10 of the 1905 bill read as follows:
10. (1) Any person who wilfully—
- (a) being a Commercial Trust makes or enters into any contract, or is a member of or engages in any combination to do; or
- (b) makes or enters into any contract with or conspires or engages in any combination with a Commercial Trust to do; or
- (c) as an officer member or agent of a Commercial Trust does or makes or enters into any contract to do any act or thing in restraint of trade or commerce among the several States or with other countries to the detriment of the public or any act or thing with the design of destroying or injuring any Australian industries by means of unfair competition with respect to such trade or commerce, is guilty of an indictable offence against this Act.
- Penalty: Five hundred pounds, or one year's imprisonment, or both.
- (2) Every contract made or entered into in contravention of this section shall be absolutely illegal and void.
- 16 *C.P.D.* 30, p. 7013.
- 17 *C.P.D.* 31, p. 1006.
- 18 Wilkinson, *op. cit.*, p. 189.
- 19 *C.P.D.* 31, p. 349.
- 20 *C.P.D.* 30, p. 7020.
- 21 *C.P.D.* 30, p. 7018.
- 22 *C.P.D.* 30, p. 6822.
- 23 *C.P.D.* 31 pp. 1086, 1018.
- 24 *C.P.D.* 30, p. 7031.
- 25 Crisp, *op. cit.*, p. 146.
- 26 *C.P.D.* 31, p. 671.

- 27 *C.P.D.* 31, p. 249.
- 28 *C.P.D.* 33, p. 3057.
- 29 *C.P.D.* 31 p. 943.
- 30 *C.P.D.* 33, p. 3058.
- 31 *C.P.D.* 33, p. 3443.
- 32 *C.P.D.* 38, p. 2032; *C.P.D.* 39, p. 3684.
- 33 G. Walker, *Australian Monopoly Law* (Cheshire, Melbourne, 1967), p. 49.
- 34 *ibid.*, p. 33.
- 35 *ibid.*, pp. 33-4. The case actually went to two appeal courts—the Full High Court of Australia, and the Privy Council in England. The opinions expressed by the two courts were substantially similar. For a detailed analysis of the judgements see D.J. Stalley, 'Federal Control of Monopoly in Australia', *University of Queensland Law Journal* 3 (1958), pp. 258-89.
- 36 *C.P.D.* 59, p. 6042.
- 37 The Act remained a dead letter for more than fifty years until briefly revived in 1965 when the Attorney-General successfully prosecuted a number of wine wholesalers for engineering a group boycott of a retailer who had bought supplies from a price cutting wholesaler (Walker, *op. cit.*, p. 201; J.E. Richardson, *Introduction to the Australian Trade Practices Act* (Hicks Smith, Sydney), 1967, p. 23). The revival of the Act was, however, merely a prelude to its repeal to make way for the Trade Practices Act of 1965.
- The antidumping provisions of the Act were completely inoperative, partly because the government was able to use protective tariffs to achieve its purposes, but also because the provisions required the government to demonstrate that the importer intended to damage an Australian industry—an almost impossible task (*C.P.D.* 44, p. 9720). In 1921, the government passed antidumping legislation of a somewhat different character—Customs Tariff (Industries Preservation) Act—making the antidumping provisions of the A.I.P. Act redundant.
- 38 *Communist Manifesto* (Harmondsworth, Pelican, 1967), p. 82. The whole sentence is taken, with modification, from L.F. Crisp, *The Parliamentary Government of the Commonwealth of Australia* (Longmans, Melbourne, 1949), p. 116.
- 39 Weidenfeld and Nicolson, London, 1969.
- 40 New Left Books, London, 1973.
- 41 Vols. 58, 59 and 82.
- 42 Poulantzas, *Political Power*, pp. 284-5.
- 43 Miliband, *New Left Review* 83, p. 85.
- 44 Schumpeter comes to a somewhat different conclusion. Noting the success of the bourgeoisie under aristocratic government in 19th century England and the subsequent apparent decline in its fortunes, he concludes that 'without the protection of some non-bourgeois group the bourgeoisie is politically helpless and unable not only to lead the nation but even to take care of its particular class interest'. He goes on to say that the overthrow of the feudal aristocratic superstructure has left capitalism unable to fend for itself and on this basis predicts the coming of socialism. See J.A. Schumpeter, *Capitalism, Socialism and Democracy* (Allen and Unwin, London, 1950), p. 137.
- 45 *The State*, p. 79.
- 46 *ibid.*, p. 150.
- 47 *Second Annual Report of the Prices Justification Tribunal 1974-5*, pp. 46-7.
- 48 *Age*, 29 January 1975.
- 49 R.S. Parker, 'Group Interests and the Non-Labor Parties Since 1930', in C.A. Hughes (ed.), *Readings in Australian Government* (Queensland University Press, Brisbane, 1968).
- 50 Information on business attitudes and actions has been taken from a variety of sources—newspapers, trade association files etc., and are not footnoted in detail in this paper.
- 51 R.W. Connell & T.H. Irving, 'Yes Virginia, There is a Ruling Class', in H. Mayer & H. Nelson (edd.), *Australian Politics: A Third Reader* (Cheshire, Melbourne, 1973).
- 52 Policy speech, November 1963.
- 53 G. Barwick, Trade Practices in a Developing Economy (Wood Memorial Lecture given at Melbourne University, 1963).
- 54 *ibid.*
- 55 G. Walker, *Australian Monopoly Law* (Cheshire, Melbourne, 1967), p. 4.
- 56 *C.P.D.*, Vol. H. of R. 36, p. 422.
- 57 *C.P.D.*, H. of R. 49, p. 3299. This line of thought was evident in the wider society as well. In the words of one newspaper editorialist: 'we need to find ways of protecting the public from unbridled free enterprise. The ultimate alternative is stultifying socialism' (*West Australian*, 22 May 1965).

- 58 For example, W. Pengilly, 'The Politics of Anti-Trust and Big Business in Australia', *Australian Quarterly* 45, 2 (June 1973).
- 59 Prime ministerial press release, 15 September 1963.
- 60 See my forthcoming book, provisionally entitled *Regulating Capitalism: The Sociological sources of Australian Monopoly Law*.

## QUEENSLAND NATIONALISM AND AUSTRALIAN CAPITALISM

GLEN LEWIS

THE TITLE OF this essay is meant to be problematic. It raises two issues: Queensland's place in Australian capitalism, and the relationship between capitalism and nationalism in Queensland. Both of these questions are difficult ones as there are a limited number of studies of Queensland's history and there have been few successful attempts to discuss the relationship of capitalism and nationalism in Australian history. Plainly, it is misleading to speak of Queensland nationalism, yet it is commonly agreed that there is something distinctive about the northern state which sets it off from the rest of Australia—the problem is to say precisely what. The first part of the discussion attempts to do this. In the second section, the question of Queensland's distinctiveness is reversed. That is, Queensland is seen as archetypically Australian, and the state's history is used to analyse the relation of nationalism and capitalism in Australia.<sup>1</sup>

The essay is therefore about an ambiguous but important subject. This ambiguity is largely a result of the subject matter. Tom Nairn recently described nationalism as the Janus of modern Marxism. He skilfully argues that contemporary Marxist studies have failed to deal adequately with the modern nationalist movement.<sup>2</sup> The current debate about Australia's place in the imperialist framework may be seen as part of this broader dilemma.<sup>3</sup> To describe Australia either as a victim of imperialism, or as a junior partner in empire, is dangerously superficial. Australian nationalism, like any national movement, possesses both reactionary and radical elements, and polemics supporting either view are less useful than clear analysis at this stage. The theme informing this essay is that some of the most salient issues concerning the relation of nationalism and capitalism in Australia can emerge from a study of Queensland's history, and that these issues can illuminate both the national question and the particular role of Queensland in Australian capitalism.

### **Queensland and Australian Capitalism**

When critics attempt to sum up the Queensland situation, the frame of reference that frequently recurs is that of Queensland as a state of puzzling

contrasts. Queensland is seen as the warm and generous sunshine state on the one hand, and as Australia's deep north on the other. Queensland's political history traditionally has been marked by paradoxes of this kind. The first Labor government in the world was formed there in 1899, but it only lasted a few days; Australia's first general strike took place in Brisbane in 1912, but Labor normally found it difficult to win seats in the metropolitan area; in 1922 Labor abolished the Legislative Council in search of more democratic government, but subsequently it perpetrated some of Australia's worst gerrymanders. And so on. Considering these disparate features, can any one formula plausibly tie them together? The view presented here is that Queensland normally was a conservative state in which radicalism was real but exceptional. This is not a new opinion but the following will suggest how this pattern of behaviour derived from the state's political economy.

---

*Unless we settle Queensland quickly we shall be in very grave danger from the countries in the East, which are bound to overflow. Queensland is undoubtedly the key to Australia.*

Evidence of Brisbane Chamber of Commerce  
President to the Royal Commission on National  
Insurance, Melbourne 1927

---

If any one factor can be singled out as *the* dominant motif in Queensland's past, it is regionalism; not distance or isolation, as these terms are too vague, but regionalism. Regionalism in Queensland, however, has had many different aspects, including Queensland's geographical situation in Australia, its particular defence concerns, and its immigration policies. This first level of Queensland's past could be described metaphorically as Queensland versus the rest of the world. Secondly, there is Queensland's uneven pattern of regional and urban development, which can be called the state of Queensland versus the regions of the state. And lastly there is the matter of Queensland's dependent place in the Australian economy—this is Queensland versus the rest of Australia. Describing Queensland in this way brings out some of the difficulties Queenslanders have felt in being part of Australia. Queensland has felt itself threatened by the non-Australian outside world, exploited by the more powerful Australian states, and divided internally. By looking at some of these factors, it can be shown that Queensland touchiness and paranoia has some real basis.

Australians traditionally have been sensitive to defence as an issue and Queenslanders have been hypersensitive. There were some real threats, such as the Brisbane line drawn during World War Two when the Japanese occupied New Guinea and bombed Darwin and Townsville. The nemesis was usually thought to be Asia, though Germany's presence in New Guinea was McIlwraith's ostensible reason for trying to annex it in 1883; in fact, he also wanted to extend the blackbirding trade to the

territory by this means. Queensland's isolation from the main Australian shipping routes was a special problem here as it took years to establish a commercially viable Torres Straits service, and defence was again a consideration in North Queensland's support for federation, as well as in the state government's allowing Italian immigrants to move into the sugar industry in the 1920s. In the years from 1945, Queensland's concern for the north was sold to the rest of Australia as northern development, and in the cold-war 1950s the legend of the Open North luring the Red and Yellow hordes became popular.<sup>4</sup> This special sensitivity about defence derived largely from the geography of settlement: it is the only Australian state where settlement has taken place over wide areas of the northern part of the continent. Australians see this as an obvious fact now, but in the last century it was presented as a model of the white man's burden to settle and survive in the tropics—a subject that was a recurrent imperial concern with a number of political and racial dimensions to it. In this light, Queensland was seen as *the* pioneering state, and a note of patriotism carried over into the postwar case for northern development.

The defence element in Queensland's fortress mentality is fairly widely realised by other Australians even if the details are unfamiliar, yet there is another side to the state's relations with the outside world that is commonly unappreciated—the matter of its immigration policies. The considerable attention which has been paid to the White Australian Policy, and Queensland's predictable role in it, has obscured the subject of immigration in Queensland's growth.

In the nineteenth century, Queensland maintained the largest per capita assisted immigration programme of any Australian colony. This was partly due to the later date of settlement of Queensland and the greater attractions of the other colonies to immigrants. Yet the programme failed. It did not retain many immigrants in Queensland as they moved on to the south, and the small-scale land settlement that it was hoped immigration would encourage also did not develop. The land-order system of the 1860s was used instead by speculators and squatters to make money and increase their monopoly of the best land: as late as the 1880s, squatters still maintained that the Darling Downs—the best agricultural land in the colony—was not fit to grow a cabbage! Where Queensland's immigration policies did succeed was in maintaining a high degree of ethnic homogeneity. Some Germans came to Queensland, but their numbers were relatively small and they retained their identity less well than their South Australian cousins. There was no white intermarriage with the Aborigines, Chinese, or Kanakas, and the Italians in the north occupied an enclave of their own. After 1945 Queensland ethnocentrism, expressed proudly by the A.W.U., was a factor in keeping the state's share of Australia's postwar immigration boom at a minimal level.<sup>5</sup>

These immigration patterns had some far-reaching social consequences. The socio-economic status of the immigrants to Queensland seems to have been lower than that of immigrants to other Australian colonies.

Queensland had a reputation in the nineteenth century as a physically unhealthy environment, and even then the colony's rather unsavoury character was adversely remarked on in England.<sup>6</sup> These features of Queensland's immigration policies made for a xenophobic social climate which was antagonistic to non-whites, non-British immigrants, foreign or southern 'agitators', and local 'bludgers'. The issue deserves further investigation but it seems that one social basis of Queensland's conservatism was a class of local poor whites, just as in the southern states of the U.S.A.

---

*Commercially fleeced by Sydney we have been and are politically tyrannised over and robbed by Brisbane. Our position has resembled that of the outlying provinces of the early Roman Empire, which were left to the tender mercies of needy pro-consuls.*

*Port Denison Times*  
Bowen, 26 January 1870

---

After external vulnerability, internal divisions were a major factor in the Queensland experience. In the last century there were three Queensland—Northern, Central, and Southern—and colonial politics were bedevilled by energetic separation movements in the 1860s, mainly in the Centre, and in the 1880s in the Centre and North; the second movement almost succeeded in establishing a plantocracy as a separate state. Federation finished these movements as political campaigns but their economic basis remained. There were real differences between the regions which centralist state policies could not do justice to. On account of these differences, Queensland voted only narrowly in favour of federation. South Queensland interests, especially in Brisbane, feared the effect of the removal of colonial tariff barriers on local manufacturers and business. The Centre was divided: Rockhampton merchants opposed federation as it meant the end of their chances for separation, while Central-western pastoralists and shearers were for it. North Queensland voted most heavily in favour, but only after its sugar interests had been promised federal protection, and because of the greater concern in the North for defence and the White Australia Policy.<sup>7</sup>

These inter-regional tensions continued to frustrate development after federation. Decentralisation became the program all politicians gave lip-service to, and meant, when it promised any concrete advantage for their electorates. The issue which highlighted the destructive effects of regionalism best, however, was rail construction. When Queensland's first line was built in 1864 it ran west from Ipswich and was not joined to Brisbane until twelve years later, because the early squatters preferred Ipswich as a metropolitan centre. This was the shape of things to come. Central Queensland was not linked to the South by trunk line until 1903, and Cairns not until 1923; as a result North Queensland's trading connections developed by sea with Sydney rather than Brisbane. Railways

then had become the most expensive item in Treasury budgets. The dilemma here was that a great amount of wasteful branch-line construction took place in the 1920s under regional pressures; then by 1930, when Queensland had built one of the largest state rail networks in Australia, road transport emerged as a threat. The Commissioner for Railways wanted to boost his revenue by making long haulage rates applicable to wool, but this proposal cut across vested regional and shipping interests and was rejected.<sup>8</sup> So whereas in the 1880s railways had been seen as bringers of prosperity, by the 1940s the financial difficulties of the system had become a popular joke and symbolised the failure of public enterprise in Queensland.

The difficulties of local government were another example of the destructive influences of regionalism in the state. Their inadequacies have been concealed behind a smokescreen of decentralist and agrarian rhetoric, while behind the scenes local authorities have floundered and been manipulated by business and real estate interests. Queensland's situation was specially difficult here because of distance. The pattern of settlement in South Australia was concentrated around Adelaide, so that local government there, and in Victoria and Tasmania, had manageable problems in serving the areas; but in Queensland the difficulties were too great. When municipal incorporation was made compulsory in the late 1870s local government came from the top down—like so many other things in Queensland.<sup>9</sup> Its subsequent development was slow and unsure and when semi-government authorities such as the Harbour Boards were set up in the depression years of the 1890s, they were mainly an effort on the part of the state government to reduce its expenses. Hospital Boards faced similar problems and the failures in this area eventually were so bad that the government had to step in. This was the beginning of the state's free hospital system.

A final example of the strength of internal divisions in Queensland is the traditional Australian antagonism between city and country. This has been especially marked in Queensland, where it has been more a case of city versus country town versus country. Two features stand out here: the retardation of Brisbane's development, and the vitality of the country towns. The contrast with South Australia is illuminating. In effect, Adelaide is South Australia; in Queensland, Brisbane is only the capital city. In 1954, Queensland's country towns held 34 per cent of the state's population, as against an Australian average of 25 per cent, and the low South Australian share of 14 per cent. South Queensland had five non-metropolitan centres of more than 10,000 people between 1933 and 1954, while there was one in the Centre, and three in the North; this result showed the South's—especially the South-East's—traditional economic dominance.<sup>10</sup> The leading six country towns were normally Rockhampton, Toowoomba, Townsville, Ipswich, Cairns, and Mackay respectively.

Conversely, Brisbane's development was retarded for a long time. Brisbane grew slowly for a number of reasons but the most basic one was country antagonism. Country politicians sat at the head of state

government, ironically centred in Brisbane, and there developed policies for the benefit of the country, not the city. The Labor Party was no better than the Country Party in this respect; not until Hanlon's premiership did the Party have a Brisbane premier. Brisbane's eccentric location in the extreme south-east corner of the state was a major hindrance to its being able to act as a centre for state development, and it was not until 1939 that Brisbane had the rail facilities to act as a state-wide distributing point. There were also serious physical disadvantages to Brisbane's site. It was not on Moreton Bay, but eighteen miles upstream on a crooked bend of the river, and its topography was rough and hilly. This had two consequences: Brisbane's port site was a poor one which required constant dredging, and the pattern of settlement sprawled over an extremely large area. Shipping was often delayed, and due to the private monopoly of wharfage in the port, the matter was aggravated by the absence of a port authority. The dispersion of settlement; on the other hand, posed immense problems for local authorities in providing transportation and sewerage. By the 1950s Brisbane was the only<sup>86</sup> dunny-cart capital left in Australia. The small, fragmented local councils in the city could not cope with the problems, and the formation of the unique Greater Brisbane experiment in 1925 owed as much to Brisbane's special needs as to Labor's preference for centralisation. Lastly, as early as the 1890s Brisbane had the reputation for being a branch-office capital—a trait which it has retained to the present.<sup>11</sup>

When Brisbane did grow, it was a country city. It had a style of its own which made it the centre of conservatism in Queensland. Many people justifiably describe it as a large country town—which was exactly what country people preferred it to be. The one distinctive style that emerged was a country style: timber houses on stilts, galvanized iron roofs, and cool verandahs.<sup>12</sup> Yet the idea of a country city was a contradiction in terms. In a sense, Brisbane is a city without a style, and in terms of its architecture and lack of layout is one of the least attractive of all Australian capital cities apart from its appealing natural surroundings. The quality of urban life in Brisbane has a certain sense of alienation which derives from the physical formlessness of the city itself.

Brisbane's unusual topography and its suburban sprawl have had important consequences in defining the social pattern of the city. Because of the hilly terrain and the way the flood-prone river runs crookedly through it, the *élite* traditionally have occupied the high ground, so only a few suburbs—Clayfield and Toowoong last century and St Lucia and Kenmore in this one—have stood out as upper class suburbs. Social divisions therefore have not been as apparent in Brisbane as in some other Australian capital cities. What makes the Brisbane pattern of class relationships more difficult to grasp is the city's tremendous sprawl—it is one of the largest local government areas in the southern hemisphere. Yet there still is a discernible network of class relationships in Brisbane. There is a circle of working class suburbs around the inner city area—Red Hill, Milton, South Brisbane, Spring Hill, Mayne; there is next a

much more extensive agglomeration of middle and lower middle class suburbs, such as Coopers, Taringa, Graceville, Ashgrove, Kedron, and Bardon; then on the outlying sections of the city the working class suburbs recur. There is a connected group of them on the bayside from Cribb Island—with its bizarre Jackson estate, a privately owned residential area for poor whites—down to Cleveland Bay, extending across to Stradbroke Island. These suburbs have some middle class pockets, but mostly they are areas of grinding to genteel poverty, where the very young or retired live. On the other side of Brisbane, in the West, there are the satellite industrial suburbs: Acacia Ridge next to GMH's assembly plant, Inala next to the Darra Cement Works, and so on to the Migrant Camp and Army Barracks at Wacol extending through to Ipswich, one of the main industrial arteries of Brisbane.<sup>13</sup>

And what sense have historians made of Brisbane's place in Queensland? Very little. They have ignored it or misinterpreted it. Lawson used his findings to argue against Ward's ideal of Queensland being a centre of radical nationalism. In Lawson's opinion, Brisbane in the 1890s was rather an outpost of neo-English culture which was petit-bourgeois, although status not class was the dividing line in society. Lawson's study is an important one but he is mistaken in two ways. First, just as Ward ignored Brisbane, so Lawson ignores the rest of Queensland. Queensland's sometimes justifiable reputation as a centre of radical nationalism was due less to Brisbane than to the regional traditions of the West, Centre and North, where more colourful life-styles existed. Secondly, Lawson's own picture of Brisbane is too one-dimensional. From its earliest days, Brisbane was described as a quiet and boring town, but the other side of this coin was the boast that it was a very law-abiding community. Thus Brisbane was a centre of social dullness and political order, which was typically Queensland, and this uniformity derived from the city's social structure as described above. Lawson has imposed a 'sociologese' perspective on his material which has defined the darker side of life in Brisbane out of existence. His image of Brisbane minimises social conflict and difference and the place of the underprivileged.<sup>14</sup> Given his emphasis on Brisbane's homogeneity it is impossible to explain discontinuities in the city's history. How, for instance, did Australia's first general strike come to take place in Brisbane, as it did in 1912?

Considering this long list of difficulties with separation and federation, local government and rail construction, and stunted metropolitan growth, it is fairly evident that Queensland was a state divided. The root of these difficulties was the uneven rate of economic development between and within the regions of Queensland. The South was the only area that achieved any satisfactory degree of economic diversification: by 1939 it was the only region to have developed an agricultural and manufacturing base as well as pastoral and mining industries. The North was dependent on mining, sugar, and pastoral production, while the Centre relied on pastoral activity. So there was an imbalance between the general economic development of the three regions, and more serious sectoral inequalities

between the regions; the long-term growth prospects for the Centre and North remained bounded within a framework of primary production. This insecure condition of the regional economies, however, was part of Queensland's dependent position in the Australian economy.

---

*Tweed Heads—QUEENSLAND INVADED BY AUSTRALIA*  
*Australian army tanks last night rumbled across the border into Queensland following rejection by the Queensland government of a call by the Australian government for all Queenslanders to lay down their arms and surrender.*

Bill Hornadge's Down Under Calendar  
 1 April 1976

---

In 1936, when a special report on state inequalities was made to the Commonwealth Grants Commission, it was apparent that just as there were three Queenslands, so there were two Australias. Most of the nation's wealth and population were concentrated in the adjacent states of New South Wales and Victoria, which dominated manufacturing industry, then there were three sparsely settled states of much less economic importance—Tasmania, Western Australia, and South Australia. Since federation, the report argued, the Commonwealth had favoured the concentrating of manufacturing in New South Wales and Victoria while the other states had developed their primary industries; this was described as parallel policies of protection. The eventual aim was the formation of Australia into a single specialised economic unit. Queensland's concentration on primary industry was seen as part of a national grand plan in which it had a special place because its position made it the key to Australia's defence. The report considered that with Queensland's pastoral wealth, its small proportion of arid country, and its high return on the sugar industry, it occupied a middle position between the richer and poorer states.<sup>15</sup> But was this so?

Queensland's real position in the Australian economy was anomalous. It was the most highly sheltered of all states: it had the highest rate of net benefit per head from the Commonwealth tariff in 1932—£4.3 compared to South Australia's £2.3. Queensland also had the highest proportion of sheltered primary industries, as a proportion of total production, and per capita, whereas South Australia had the lowest. Secondly, Queensland's program of social services was one of the most generous in Australia, but state taxation was the highest; in 1933, per capita expenditure on education and health was above the Australian average, but by 1953 education outlays had become the lowest of all states, while its health commitment remained the highest. Thirdly, the comparison between Queensland and South Australia based on the Report's own statistics does not particularly favour Queensland. Net value of production figures showed the greater importance of the pastoral and dairying industries in Queensland, while the proportion of factory employees in the two populations indicated that, even in 1907, South Australia had a

far greater share of manufacturing; also the level of savings bank deposits between 1939 and 1956 brought out the fact that South Australians had the highest per capita rate of saving in Australia, while Queenslanders had the second lowest.<sup>16</sup>

So Queensland was one of the most highly protected and taxed states and one of the most generous with its social services. Its protection came from the combined political strength of certain industries, notably sugar, its tax rate was due to the high cost of state administration as much as to Labor policy, and its comprehensive social services were partly due to the lack of private initiative in hospital and charity organisation.<sup>17</sup> The South Australian comparison suggests that primary industry had been of more importance to Queensland for a much longer time and that South Australians were possibly better off than Queenslanders. Queensland's position may have been halfway between the richer and poorer states in terms of states government finances, but the Report's own figures suggested that Queensland's place in the Australian economy was dependent and precarious. Wealth was concentrated in the pastoral and mining industries, or dependent on political protection in the sugar industry. The Report stressed that Queensland's natural resources were among the richest in Australia, but did not acknowledge that these were often owned by outside interests.

In fact, one of the distinctive features of the development of the Queensland economy has been the high proportion of non-Queensland ownership and control of the state's resources. The South Australian parallel is helpful here again. South Australia's natural resources are much poorer, but South Australians have been more enterprising in making use of them. One example was the success of the Adelaide Steamship Company. The Queensland shipping trade was a profitable one to be carved up among the overseas lines and the Australian coastal companies; and considering that the state's coastline was much longer than South Australia's, and Queensland was more isolated from the main Australian trading routes, there was a great need for a locally based shipping company. But though several attempts were made, none succeeded. South Australians, on the other hand, set up the A.S.C. which became an important coastal line even trading in Queensland waters. This example of Queensland lagging behind was repeated in many other areas. Sugar was a distinctive Queensland industry, but CSR is based in Sydney; the Queensland cattle industry became the biggest in Australia, but the deeds to many Western properties were held in Melbourne, and the processing plants were divided up between Vestey's and Swifts.

But given this fact of non-Queensland influence in Queensland, then the next key issue is how the state standard of living compared with those of other states. Did non-Queensland control mean lower, higher, or comparable standards?<sup>18</sup> Unfortunately there have not been enough historical studies of subjects like the distribution of income, or levels of real and money wages, to be able to answer this question properly—the aggregative approach of Butlin and his followers neglects this kind of issue. And actually the subject has been a contentious one in Queensland

for years. After Labor came to power in 1915 it periodically described Queensland in glowing terms as 'the worker's paradise', and employers responded by branding it 'the loafer's paradise'. It is highly unlikely, however, that Queensland's living standards could have matched those in New South Wales and Victorian. As a result of the state's serious sectoral and regional imbalances, seasonal and regional unemployment has been a historical feature of the Queensland economy, and the state's overall rate of growth has been slow apart from boom periods of mining investment in the 1880s and 1960s. Queensland's position in the Australian economy was therefore a dependent one and the persecution complex of Queenslanders is to this extent justifiable. Younger and talented Queenslanders still migrate south to better themselves today, while in return many of the key positions in Queensland society are taken by southerners who move to Queensland. Through this migration pattern the metropolises in Sydney and Melbourne have exerted a traditional dominance over the Queensland hinterland.<sup>19</sup>

---

*At present nearly all our school grounds have a bare and dismal aspect. Nothing better calculated to implant patriotism and love of home in our children, or to beautify Australia at the minimum of expenditure has been thought of.*

The Judge, Brisbane, 26 July 1890  
re the first Arbor Day

---

One of the most decisive factors in Queensland economic history after regionalism was agrarianism. Regionalism often has been the moving force in Queensland politics and agrarianism has been its justification. Agrarianism, in other words, has had great ideological importance and regionalism has had decisive political consequences. This is not to say that agrarianism has had no practical results: on the contrary, a series of agrarian policies can be identified in the state's past.

The first was J.D. Lang's plans for a Cooksland of Northern Australia, where an independent yeomanry of cotton growers would be the sturdy base of the new colony. Next came the land grant immigration schemes of the 1860s and 1870s. Land policies were the focal point for the agrarians and Dutton's 1884 legislation, influenced by Henry George's ideas, introduced the Queensland free selection acts which had as little success as the acts in New South Wales in promoting agricultural settlement. The agrarian social ideal in colonial Queensland was a strange mixture of independence and dependence. The demand for land rights was partly an expression of the old English myth of the virtuous yeoman farmer, updated by latter-day Chartist land demands, plus a colonial antagonism to the squatocracy. There was also the Scots precedent of crofting farms and the German love of the soil brought by those immigrants. Lastly, perhaps most important, there was the Irish-Catholic enthusiasm for rural life, which became institutionalised in the Rural Catholic movement of the 1930s and intellectualised by Colin Clark in the 1940s. With such

mixed ancestry the agrarian ideal was unavoidably ambiguous and there certainly was a strong hierarchical element in it.<sup>20</sup>

The 1890s were a turning point. They put an end for a time to the idea that Queensland should be the garden colony of Australia. The cooperative agricultural settlements were essentially responses to the depression by conservative governments seeking to alleviate unemployment. The few radical agrarian cooperative settlements did not survive.<sup>21</sup> In twentieth-century Queensland agrarianism was still important but more pragmatic. All political parties dutifully acknowledged the worth of the man on the land. Labor's platform of 1915 included many agrarian components and did win rural support. After the war, soldier settlements re-kindled some of the millenarian aspects of earlier times, then the depression saw the state retreat into even more rurally oriented policies. After 1945, soldier settlement was tried again but with less ambition.<sup>22</sup>

Three sectors of the economy were central in maintaining the influence of agrarianism in the state: sugar, dairying, and forestry. The sugar industry, with its northern and defence associations, played a great psychological role in fostering agrarianism as a social ideal. And with the introduction of central milling in the 1880s, small-growers in the industry became important users of coloured labour, so the planters were not the only supporters of the Kanaka trade. After the first world war, dairying was another area where small holders became the mainstay of petit-bourgeois rural conservatism, with the state arbitration laws making special allowance for farm labour needs. Lastly, after the 1930s, forestry became an increasingly strong department that worked in conjunction with local timber entrepreneurs. When complaints about environmental destruction began to be made the government response was to publicise its re-forestation program, but this was something economic rather than ecological. Native flora and fauna could not survive within the area of the state forests' pine trees.<sup>23</sup>

Despite suggestive accounts by some writers, the role of agrarianism in Australian history is still not widely realised. If mateship was the dominant national ideal, then after bush life itself, agricultural settlement was the setting believed best for realising the mateship goal.<sup>24</sup> In the 1850s Caroline Chisholm wanted her Catholic girls to raise happy families in a healthy rural setting, and after 1918 C.J. Dennis ritually purified the Sentimental Bloke by marrying him to Doreen, then removing them to her uncle's farm outside the city. This agrarian idealism was very strong in Queensland, perhaps as a reaction to the early dominance of the pastoral industry. Queensland's equivalent to Lawson, Patterson, and Dennis was A.H. Davis—Steele Rudd, whose 'On Our Selection' stories fostered the benign legend that the real Australian virtues were found in the country. Dad and Dave were less superhuman than the Man from Snowy River and so more believable.<sup>25</sup> The main result of Australian agrarianism, however, has been the persistent neglect of urban problems and this was exemplified in Queensland.

But what needs special emphasis is that Queensland agrarianism was

a form of populism. Australian populism differed from the American kind because the labor parties in Australia successfully incorporated large agrarian elements in their platforms, because America had no labor parties, and because the Australian railways, being state owned, could not be singled out as the agents of private monopoly they were in the USA.<sup>26</sup> In Queensland the Labor Party, which was in power almost continuously between 1915 and 1957—the longest term of any state Labor government—was itself a country party dependent for its survival on a country union, the AWU. One result of the strong populist-agrarian sympathies in the Queensland party was its contempt for education: anti-intellectualism is a populist characteristic. When Ryan's first ministry was formed in 1915, the Minister for Education, Hardacre, was an expert on land laws; his greatest ministerial achievement was to retain brass bands in the primary schools to prove Labor was not lacking in patriotism during the war.<sup>27</sup> The Party's attitude to secondary education in the inter-war years was to leave it to the private schools wherever possible and treat the existing state secondary schools as vocational enterprises.

The main economic effect of agrarianism in Queensland, however, was to ensure that the state's principal task was seen as primary production. There were real political differences between different kinds of primary producers—large pastoral, mining, and sugar interests were Labor's main opponents, while pastoral workers, small sugar growers and dairy farmers sometimes supported Labor—yet the overall result was a concentration on agrarian economic policies which contributed to the backwardness of manufacturing in Queensland until after 1945. A related consequence was that through the inter-connection of pastoral finance companies, bankers, insurance firms, mine-owners and large sugar growers, rural and merchantile capital was the main form of private capital investment in Queensland, and industrial capital played a very small role.<sup>28</sup> This was another reason for the neo-feudal style of capitalism in Queensland.

---

*I again wish to point out the desirableness of establishing a Department of Trade, Commerce, and Manufactures. I do not in any way wish to relieve private enterprise of its individualism, but there are certain duties that can only be carried out by the community as a whole.*

Brisbane Chamber of Commerce,  
President's Report 1903

---

The other two main sources of conservatism in Queensland were the corporatist use of the state and the power of overseas and interstate monopolies. A distinctive brand of state paternalism developed in Queensland. Under the Tory ministries of the nineteenth century this paternalism tended to be benevolent, while under Labor in the next century it was more egalitarian, but the common factor between them was

a paternalist use of the state which resulted in a form of state capitalism or corporatism.

Like New South Wales and Van Diemen's Land, Queensland was originally a convict colony and state enterprise was more important than private until the 1850s; then with separation and the election of the first parliament dominated by the 'pure merinos', the government became an agent of private enterprise. Queensland lacked a strong Liberal party or *laissez-faire* movement and the colony's developmental policies concerning land, immigration, and railways were carried through with an unusual degree of thoroughness, if not always success. The first phase of public activity was in the 1860s, when the Lands, Posts and Telegraphs, and Rail departments were established, then in the 1890s the first Public Service Act was passed and some semi-governmental authorities were set up. By 1900, a tradition of practical paternalism had become the characteristic style of government in Queensland. Its crowning achievement was perhaps the Queensland National Bank, a Queensland-based concern whose scale of operations was fabulously large. Edwin Drury as manager had a close association with Thomas McIlwraith as Premier, and the Q.N.B. was, in effect, a state bank. Like the governments it acted for, it was corrupt.<sup>29</sup> The next new development in the use of the state was Labor's steps in the 1920s. Ryan's government consolidated the role of the state Arbitration Court, developed a primary cooperative marketing system, and set up state butcher shops and an insurance company. Conservatives were outraged by the state enterprises, but by the late 1920s Labor had lost interest in that area and returned to the older style of using the state; in the 1940s the Southern Electric Authority of Queensland Main Roads, and Department of Industrial Development were established and extended.<sup>30</sup> Lastly, with the incentive of a growing tourist trade in the postwar years the Queensland government suddenly discovered culture and set up its own Ministry for Culture.

The main point to emphasise about the use of the state by successive Queensland governments is that invariably it has been seen as a reactive force to complement private enterprise. It has not been a passive instrumentality and it has often taken initiatives in its own right, but these have been aimed at furthering capitalist development. The state has been seen as a developmental agency, not as a competitor for business. Queensland ended up with more of a state-based health service partly because of the greater paternalism of its state government, and partly due to the lack of interest of private enterprise in this area; Labor's much-vaunted free hospital system, in other words, was the result of benevolent paternalism as much as socialist humanitarianism.<sup>31</sup> Great battles have been fought over the use of the state in Queensland as Labor governments have seen their mandate in this area in different ways from others, but the differences have been more about means than ends.

The historiographical trap here is that some writers, in analysing the state enterprises of the 1920s from a revisionist viewpoint, have looked at them too single-mindedly. Murphy's argument, for example, that

they were part of the reformist mainstream of state Labor policy is quite a-historical. It neglects the long-term role of the state in the Queensland economy, the evidence about some genuinely radical intentions held at the time, and also the tremendous amount of opposition aroused by the enterprises.<sup>32</sup> More importantly, however, the state has been used in such a corporatist manner in Queensland primarily because of the monopolistic nature of private enterprise in the economy. Australian historians have sometimes discussed the role of the state without considering business ownership and control, but this is a case of historical myopia.<sup>33</sup> In this regard the Queensland story suggests that big business and big government were complementary features of Australian capitalism.

---

*John D. Rockefeller once said, 'Just as business combinations are effective in saving waste and obtaining better results, so similar combinations should have similar beneficial results in philanthropic work'.*

Brisbane Charity Organisation Society,  
Annual Report 1921

---

When we turn to consider the role of private enterprise in Queensland's development, the picture is a curious mixture of strength and weakness. Big business certainly existed in Queensland but it was rarely owned and controlled locally. It has only been with the post-war boom that local enterprise has really taken off. Before 1939, local companies were pale reflections of the powerful overseas and interstate monopolies which dominated economic activity in the state, and this counter-point between large non-Queensland owned companies and the much smaller state-based firms typified the development of private enterprise in the state.

A recent list of the top ten Australian companies includes Mount Isa Mines, CSR and Comalco, whose main operations are in Queensland, but they are not state-based companies. Non-Queensland companies traditionally have been involved in developing Queensland's rich primary industries and the transport system. Mining, oil, wool, meat, and shipping have been such areas. In the last century, British investment was crucial to Queensland mining, in Mt Morgan and in the North; this century, American and European funds have been more important, at Mt Isa since 1930, and in the Centre and the Gulf since the 1950s. Queensland Alumina, for instance, in 1964 was 52 per cent owned by the American Kaiser Aluminium Company, 20 per cent by Alumina of Canada, and 20 per cent by Pechiney of France. Other large Australian non-Queensland firms, such as CSR, AMP, the CBC, Elder Smith and Goldsbrough Mort, have also involved themselves in mining enterprises such as Nabalco at Gove. Non-Queensland based pastoral finance companies, banks, and insurance firms have controlled the Queensland pastoral industry, and Swifts and Vestey's have monopolised meat processing and exporting. The media has been another heavily controlled sector, with the Herald

and Weekly Times group dominating the newspaper market in Brisbane as well as owning 4BK and Channel 7, and with 41P—a major metropolitan broadcaster since the war—being controlled by the National party.<sup>34</sup>

The only Queensland companies that managed to grow to any size and survive before the war were usually linked with the pastoral industry and other large non-Queensland enterprises. Queensland Trustees, one of Queensland's oldest and the largest trustee company, had branch offices in three Queensland towns in 1948, one hundred other state agencies, and offices in Sydney and London. Its directors included William Jolly, a Mayor of Brisbane and a Liberal party leader, H.C. Morrow of Arnott Morrow's biscuits, and Byrne Hart of Maryborough's Wilson Hart timber company. The Chairman was E.C. Walker, a third generation descendant of the founder of Walker's Engineering in Maryborough and a director of the Queensland National Pastoral Company. The Deputy Chairman was A.E. Moore, an ex-Country party Premier and a director of the AMP, while another director was J.M. Campbell, a United Graziers Association Treasurer and a director of Bruce Pie—another Leading Liberal—industries. Some of the other directors of Queensland Trustees were also directors of Bruce Pie, Walkers, the Colonial Mutual Life, ACF and Shirley's Fertilizers, the National Bank, Castlemaine Perkins, and the Millaquin Sugar Company.<sup>35</sup>

Otherwise, family and locally based firms were a feature of the neo-feudal style of Queensland capitalism. The development of Walkers in Maryborough after the 1880s was a good example of a familiar pattern of events in Queensland's business history. Although Maryborough was not a company town like Newcastle, it was a companies town and Walkers was the largest. Victorian entrepreneurs, themselves originally Irish and Scots, came to Queensland and succeeded through attention to overseas methods and community affairs. The company boasted that most of the rail bridges on the east coast of the state bore their stamp, and its markets extended from the South and North Queensland trade in sugar and mining machinery to Northern New South Wales, Broken Hill, New Zealand, Fiji, and Natal. The firm's reliance on imperial expertise for the technical side of its business was complemented by a benevolent involvement in local affairs. W.F. Harrington, a founder of the company, began the Maryborough Chamber of Commerce and was its President for several years; he was Chairman of the Gas Company, he organised the building of the School of Arts, and was a Trustee of the Maryborough Boys Grammar School. The other side to this story was that Walkers supported the use of Kanaka labour in the sugar industry and had a policy of paternalistic regulation on the shop floor which retarded union development. The company's success in the nineteenth century was followed by a gradual decline due to the shift of sugar farming to the north, but also because of the firm's retrogressive policies.<sup>36</sup> Other successful family and local firms were Fairymead Sugar at Bundaberg, Walter Reids at Rockhampton, Samuel Allen's at Townsville, and the Queensland

Woollen Manufacturing Company at Ipswich.

The structure of ownership and control in Queensland private enterprise, has thus been remarkably unbalanced. The weakness of local entrepreneurship has contrasted starkly with the dominance exerted by some of the big companies in the state and this has had several effects. It has been one reason for the slow growth of manufacturing, and it has contributed to the greater political weight of the Country and Labor parties as against the Liberals. More significantly, though, the lineages of Australian capitalist power have stood out with great clarity in Queensland. A style of Queensland imperialism has developed, with the activities of Burns Philp—a North Queensland firm based in Sydney—in the South Pacific, and the important business links between Queensland and the white community in Papua New Guinea. Queensland traditionally has entertained grandiose imperialist ambitions, such as McIlwraith's abortive proposal to build a transcontinental railway between South Australia and the Gulf using coolie labour, or the Government's ambition to make Somerset, at the top of Cape York, another Singapore in the 1860s; currently Joh Bjelke-Petersen, Lang Hancock, and Charles Court are planning a rail link between Queensland and Western Australia.<sup>37</sup> As Rovers Darruch and others have suggested recently, a new style of resources diplomacy may now be entering internal Australian politics. Queensland's geographical situation, its rich raw materials, and the dominance of large companies in the economy, all make the state an ideal place for such projects.

A final point in this regard is that private enterprise in Queensland has exerted a substantial degree of control over state politics. In 1965 the Country party invoked the use of Emergency Powers Regulations against the Mt Isa strikers, while one reason for the strike itself was the American parent company's determination to oppose wage increases and so offset falling profits in their Mexican operations. Yet the best illustration of the power of capital in Queensland was the 1920 loans crisis, which has some parallels with the 1975 dismissal. In 1920 a delegation of pastoralists and financiers led by Robert Philp went to London to persuade City investors not to take up the Labor government's current loan in response to the move to raise pastoral rents. The pugnacity of the conservatives at this time was astonishing. Even Alfred Bright, one of the partners in the Melbourne Shipping firm of Gibbs, Bright, which had pastoral interests in Queensland, privately described the delegation as an amazing indiscretion. During the affair the General Manager of Dalgety's arranged financial support for Labor's defeat and urged that an anti-Labor electoral win would have a great moral effect on the other Australian states. As a result Theodore was forced to negotiate a costly loan on the unfamiliar American market, and Labor's political influence in the state was weakened. It contributed to the adoption of more reformist policies by the state party. This incident, which has never been properly examined by historians, is one of the most blatant instances of the blackmail of an Australian Labor government by financial in-

terests.<sup>38</sup>

---

*It is time that the equality of citizenship was understood. The assumption of dignity by certain portions of the population in every district in Australia is becoming intolerable. No aristocrat is more careful of his dignity than the Australian leading citizen. We must obliterate this last phase of class society existing in our towns.*

The Australian Republican  
Charters Towers, 9 August 1890

---

A number of characteristic features of politics in Queensland have developed from the state's political economy, such as a close connection between business and politics, and the pervasiveness of corruption in government. McIlwraith and Philp were prime examples of Tory business politicians in the nineteenth century, just as Theodore and Egerton were their Labor counterparts after 1900. A style of plutocratic government was established by the 'pure merinos' in the 1860s and continued by pastoral scions like James Tyson, Joshua Peter Bell of Jimbour, and the Gunn family. McIlwraith was almost a dynastic figure. A wealthy grazier himself, his brother-in-law Arthur Palmer, was another grazier-cum-premier, and one of his brothers was founder of the McIlwraith-McEachern shipping company, which became associated with the giant British India line. McIlwraith was caught with his hand in the till twice: in the steel rails scandal of 1879 about his brother's government contracts, and with the deficits of the Q.N.B., but he blustered through these *contretemps* in his usual way. Theodore's record was rather similar. An A.W.U. organiser and Treasurer in Ryan's original ministry, he moved into federal politics but was hampered by his connection with the Mungana mines scandals. He became an important federal figure during the depression and second world war as an administrator and financier, but the atmosphere of corruption still clung to him.<sup>39</sup>

Related parallels could be drawn between Philp, with his interests in Burns Philp and his Townsville and Fijian investments, and Egerton with his directorships in 4KQ, Mary Kathleen Uranium, and QANTAS, while other examples of the links between business and politics could include Bjelke-Petersen's own investments, the record of the Continuous Ministry which governed between 1890 and 1903, and the activities of some Labor and Non-Labor councillors in the Brisbane City Council. Corruption and political indifference to the environment are also relevant here. Whether it is a case of private interests, such as sand-miners at Fraser Island, or state enterprise with the defacement of the Bellevue Hotel and the spoilation of Wooloongabba by freeways, Queensland politicians have turned a blind eye to conservation. Lastly, there is the well known system of gerrymanders in the state. But the irony of the present situation, which of course greatly favours the National party, is that previously Labor was equally guilty of re-defining electorates to

suit itself, just as Tory ministries in the last century interpreted the Electoral Acts to exclude seasonal workers.<sup>40</sup>

The next main feature of the Queensland political tradition is that private interests have dominated the state governments and the labour movement, even when Labor has been in office. The state's strike record is the best evidence of this. Some of Australia's major strikes have taken place in Queensland but almost always they have been lost. The pastoral and maritime strikes of the 1890s and the Brisbane general strike of 1912 were effectively suppressed by conservative governments with the use of force. The army was despatched to the shearers' camps in the nineties, and—incredibly—in 1912 a German battleship that was offshore in Moreton Bay was requested by state authorities to be ready to help put down the strikers if necessary. And state Labor governments have been equally adamant if not as ruthless in controlling labour militancy—during the rail strike of 1927 at South Johnstone, for instance, when the government's hard line lost it working-class support in the next election, or in the 1948 rail strike, during which Australia's only Communist M.L.A., Fred Peterson, was near-fatally bashed by a policeman. Both Labor and anti-Labor governments, however, have been dependent on more powerful outside interests. The 1920 loans affair was precipitated by the pastoral rents issue, but other related controversies at the time were the campaign to abolish the Legislative Council and the national wave of industrial militancy, especially in the maritime industry.<sup>41</sup> Bolshevism was the bogey then, just as communism and Vietnam were during the Mt Isa strike.

Another crucial limiting factor on Queensland politicians has been the influence of regionalism and agrarianism. The Labor party did well after 1915 because its policies were so rurally oriented. They pre-empted Country party policies in many ways, and Labor in Queensland was almost as much a country party as the Country party was itself. Forgan Smith never tired of piously reiterating the virtues of the primary producer. Similarly, Queensland politicians identified themselves with one particular region, which was normally a non-metropolitan area—Kidston with Rockhampton, Macrossan with Townsville, Forgan Smith with Mackay, and Moore, Nicklin, and Bjelke-Petersen with agricultural areas. The main damaging effect of these influences on Queensland politics was that they have often been bi-partisan issues and so have significantly narrowed the scope of political activity. Queensland has produced a series of political strongmen as a result—McIlwraith, Griffith, Philp, Kidston, Forgan Smith, Moore, Gair, Bjelke-Petersen—and continuous governments. It now seems likely that the National-Liberal coalition could remain in power as long as Labor previously did. Political inflexibility is a Queensland characteristic.<sup>42</sup>

The last point to be raised here is the place of the labour movement in Queensland. It is important to distinguish carefully between the Labor party, the trade unions, and the labour movement in Queensland history. One can read Murphy's account of Ryan as a great Labor premier, or

of the role of organisers in the party, and be in a different and non-militant world from that described as accurately by Harris or Daddow, in their non-academic histories of the trade unions and the labour movement. The Queensland labour movement was very much a house divided. The idealistic Australian Labor Federation promised to be Australia's first national union of any consequence, but it was more shadow than reality; the A.W.U., with its system of machine politics and corruption, in fact became Queensland's major union and remained a force behind the party's victories until it finally over-extended itself and was put in its Place by Gair in the 1950s. Yet if the AWU was the state's most successful union there were still some radical alternatives. The W.W.F., the A.M.I.E.U., and the A.R.U. were all, at one time or another, involved in bitter fights with both private capitalists and right-wingers in the party. The T.L.C. reflected these divisions, but its annual conference often affirmed a series of anti-capitalist resolutions. So the major part of the Queensland labour movement was apathetic, reactionary, corrupt, or rurally oriented, but on the other hand there was a continuing radical campaign put up by an embattled but significant minority. Radicalism in the Queensland labour movement, in the face of almost overwhelming opposition, followed a subterranean but definite course and emerged to challenge the system periodically.<sup>43</sup>

Nevertheless, the present political situation in Queensland is a depressing one. Bjelke-Petersen preserves the tradition of authoritarian leadership in the state but he has added a new and ominous ingredient. Unlike the other political strongmen who have preceded him, Bjelke-Petersen's position is strengthened immensely not so much by his own intrinsic abilities—although he is arguably the cleverest politician in Australia—as by the fact that he represents a new, successful, and confident locally-based Queensland middle class; something the state has traditionally lacked, and only developed in the last twenty years. Himself a self-made business success, whose breakthroughs were made after he had been a conscientious objector during the second world war, he exemplifies a new style of leadership in Queensland and has helped to move the Australian political spectrum further to the right. This new style of the National Party in the state was created by Joh and his tacticians as a response to Whitlam's 'new nationalism', in the early seventies, and Joh's homely rhetoric about Queensland for Queenslanders touched on the traditional pride and paranoia of Queenslanders about their difference from the rest of Australia. Radio station 4IP has ridden on the crest of this new wave of cultural conservatism. A National Party controlled station, it has succeeded because it is a locally controlled enterprise attuned to the Brisbane social climate; it has skilfully used the latest American techniques of community involvement in its PR campaigns, and has also taken over the superficial side of the counter culture, via slick production methods and the importation of an ex-2JJ announcer as well as some cricketing superstars. 4IP showed where it was really at recently, however, when one of its directors spent a large sum of money to

buy and demolish a house in the exclusive suburb of Hamilton so that it would no longer interfere with the view from his own modest dwelling.

### Queensland and Australian Nationalism

The relation of nationalism to Australian capitalism will now be considered *via* the Queensland experience. The problem here is: what exactly is the nature of *Australian* capitalism? Has it a distinctive national style? Is it right to describe it, as N.B. Nairn does, as 'civilized capitalism'? It is difficult to answer this question because the mainstream of contemporary writing on Australian economic history is predominately conservative and quantitatively oriented. Little is known about the history of monopoly in Australia, for example, because of the monopoly of economic history writing that economics departments have assumed in the universities since the war. To make matters worse, the leading exponent of an intelligent literary economic history is Geoffrey Blainey, who has eulogised a series of capitalist heroes in the Australian past, just as American historians did in the 1950s. The approach taken in this essay is to argue that Australian nationalism did have a definite economic dimension to it, and that to consider nationalism only in social or political terms, as many have already done, can be a superficial way of treating a complex problem. Generally, the theme here will concern the way in which the nationalist economic ideologies were used as weapons of class exploitation and control; the way in which there has been a war of attrition, on an abstract level, between the economic ideals of equality and authority, and between progress and egalitarianism, with authority and progress normally coming out to top. The point of taking this radical idealist approach to Australian history is that it intentionally runs counter to the dominant empirical approach of Australian historiography, and it suggests where Australian concerns about progress have diverged most sharply from those about equality.

Thus the following treatment will be more academic but less general than the preceding section. The business ideal of free competition will be defined, followed by an outline of how this competitive ideal was influenced by various restraints, namely cooperation, state enterprise, and arbitration. An important related question will be how the non-competitors—the poor and the unemployed—fitted into the overall picture. The aim is to provide a plausible taxonomy of Queensland's economic history between 1890 and 1930 which suggests a rough model of Australian national capitalism. This time period is a significant one as it spans twenty-five years of non-Labor rule, fifteen years of Labor in power, and includes the two depressions and the first world war.

To introduce the discussion, a few comments are required about the state's economic growth in the period. The Queensland economy grew steadily between 1906 and 1927, except for the interruption of the war, and it withstood the two major depressions better than the southern states. But if Queensland's short run depression performance was encouraging, the long run prospects for the economy were not; the price paid for this

greater stability was primary dependence and severe regional inequalities. Yet the worst aspect of the state's economic performance was not so much that its absolute growth was inadequate, but that the structure of the economy was not diversified. The tendencies towards diversification that could be seen in the Australian economy by 1920 were not present in Queensland. By 1921 Australian manufacturing employment nearly equalled combined employment in the agricultural and pastoral industries; in the same year, Queensland manufacturing employment remained less than agricultural or pastoral employment taken separately. Also in the 1920s the state economy was not readjusted to keep up with structural changes in the Australian economy. Queensland agriculture had one of its most successful periods in the twenties and this distracted Queenslanders from the danger of remaining a primary producing region. Queensland's main phase of dairying expansion, for instance, began after a forty-year upswing in the Australian industry had already ended in 1920.<sup>44</sup>

### *The Competitive Ideal*

How can we best define the social philosophy of private enterprise in Queensland between 1890 and 1930? To do this properly a broad cross-section of business and political groups would have to be examined, but one way of gauging attitudes to competition is to consider the role of the state's leading commercial body—the Brisbane Chamber of Commerce. The problems of this organisation were an example of the weakness of the Brisbane business community in Queensland. Most of the Chamber's policies in the period failed. It had difficulty in holding its own members' interest, showed a lack of foresight in its attitude to labour matters and opposed the formation of a badly-needed local port authority. It also seriously underestimated the effects of federation on Queensland manufacturing, and by 1904 the Chamber's President was arguing that Queensland should secede from the Commonwealth.<sup>45</sup>

It is reasonable to expect the Chamber to have firmly upheld the competitive ideal, yet it never clearly stated a strong case for private enterprise. Competition was taken for granted in its outlook to some extent but it rarely made strong doctrinal pronouncements in its favour. For instance the Chamber took an ambivalent attitude to the Industries Preservation Act of 1906; while complaining that the Act would restrain trade it was also concerned that Queensland should be protected against interstate competition. The Chamber became most enthusiastic about its wider ideals only when matters of imperial consequence arose. President A.J. Carter waxed rhapsodic at the time of the Boer War and Federation, and Governor Chermiside took an even loftier view of the mission of commerce at a Chamber dinner in 1903. The right combination of commerce and culture, he argued, would lead to happiness. Societies such as the Chamber had an international role to play by fostering co-operation, liberalism, and arbitration. By their example they exerted a controlling influence on the community in furthering the interests of humanity.<sup>46</sup>

Despite such rare flights of fancy, the Chamber normally recognized that commerce in Brisbane was conducted in a different atmosphere from those in the U.S.A., with its 'robber barons', or the U.K., with its tradition of a commercial aristocracy. The Chamber's ideal form of competition was most often termed 'fair competition'. In sum, the Brisbane Chamber of Commerce's attitude to competition was ambiguous and qualified and far from being an endorsement of the American type of competitive ideal. Unfettered competition was modified by other factors which acted as restraints. The Chamber's idea of 'fair competition' in practice meant *controlled or collusive competition*. That Queensland's businessmen preferred this kind of competition was a reflection of their weakness in their own community—between 1890 and 1930 only five of the Chamber's twenty-nine Presidents were in parliament—and of the dependence of the Queensland economy on external sources.<sup>47</sup>

To broaden the scope of this discussion, it is useful to consider a wider economic debate in which Queensland took some part. One of the most important Australian arguments about competition took place in 1906 when federal parliament passed the Industries Preservation Act. This legislation derived from a moderate sense of nationalism and reformism and did not arouse great enthusiasm. There was a general feeling that it was unlikely to succeed because 'the spirit of concentration' was a feature of the times. Many members of parliament made a distinction between reasonable and unreasonable trusts and most supported the control of the latter, but not one spirited defence was advanced for entirely free competition. There was agreement that the aim was 'not only to prevent monopolies of trade and commerce, but to prevent *Australian* industries . . . from being destroyed by unfair competition'. Yet dividing lines did exist. Conservation argued for self-restriction on the part of large companies, and some radicals responded with threats of socialism. The Queensland senator Tom Givens, for example damned CSR's monopoly as predatory, while Dugald Thomson, a North Sydney M.H.R., saw the firm as a great Australian success story. He claimed not to be defending CSR as a New South Wales company, but on the grounds that it had succeeded in New Zealand and Fiji as well as Australia. Considering the nationalist aims of the Act this was a shrewd defence. Though quite different in intention, these arguments both assumed that business enterprise in Australia was weak in contrast to overseas, and that public enterprise played a large part in the Australian economy.

Interestingly enough the debate did not draw significant Queensland participation from either side. The strongest response came from the Liberal senator J.G. Drake and was pro states rights. Drake argued that protection all around *via* the tariff was a more equitable means of protecting Australian industries, and that the anti-dumping clauses in the proposed legislation could harm Queensland. The Act might be used as a means of further commercial invasion of the state by southern firms. So this reaction to the issue by Queensland parliamentarians suggests that the Brisbane Chamber of Commerce's passivity and poor ideological

showing owed something to its national setting. The private enterprise ideal of competition was only one ingredient in the broader capitalist ethos. It was the point of departure, but other influences now to be discussed were equally influential.<sup>48</sup>

### *The Restraints on Competition*

There were three principal restraints on the ideal of free competition: the various cooperative societies, public enterprise, and the arbitration court. Each economic form embodied an implicit social ideal, and because economic individualism ran at such a low ebb, these alternative ideals impressed themselves on the capitalist ethos. The particular ideals which came from the cooperative societies, public enterprise, and the arbitration court, were agrarianism, state paternalism, and industrial law and order respectively. These ideals were many-sided. They were rarely stated systematically and they also embodied more positive aspirations. These three ideals, together with the private enterprise ideal of controlled competition, were finally synthesized in the national egalitarian ideal of *collective competition*. But firstly, to discuss cooperation critically, a rough distinction must be made between the cooperative movement as an economic form, cooperation as a social ideal, and cooperation as a political movement. This procedure is artificially abstract but it separates the practical and ideological aspects of the question. Cooperation is a good starting point here as a clear correspondence can be seen between these three levels—the cooperative movement was the economic form, cooperation was the social ideal, and agrarianism was the political result. The failure of the cooperative ideal to develop radically is very relevant to this analysis; the principle of cooperation, in theory, was the most radical alternative to competition as a method of economic organization. In 1955 Gollan saw the concept of cooperative action as the most important link between trade unionism and socialism in Queensland in the nineties.<sup>49</sup> But the idea of cooperation was a confused and potentially conservative one. It was the idea of cooperation in the form of dutiful and respectful relations between workers and employees that was the most normal sense of the term at that time.

Several attempts at radical cooperation were made in the nineties but none succeeded. The industrial and retailing experiments were short lived, while cooperative land settlement was no more than a palliative that conservative governments supported in order to relieve unemployment and pay lip-service to the idea. It quickly became clear after the nineties that cooperation as a radical ideal had failed. Both the urban and rural cooperative that remained were conservative. The social philosophy of the urban groups was hierarchical and their bent was for cooperative self-help, a petit-bourgeois goal; the rural cooperatives were agrarian and explicitly conservative. Radicalism for most agricultural cooperators meant little more than a quasi-populist dislike of big business—or big government in Australia.

Between 1900 and 1930, a whole constellation of urban cooperatives were set up. The most important economic ones were the Horticultural, Building, and Friendly Societies, while there were also Prudential, Dispensary, and Loan Societies. Moral and religious bodies like the Temperance, Sunday School, and Moral Improvement groups were well established, as were societies for Mutual Improvement, the Schools of Arts, and the Mechanics Institutes. The Lodges were also influential, notably the Masons, as were the many sporting clubs. The Masons were an important model for the Friendly Societies. The Masonic ideal of social organization was a love of hierarchy and an overweening respect for authority. Masonic rules included a detailed regulation of moral behaviour which was paralleled by the minute regulations of status levels within the order. The conservative attitudes of the Masons was typical of the broader self-disciplinary role of the urban cooperative self-help societies in Queensland, and the general acceptance of such a code defies reconciliation with the anti-authoritarian side of the mateship ethos which Ward and others have stressed. From this viewpoint Australian urban life appears like a collection of crowds, groups, and gangs, and the activities of these groups in nurturing a spirit of obedience to authority deserves to be considered as one of the leading features of our urban history.

A related theme is clear in the role of the Friendly Societies. These occupied a strategic place in the lives of working people because they performed a crucial self-insurance function against destitution, in the absence of government welfare services. In 1900, for instance, of 31,000 people who received relief payments, 29,100 were provided for by the Societies. The most important Queensland Society was the Manchester United (the Oddfellows), followed by the Foresters, Rechabites, Good Templars, Druids, the Hibernians, and the Australian Natives Association. Yet Friendly Society members believed in solidarity more than egalitarianism; their main concern was to protect themselves against potential slackers in their midst. As the benefit restriction clause of the Rockhampton Oddfellows read in 1907: 'no member who has been rendered incapable of following his usual employment by any immoral conduct, by provoking or engaging in wanton quarrels or pursuits, or by accidents arising from intoxication, shall get it'. Just as in England, the well-established Queensland Societies recognized their interest in the *status quo*, in the 1870s, when they supported government measures to restrict the amount of benefit payable, and in the 1920s when they opposed federal welfare schemes. One nice illustration of the connections between the labour movement, the Societies, and big business was the friendship between W.R. Colledge, the manager of the Brisbane Associated Friendly Societies, labour leader Tom Glassey, and Sir Walter Runciman, an English shipowner and philanthropist. This liaison was highlighted in Glassey's obituary in 1928.<sup>50</sup>

The agrarian cooperatives were the conservative rural counterpart to the urban groups. When F.E. Pulsford, a conservative New South Wales

politician, eulogised cooperation in 1913 as the way to social salvation, his figures showed that only agrarian cooperatives had succeeded properly in Australia. The centre-piece of the English cooperative movement had been the cooperative retail store, but in Australia this was the least rewarding form of cooperation. Queensland's first cooperative dairy was formed at Pittsworth in 1896, the first consumer cooperative began at Maryborough in 1914, and the first fruit and poultry cooperatives dated from early twenties. Most of these societies were for dairy farmers, fruitgrowers, and poultry farmers, and only a few cooperative produce agencies and consumer cooperatives took root. In the 1920s, however, Labor built up one of the most complex systems of marketing for primary produce in Australia. A central issue here was the relation between unionists and farmers. Some predicted that when agricultural cooperation developed the two would find themselves at odds about land taxes and farmers' interest in securing cheap labour. These problems were taken care of with Labor's comprehensive agricultural policy of 1913, however. Just as Queensland Labor was not a socialist movement, so the agrarians were usually pragmatic in their attitude to Labor, and the growth of rural cooperation helped to reconcile them. Given Labor's mild brand of socialism, agricultural cooperation could be seen as part of the collective self-help tradition to which the party was committed; equally, the success of the cooperatives could not be ignored by Labor politicians. So by 1930 agricultural cooperation had succeeded in Queensland beyond the wildest dream of its founders, and agrarianism had been reconciled with socialism, but the compromise had been made at the expense of the socialists.<sup>51</sup>

\* \* \*

With public enterprise such a clear connection cannot be seen between economic form, social ideal and political result; but the indirect link is broadly similar. As with cooperation, there was the possibility that public enterprise might be used for radical ends, but the result was state paternalism rather than state socialism. The ideological complement to this was the formulation of a public service ethos which was paternalistic and conservative.

There can be little doubt that the role of government in nineteenth century Queensland was paternalistic. Queensland's normal climate of political conservatism reinforced the role of state involvement in the economy everywhere except in the area of social reform. Here the government did nothing for as long as possible, then enacted humanitarian but paternalistic remedial legislation. The treatment of Aborigines was one example, and the factories and shops issue was another. After tolerating the extermination of Aborigines for decades, the government finally passed the Reserves Act of 1896 which protected the blacks by excluding them from white society. Similarly, before the progressive Factories and Shops Act 1897, the government had delayed acting until industrial conditions in Brisbane were among the worst in Australia.<sup>52</sup> Then with Labor's advent in 1915 the situation seemed to change: state

insurance, Greater Brisbane, and the state pastoral stations and butcher shops were all important departures in the use of the state. Labor's canning enterprise, on the other hand, was part of the government's concern for primary industry rather than an enterprise in its own right, and the state's one hotel at Babinda was not a serious attempt to move into the liquor trade. Of all the state enterprises, the insurance project was the most potentially significant tactical move against capitalism.

Labor's early insurance plans definitely had some radical overtones. J.A. Fihelly, a fiery pro-Irish Assistant Minister of Justice, apparently had in mind a wider set of changes in the economic system, including the creation of labour exchanges and unemployment insurance; there was also a fairly hard edge in Labor's attitude towards the private companies. Yet there were utilitarian aspects to the issue even then. Fihelly complained for example, that there was no interfirm cooperation and this was an unnecessary source of expense. Both of these radical and practical elements in Labor thought on the matter could be seen in the actions of John Goodwin, the first SGIO Commissioner. As the government's plan to broaden state insurance developed, his position changed from support for a mild radicalism to a pre-occupation with practical details. During the preparation of the Insurance Act of 1916 which empowered the SGIO to move into other areas of the industry, he emphasised that the most controversial parts of the Bill had been 'conceived in the spirit of cooperation with the companies and not with any idea of handicapping them'.<sup>53</sup> Although the SGIO set itself up as a successful competitor against the private companies by the mid-1920s, its policies then were predominantly business-like. In other words, even in the most potentially innovative area of public enterprise, paternalism had not been replaced by radicalism. The same failure could be seen in the government's Workers Dwellings project and its conduct of the Government Savings Bank. The middle class drives of thrift and respect for property were reinforced by these projects more effectively than by empty sermonising.<sup>54</sup>

The continuation of the earlier paternalist tradition of public enterprise under Labor was clear also in the social attitudes of the leading public servants. Their most consistent theme was unquestioning loyalty to the service. It was believed that public service required the strict control of members of the service, and there was no support from the bureaucracy for workers' control, even during Labor's most radical phase. J.D. Story, Queensland's leading career public servant in the inter-war years, upheld unquestioning loyalty, punctuality, and discipline as the required public service virtues: 'There should be a minimum of argument and a maximum of work', he stressed, 'mostly there should be no argument at all'. A similar emphasis could be found in other government departments. The aim of 4QG—the first government broadcasting service in Queensland—was service, not profit, maintained the Director in his first report in 1928: 'Each member of staff is imbued with the spirit of service and is attached very deeply to the institutions which he helps to man'. And the first report of the Land Administration

Bureau in 1927 argued that the government should act as a benevolent landlord. According to the Bureau, the White Australia Policy was one of civilisation's great experiments in which Queensland held a key position. In short, the leading public servants held attitudes which were inconsistent with the ideal of a politically neutral body of administrators, and the preoccupation with security and status which they encouraged was a mainstay of social conservatism. Such a concern taken to excess ultimately led to a lack of psychological flexibility, and loyalty became the prime virtue regardless of its object.<sup>55</sup>

\*                                 \*                                 \*

When the arbitration system is next considered as an influence on the Australian capitalist ethos, the theoretical link between its economics, social ideals, and politics is less clear again, yet the system itself is historically the best illustration of how Australian capitalism really works. Unlike cooperation or public enterprise, the Arbitration system contained no possibility of being used as a means of overthrowing capitalism. While working towards its aim of an egalitarian minimum-wages system, arbitration was also intended to regulate industrial conflict to preserve competition. Its strongest negative theme as a social ideal was the preservation of industrial law and order, and its political effect was to act as a mediator in adjusting radical unions to moderate parliaments.

There was a tradition of protective labour legislation established in Queensland well before 1915. Arbitration and Industrial Peace Acts were passed in 1894, 1908, 1912, 1915, 1925, and 1928. Considerable attention was paid to working and housing conditions as well. Factories and Shops Acts and amendments were passed in 1896, 1900, 1908, and 1916; Accommodation Acts, dealing with the living conditions of seasonal workers, went through in 1905 and 1915; provision for low cost housing was made in the Workers Dwellings Acts of 1909, 1916, 1919, and 1920. Lastly there were some miscellaneous but important pieces of legislation—the Labour Exchanges Act of 1915, the Workmens Compensation Act of 1916, and the Unemployment Insurance Act of 1923. While it is true that Ryan's ministry 1915-19 passed some valuable and innovative measures, the non-Labor parties had been active in the field for years previously. What distinguished Labor's era from the period of non-Labor rule was not so much the greater attention paid of labour matters after 1915, but the more generous spirit in which they were administered.<sup>56</sup> A tradition of conservative paternalism was replaced by a new style of egalitarian paternalism, but the one was no less authoritarian than the other.

The state arbitration system was the result of experiment and accident as well as intention. Queensland, like Victoria, first adopted the Wages Board system in preference to arbitration, due to the greater strength of political conservatism in the state. Then, until 1915 arbitration was not given a very free rein. It was worked by conservative governments which were wary of the system and reluctant to give it the right to grant

preference to unionists. In 1915 Labor recognised, however, that union preference would not necessarily encourage labour militancy, while it would increase the scope of arbitration. Because of the combination of a strengthened arbitration system with an energetic Labor government in time of war, the court's reputation took on a patriotic tone it had not previously had at the state level. Subsequently a game of point-counterpoint developed between the state and federal courts to the advantage of the former. Throughout Australia the twenties were a time of industrial turmoil and the federal governments of this era were unswervingly hostile to working class ambitions and did their best to use arbitration to their advantage. Queensland Labor, in contrast, was receptive to the improvement of labour conditions—though still opposed to industrial disorder—and state arbitration there attracted a greater degree of union support than any other Australian court.<sup>57</sup> There was no attempt to re-define the court's role until 1929.

Yet through the 1920s Labor was as insistent on maintaining industrial law and order as preceding conservative ministries had been. This policing function of the system can best be highlighted by looking at its ideological level. The dominant themes of the Queensland arbitration system were equality, utopia, and authority. Egalitarianism was the most publicised of these as the basic wage was rightly seen as something uniquely Australian. It was the economic expression of the mateship ideal: everyone deserved a fair go, hence the minimum wage. All political parties endorsed the idea of a basic wage in the twenties, except that whereas Labor Premier Forgan Smith referred to the state's high wages with pride Opposition Country Party leader A.E. Moore spoke ominously of the dangers of living beyond one's means. Yet in practice, arbitration also meant a rigidly ordered and highly technical method of wage determination. Any real understanding of the system was extremely difficult for ordinary workers because of its complex methods. So the effect of arbitration here was elitist not egalitarian; it required the services of a skilled body of legal and economic technicians. Also, the system's concern for egalitarianism at some points gave way to a preference for compulsion: people had to work to get the basic wage and they had to join unions when arbitration was made compulsory. An analogy between compulsory arbitration and conscription is helpful here: where the Nationalists favoured military conscription and wanted to reduce the compulsory elements in arbitration, Labor opposed conscription but wanted compulsory arbitration. Lastly, the third social motif of arbitration was its utopianism. Here it bore the marks of its origins in the nineties and the first world war. In 1915 the prospect of a lasting industrial peace was part of the wider hopes then held for an enduring world order. Some conservatives dissented from the general enthusiasm about arbitration, arguing that it would sap the spirit of enterprise, but they were in the minority.<sup>58</sup>

So while the system's aspirations had been partly idealistic, the result was elitist and conservative as well as utopian and egalitarian. The

egalitarian aim was that of the basic wage but the price it exacted was that arbitration had to be compulsory and this in effect made unionism compulsory. Queensland shared in the Australia-wide trend for arbitration to encourage the growth of trade unionism in general, while fragmenting its ideological base. Unions were formed by groups that were normally anti-union under the pressure of the system, and in this kind of unity there was weakness rather than strength for the whole labour movement.<sup>59</sup>

*The Non-Competitors: the Poor and Unemployed*

Whereas cooperation, public enterprise, and arbitration were important restraints on the competitive ideal, there was another group in the community which was affected by the capitalist ethos but had no restraining effect on it—the poor and unemployed. The poor and the unemployed were the non-competitors. They exerted no positive influence over the commercial value system, yet they were an important factor—practically as a reserve pool of labour and ideologically as an example of the cost of social disobedience or inefficiency. Most Australian historians have ignored the poor, but the permanent poor in fact have formed a significant sub-class in the society.<sup>60</sup>

In Queensland this group has been treated with distinctive harshness. The state remained a frontier society in many ways even in 1900; the obstacles to settlement created by its great distances, its later colonisation, the hostility of the Aborigines, and its unpredictable climate, all made locals preoccupied with their own concerns. They were distrustful of the personal weakness to which many believed poverty was due. It was almost a case of pioneering versus poverty—concentration on one excluded the other. It also seemed incomprehensible that a new land could have similar social problems to the Old Country's and it was practically disloyal to say so. Private charity in Queensland was less active than in any other Australian state and its attitudes were singularly unenlightened. The Brisbane Charity Organisation Society is a good example. Formed in 1892, its attitude to poverty carried over many of the mid-Victorian beliefs about poverty as a consequence of character weakness, into the new century. It had difficulty in winning public support and came to view itself as a protection agency for businessmen who wished to keep beggars off their premises. 'Businessmen look upon their subscriptions to this Society as a good investment', reported Secretary S.C. Carter in 1914, 'and as an efficient protection from imposition'. By 1933 the C.O.S. recognised that unemployment and sickness were more important factors in causing poverty than drink, laziness, or incapacity, but by then the Society had become almost bankrupt and was quite ineffective. During the depression the government's creation of the Social Service League to coordinate charity in the state was an acknowledgement of the failure of private charity in Queensland.<sup>61</sup>

Because private charity was so weak in Queensland; public activity had to be more extensive. What was characteristic of government atti-

tudes to the poor and unemployed, however, was an alternation between neglect and paternalism; as noted, conservative ministries tended to be benevolently paternalist, whereas Labor governments developed a style of egalitarian paternalism, both could be neglectful. Unsympathetic attitudes to poverty were normal in Queensland until Labor's win in 1915. Till then the matter was considered only because of the pressure of special groups or when a scandal took place: When the Accommodation Act of 1906 was passed, for instance, to deal with seasonal unemployment; or as in 1908 when there was an inquiry into the sordid living conditions of the Workers Metropole—a Salvation Army Adelaide Street Refuge. One illustration of these unsympathetic public attitudes was a report on outdoor relief made in 1900 by Dr J.E. Hare, the recently appointed state's first Inspector of Charities and a leading medical man. Hare made a careful survey of the existing methods of relief. In applying for aid the destitute had to supply information about their sobriety, length of residence in Queensland, state of health, means of livelihood, and the situation of their relations. Hare was familiar with the problems met with in England concerning the Poor Law and was sharply critical of any 'outbreak of sentimentality' in the state which might lead away from the enlightened principles of the 1834 law. He warned against the danger that recipients of the 5/- allowance might come to regard it as a right, criticised the lack of coordination of private charity, and raised the prospect which seemed to be a general fear of the time—that a torrent of misguided benevolence might pauperise one and all.<sup>62</sup>

With Labor's victory in 1915 there came a wave of enthusiasm about the chances of solving the worst social problems, but the optimists soon found themselves in difficulties as the war's end caused severe economic dislocation: Queensland had the highest average rate of unemployment of any Australian state in the immediate postwar years. Yet the existing avenues of relief were extremely unpopular. The agency responsible in Brisbane was the Government Relief Office, managed by J.S. Hagan, which had originated in the 1890s depression, and the attitudes of Hagan and his officers were normally punitive. He firmly upheld the need for inspecting the circumstances of relief applicants. Further, in non-metropolitan areas this was the duty of the local constable, and the indigence allowance was also administered by the police who handed out relief in the form of ration tickets; unemployment was still closely associated with poverty, which was seen as something to be ashamed of, and unionists resented being dealt with by the police. The unions therefore raised the idea of a state-wide union-administered relief fund, financed by the government. It was initiated by the Townsville A.M.I.E.U. but employers and the press strongly opposed the plan, which also proved very costly, and the government closed it down despite bitter union disappointment.<sup>63</sup> So after a hopeful beginning the Labour government had found itself at odds with sections of the labour movement and had withdrawn to an orthodox budgetary position.

The next step, which seemed a real breakthrough, was the 1923 Un-

employment Insurance Act which gave Queensland a radical reputation throughout Australia. But possibly it was because the Act's aims were so modest that it succeeded. It was not intended to solve the unemployment problem but to reduce distress caused by unemployment; it did not provide jobs, but aimed at reducing the impact of unemployment by setting up a contributory insurance scheme to which workers, employers, and the government contributed equally. The Act was broad and general and its application was determined by regulation. Different regional living allowances were devised because of the wide variations in the state's cost of living, and to get the allowance workers had to register at the local labour exchange and hand in their contribution books weekly. A subsequent federal Royal Commission on unemployment concluded that the Act had not had any apparent effect on reducing unemployment, but thought it a good method of relieving unemployment by non-charitable means. 'The genuine unemployed', the Commissioners stressed, 'want work and not charity'.<sup>64</sup> The 1923 Act was a pioneering piece of social legislation despite its limits. It was a half-way house between the optimistic and impractical earlier policies Labor had in this area and the more prosaic but effective measures taken during the depression of the 1930s.

Yet the old categories of thought still persisted beneath the surface. The earlier distinction made between the deserving and underserving poor was now turned into a distinction between the genuinely unemployed and the non-genuine—the loafers and bludgers. Employers predictably saw the Act as another step towards socialism which hindered their loyal efforts to develop the state, while the A.W.U. firmly supported harsh treatment of any workers caught imposing on the Act.<sup>65</sup> The point here is that both workers and employers were highly susceptible to a fear of engulfment, whether by the 'yellow hordes' or by 'bludgers', and this fear could assume grotesquely unwarranted proportions. The existence of the poor and unemployed seemed to threaten the identity of those who had succeeded in Queensland.

#### *Equality, Authority, and Exploitation*

Queensland capitalism was viable because it made a workable fusion of some of the main national ideals. Nationalism thus militated against the formation of a clear working class ideal *via* a number of ideologies.<sup>66</sup> One of these was the ideal of controlled capitalism held by the business classes; the themes of collusion and control, which really were credos of monopoly capitalism, could be represented as 'civilised capitalism' or socially responsible materialism—an object to which the right wing of the Labor Party lovingly devoted itself. Another was the ideal of agrarianism, coupled with cooperative self-help, held by small farmers and members of urban cooperative groups; elements of these could be publicized as authentic ideals for the working man, whereas they really served the interests of the ruling class concerned. A third ideal was that of state paternalism held by the leading officials in the public service. This could

be portrayed as a contract between the government and those in the service which required loyalty in return for security and some social prestige. Lastly, there was the ideal of arbitration. Though equality was the aspiration of the system, it was undermined by its own inherent authoritarianism, though this tended to be concealed by its utopian aspects.

This split between the ideal and the real had its counterpart in the other ideologies as well. Each had some feature that could plausibly be represented as favourable to the working class, but which worked to the advantage of the ruling classes in practice. So what was the political result of these ideologies? The dominant economic ideology was collective competition, but the normal reality was controlled competition; socially the main ideology was equality, but the result was often authoritarian and exploitative. This was brought out by the position of the poor and unemployed as non-competitors in the economy. The underprivileged in Queensland were maltreated in a distinctive way: they were not usually exploited outright or left to starve, but they were exposed to rigidly hostile climate of opinion that made them into social outcasts. Although the poor and unemployed occupied a peripheral position in the community in terms of their low status, they played a strategically indispensable part in the process of social control. That is, social control was maintained in the community by the middle classes and the élite levelling the threat of poverty and unemployment at the working classes

## Conclusions

This essay has aimed at formulating problems rather than answering them, but now it is time to re-state the original questions asked and to suggest some answers. Firstly, what was Queensland's place in Australian capitalism?

The Queensland story is an almost classic case of uneven development. The state's economic history has been typified by imbalance between regions, between city and country, state and local government, and between local private enterprise and non-Queensland monopolies. In addition to these patterns of uneven development, the state has been the political frontier of Australia in the north, and a region rich in natural resources but industrially backward. Most of these characteristics are typical of backward development and were also features of the position of underdeveloped regions in other countries—of southern Italy, for instance, or the southern U.S.A. Queensland's place in Australian capitalism therefore has been traditionally dependent or neo-colonial. Because of this, and because the state's history has been less complex than that of the larger southern states, some of the contradictions inherent in the Australian experience stand out with great clarity in land. Queensland's history has been a story of conservatism challenged by radicalism—which stands on its head the tale told by many labor historians about Australian history. The recent confrontation between Whitlam and Bjelke-Petersen, for example, is a reversal of the situation between 1917 and 1922 when Ryan defiantly stood at the head of Queens-

land Labor against Hughes' Federal government. So probably Queensland conservatism is not something unique in Australian history; rather, it is Australian society which normally has been conservative and this outlook has been exemplified in Queensland. There were four main sources of Queensland's conservatism: The strength of regionalism, the dominance of primary producers, the corporatist use of the state, and the power of monopolies. Some of these factors were present in other states, but Queensland was the only one in which they were pulled together so tightly. The result was an authoritarian social and political climate: Queensland was the first state to introduce compulsory voting, and Labor governments consistently downgraded the value of education between 1915 and 1957. In this sense, the Bjelke-Petersen government was the result of years of Labor corruption and maladministration, but the long term sources of the state's conservatism were the factors just mentioned.

Secondly, how have capitalism and nationalism been related in Queensland? This is a more important question than the first in some ways, as it transcends state differences. This essay argues that the main ideological link between capitalism as an economic system and nationalism as a social ideal has been the goal of *collective competition*. Collective competition was the economic expression of the Australian mateship ideal. 'A Fair Go', 'Civilised Capitalism', 'Colonial Socialism'—the old slogans have this much truth to them. Egalitarianism was the ideological basis of the Queensland economy, not just an ecapist theme of the bush poets. However, equality, as Encel and others have argued, often implied authority. The direction of Queensland's economic life oscillated unsteadily between egalitarian aims and authoritarian results. Agrarianism at its worst could become romantic arcadianism, state enterprise degenerated into state paternalism, and arbitration could be reduced to a rigid stress on law and order. This type of reductionism was most harmful when it affected the weaker groups in the community. Society was divided into a majority of more or less contented groups and an ill-used but powerless minority; there was a strong sense of stability in the larger groups and extreme instability in the smaller. The larger ones held to their social ideals with great rigidity—attitudes to agricultural cooperation, state and private enterprise, and arbitration changed in degree with the politics of the government in power, but not in kind. Attitudes to the weaker groups, on the other hand, were extremely unstable. Poverty was alternately rationalized away and then over-compensated for, while a general sense of public hostility to underprivileged groups remained constant. Because of this the position of many people could be threatened with the possibility of a drastic change for the worse. So long as they were members of a major group they were relatively secure, yet if they became unable or unwilling to work they could be forced into the ranks of the social outcasts.

Lastly, if the Queensland experience is representative then we can say that the most significant feature of Australian capitalism in international terms between 1890 and 1930 was *the development of the techniques of*

*corporate neo-capitalism at a remarkably early time.* Just as Kolko discerned the triumph of conservatism in American capitalism during the Progressive era, so a similar spread of bureaucracy and concentration of industry can be seen in Australia between the depressions of the 1890s and 1930s.<sup>67</sup> Though business never had the same dominance over Australian society, the role of the state here was more influential than in America and it invariably worked to the benefit of the ruling élite. A regulated or controlled capitalism was the form of business civilisation that was most acceptable to Australians: *it was a fusion of American and British methods that had a style and logic of its own.* To see the Whitlam government as implementing a technocratic policy after years of liberal mismanagement makes sense only in a short term perspective. Australians in fact have been living in one of the world's most controlled and regulated societies for some time.

What has been historically distinctive about the relation of nationalism and capitalism in Australia is more the degree of class control than of class exploitation. Queensland stands out at this level of Australian history precisely because the underlying conservatism of Australian society has been frequently put into practice there. In this light, Queensland's place in the world is historically comparable with that of the southern states of the U.S.A. or southern Italy, which are both traditionally depressed economic regions; and further, the countries whose national political economy corresponds most closely to Australia's are South Africa and Canada, both grand imperial adventures which were also in danger of being swamped by nearby cultures. For a variety of reasons, the national bourgeoisie was stronger in Australia than in either Canada or South Africa, and this contributed significantly to a more independent and distinctive Australian national culture.<sup>67</sup> Until recently Queensland was quite untypical in this way because the state lacked a strong local bourgeoisie, but since World War Two that situation has changed and now Queensland is logically leading the way to an Australian variety of facism.

## NOTES

- 1 On the distinctiveness of Queensland, see H. Lunn, 'The Different State', *Australian*, 11, 13-15 January 1975. For a corrective to this line, J. Lonie, 'Electioneering 1974 and Labor in Government', in H. Mayer & H. Nelson (edd.), *Australian Politics: A Fourth Reader* (Cheshire, Melbourne 1976), pp. 425-9. The best studies of Queensland's history are A.A. Morrison's 'Colonial Society', *Queensland Heritage* (November 1966), p. 21 and his chapter in S.R. Davis (ed.), *The Governments of the Australian States* (Longmans, Melbourne, 1960). Also see D. Waterson, *Squatter, Selector, Storekeeper* (Sydney University Press, Sydney, 1968); Ronald Lawson, *Brisbane in the 1890s* (University of Queensland Press, Brisbane, 1973); D.J. Murphy *et. al.* (edd.), *Perlude to Power* (Jacaranda, Brisbane, 1970); G. Greenwood & J. Laverty, *Brisbane 1859-1959* (Alcazar, Sydney, 1959); G.C. Bolton, *A Thousand Miles Away* (Jacaranda, Brisbane, 1963); R. Evans (*et. al.*), *Exclusion, Exploitation, Extermination* (Australia & New Zealand Book Co., Sydney, 1975).
- 2 Tom Nairn, 'The Modern Janus', *New Left Review* 94, p. 3.
- 3 Graham Snooks, 'Orthodox and Radical Interpretations of the Development of Australian Capitalism', *Labor History* (May 1975), p. 1.

- 4 New Guinea: M.G. Jacobs, 'The Colonial Office and New Guinea 1874-84', *Historical Studies* (May 1952), p. 106. Shipping routes: Glen Lewis, *A History of the Ports of Queensland* (University of Queensland Press, Brisbane, 1973), p. 45. Northern defence: Bolton *op. cit.*, pp. 209-11. Italians: M. de Lepervanche, 'Australian Immigrants 1788-1940', E.L. Wheelwright & K. Buckley (edd.), *Essays in the Political Economy of Australian Capitalism* (Australia & New Zealand Book Co., 1975), vol. 1, p. 98. Northern development: J.H. Kelly, *Struggle for the North* (Australasian Book Society Sydney, 1966), and B.R. Davidson, *The Northern Myth* (M.U.P., Melbourne, 1966).
- 5 Rosemary Lawson, Immigration into Queensland 1870-90 (B.A. Hons. Thesis, University Queensland, 1963); G. Lewis, *op. cit.*, pp. 34, 83; W.D. Borrie, *Italians and Germans in Australia* (Cheshire, Melbourne, 1954); President's Address, Official Report of the 67th Annual Convention of the A.W.U., Sydney, 27 January 1953, p. 12.
- 6 W. Allen, *Immigration and Cooperative Settlement* (Brisbane, 1881 [Pamphlet, Oxley Library]); W. Balley, 'White Settlement in the Tropics', *International Review of Agriculture* (Rome), January 1941, p. 253E.
- 7 Glen Lewis, 'The Tariff, Laissez Faire, and Federation in Colonial Queensland', *Queensland Heritage* (November 1973), p. 14.
- 8 J.B. Brigden, 'Report on Rail Competition With The Ports', *Queensland Parliamentary Papers (Q.P.P.)*, 1931(2), p. 933; G. Lewis, *Ports op. cit.*, pp. 176, 217.
- 9 A.A. Morrison, *Local Government in Queensland* (Smith & Paterson, Brisbane, 1952); cf. 'Royal Commission on Local Authorities', *Q.P.P.* 1928(2), p. 1209.
- 10 *Queensland Year Book* 1955, p. 48, and 1957, p. 50, and *Commonwealth Year Book* (43) 1957, p. 547.
- 11 Port troubles: Lewis, *Ports op. cit.* p. 210. Local Authorities: Greenwood & Laverty, *op. cit.* Branch office town: Ronald Lawson, *op. cit.*, p. 89, n. 46.
- 12 Max Bannah & Kent Chadwick, *Timber and tin*. A thirty minute colour film for the National Trust of Queensland, Brisbane, 1976.
- 13 Very little work has been done on developing social profiles for Brisbane. See P. Mullins, 'Neighbourhood Perception and the Effects of Forced Residential Mobility', *A.N.X. Journal Sociology* (June 1973), p. 45, and D. Timms, *The urban mosaic* (Cambridge University Press, Cambridge, 1971), pp. 63-84.
- 14 Ronald Lawson, *op. cit.*; review by Humphrey McQueen, *Canberra Times*, 26 April 1974, p. 13; A.A. Morrison, 'The Brisbane General Strike of 1912', *Historical Studies* (May 1950), p. 125.
- 15 *Third Report of the Australian Commonwealth Grants Commission*, 1936.
- 16 *ibid.* (tariff, p. 120; shelter, p. 204; education, p. 200).
- 17 Lewis, *Ports op. cit.*, p. 148; for South Australia, J.B. Hirst, *Adelaide and the Country* (M.U.P., Melbourne, 1973).
- 18 If Queensland workers had lower living costs in the 1920s, then perhaps this reflected the state's lower standard of living. The question needs re-examination, as does the related issue of Queensland and the depression. The state might have weathered the depression better than the southern states in the short run, but more harm probably was done to the Queensland economy in the long run. This line of reasoning is supported by W.R. McLaurin, *Economic Planning in Australia 1929-36* (King & Son, London, 1937), pp. 210-14; F.R.E. Mauldon, 'Seasonal Variations in Labour Requirements in Australian Industry', *Economic Record* 17(1941), p. 81; Development and Migration Commission. 'Report on Unemployment in Australia', *Commonwealth Parliamentary Papers* 1926-8 (5), p. 691; and E. Jensen, The Effects of the Depression on The Trade Union Movement in Queensland 1929-31 (B.A. Hons. Thesis, University of Queensland 1971).
- 19 My theoretical model here is R.T. Naylor's 'The Rise and Fall of the Third Commercial Empire of the Saint Lawrence', in G. Teeple (ed.) *Capitalism and the National Question in Canada* (University of Toronto Press, Toronto 1972), pp. 1-41.
- 20 Agrarianism: Waterson, *op. cit.*, and Glen Lewis, 'The Alice River Settlement and the Legend of the Nineties', *Australian Journal of Politics and History* (December 1973), p. 353. On Clark: W.J. Jackson, The Government and Economic Growth in Queensland 1946-51 (B.A. Hons. Thesis, University of Queensland, 1968).
- 21 E.g., Minute Book of the North Cedar Greek Group of Settlers, 14 April 1908, (Oxley Library): secretary to Gillies, M.L.A., 'We recognise that the Department is doing its best to re-enslave the serf, but even we poor fools on the land dare to object . . . to our want of freedom of action, with the rotten titles we are given, under penal conditions'.
- 22 E. Milton, Soldier Settlement in Queensland After World War One (B.A. Hons. Thesis, University of Queensland, 1968).
- 23 Dairying: requests of dairy farmers for cheap labour by manipulation of the arbitration

- awards, see Reports of the Agricultural Conferences, 1899-1905, AGS(N 20-24, Queensland State Archives (hereafter QSA). Forestry: Report of Sub-Department of Forestry 1934-35, *Q.P.P.*, 1935(2), p. 368. Sugar: Bolton, *op. cit.*, p. 155.
- 24 Waterson, *op. cit.*; Humphrey McQueen, *A New Britannia* (Penguin, Harmondsworth, 1970); D. Pike, 'The Smallholder's Place in the Australian Tradition'. *Proceedings of the Tasmanian Historical Association* (December 1962), p. 28.
- 25 E.D. Davis, 'Steele Rudd', *Journal of the Royal Queensland Historical Society*, 1 (1969-70), p. 127.
- 26 R. Gollan, 'American Populism and Australian Utopianism', *Labor History* (November 1965), p. 15. For the 'back to the land' anti-political program of the nascent RSL in Queensland, the Brisbane *New Leader* (La Trobe library) 29 September 1916, p. 8, 13 October 1916, p. 2, 10 November 1916, p. 8, and 1 December 1916, p. 4. For the activities of the Brisbane-based Queensland Preference League during the depression, B. Costar, *Social and Political Aspects of the Depression in Queensland* (M.A. Qual. Thesis, University of Queensland, 1972).
- 27 R.D. Goodman, *Secondary Education in Queensland, 1860-1960* (ANU Press, Canberra, 1968); M. Murnane, *The Workers Educational Association of Queensland 1913-39* (B.A. Hons Thesis, University of Queensland, 1968); M. Sullivan, 'Fifty Years of Opposition to Queensland's Grammar Schools', in S. Murray-Smith (ed.), *Melbourne Studies in Education M.U.P.*, 1974), p. 181.
- 28 Cf. Naylor, *op. cit.*
- 29 G. Blainey, *Gold and Paper* (Georgian House, Melbourne, 1958); N.G. Butlin, 'Public Enterprise in Australian Economic Development', *Explorations in Entrepreneurial History* (March 1950), p. 141.
- 30 There are few relevant studies here. One is D. Shogren, 'The Creation of the Committee of Direction of Fruit Marketing', *Queensland Heritage* (November 1971), p. 31.
- 31 P.D. Robin, *The BMA in Queensland* (B.A. Hons. Thesis, University of Queensland 1966); Annual Reports of the Brisbane Hospital, 1895, 1901 (Melbourne Public Library).
- 32 D.J. Murphy, 'The Establishment of State Enterprises in Queensland 1915-18', *Labor History* (May 1968), p. 13; R.S. Parker, 'Public Enterprise in New South Wales', *Australian Journal of Politics and History* (November 1958), p. 208. Cf. S.B.M. Potter, *Socialism in Queensland* (London, 1925, pamphlet in Mitchell Library), and for the view of Greater Brisbane as a revolutionary experiment in municipal trading, *Brisbane Daily Standard*, 30 January 1918.
- 33 E.g., A.W. Martin, 'Australian and the Hartz Fragment Thesis', *Australian Economic History Review* (September 1973), p. 131.
- 34 Companies: *Australian*, 29 May 1976, p. 11; and Kelly, *op. cit.*, p. 88. Media: *New Journalist*, March-April 1976, p. 9, *National Times*, 23-28 August 1976, p. 7, and B.H. White, *White on the Media* (Cassell, Stanmore, 1975).
- 35 *Queensland Trustees Quarterly Review* 40-42 (1948-9). Cf. March 1949, p. 31: 'Mr Fallon has made the AWU the most powerful and law-abiding union in the state'.
- 36 *Maryborough Chronicle*, Supplement, 6 October 1941; R.S. Maynard, *Sugar, Ships, and Locomotives* (Maynard Advertising, Sydney, 1946); M. Shaw, 'The History and Development of the Engineering Industry in Queensland', *Proceedings of the Royal Society of Queensland* 67 (September 1956).
- 37 Philp: H.C. Perry, *Memoirs of the Hon. Sir Robert Philp* (Watson, Ferguson, Brisbane, 1923). McIlwraith and Somerset: Lewis, *Ports op. cit.*, pp. 36, 62, and Kimber to McIlwraith, 2 November 1883 (McIlwraith Papers, Oxley Library).
- 38 1965: *Nation*, 6 February 1965, p. 8. 1920: Deane to Keating, Melbourne, 6 August 1920, and Anthony Gibbs to Keating, Melbourne, 20 August 1920, in Anthony Gibbs and Sons Papers (Guildhall Library, London).
- 39 Blainey, *op. cit.*; G.P. Taylor, 'Business and Politics in Queensland 1859-75', *New Zealand Journal of History* 1 (1967), p. 75; I. Young, *Theodore: His Life and Times* (Alpha Press, Sydney, 1971).
- 40 C.A. Hughes, 'Labour in the Electorates' in Murphy, *Prelude to Power*, p. 74.
- 41 1912: D.J. Murphy, T.J. Ryan (Ph. D. Thesis, University of Queensland, 1973), p. 102 cites Macgregor to Secretary of State, 2 February 1912, GOV/68, QSA. 1927: E.M. Higgins, 'Queensland Labour: Trade Unions Versus Premiers', *Historical Studies* (May 1960), p. 140. 1948: R. Shearman, *The Politics of the 1948 Queensland Rail Strike* (B.A. Hons. Thesis, University of Queensland, 1973), and Interview with Fred Paterson, Brisbane, 9 June 1975.
- 42 For labor's agrarian policies, Z. Abidin, *A History of the Queensland Country Party* (M.A. Thesis, University of Queensland, 1954).
- 43 Murphy, Ryan *op. cit.*; J. Harris, *The Bitter Fight* (University of Queensland Press,

- Brisbane 1970); V. Daddow, *The Puffing Pioneers* (University of Queensland Press, Brisbane 1975). AWU machinations: The Lestrangle Collection (1914-22), compiled by V. Molesworth (Mitchell Library).
- 44 Employment: *Census of the Commonwealth of Australia* 1921 (2) (Melbourne), pp. 1212, 1215, 1219, 1222. Dairying: Drane and Edwards, *op. cit.*, p. 34.
- 45 Annual Report of the Brisbane Chamber of Commerce, 1905, p. 10 (Oxley Library); A.L. Lougheed, 'The Brisbane Chamber of Commerce 1868-1968', (Brisbane, 1968, Typescript in Fryer Library).
- 46 Annual Reports, Brisbane Chamber of Commerce, 1903 p. 38, and 1906 p. 13 (Oxley Library).
- 47 E.G. Knox's *Who's Who in Australia* (Melbourne; 1933) shows that graziers, professional men and financiers were the dominant members of the Queensland *élite*. No manufacturers were listed and only four merchants were mentioned—James Allan, T.C. Beirne, W.J. Coakes, and J. Devoy.
- 48 *Commonwealth Parliamentary Debates* 1906: Givens (33) p. 3428, Thomson (35) p. 343, Drake (33) p. 3523.
- 49 R. Gollan, 'Nationalism, the Labour Movement and the Commonwealth', in G. Greenwood (ed.) *Australia* (Angus & Robertson, Sydney, 1955), p. 160.
- 50 Relief payments: Statistical Register, *Q.P.P.* 1901 (2), p. 1261. Rockhampton: Amended Rules of the Queensland Branch of the Manchester Unity, Rockhampton, 1907, p. 61 (Oxley Library). 1870s and England: P.H. Gosden, *The Friendly Societies in England* (Manchester University Press, 1961), and 'Royal Commission on Friendly Societies in Queensland', *Queensland Votes and Proceedings* 1875 (1), p. 1488. Glassey: *Brisbane Courier*, 2 August 1928 (in Glassey Papers, Oxley Library).
- 51 Shogren, *op. cit.*; F.E. Pulsford, *Cooperation and Copartnership* (Sydney, pamphlet, Mitchell Library).
- 52 Aborigines: C.D. Rowley, *The Destruction of Aboriginal Society* (A.N.U. Press Canberra, 1970), Ch. 10. Factories & shops: G. Whitfield, *The Early Factories and Shops Legislation of Queensland* (B.A. Hons. Thesis, University of Queensland, 1968).
- 53 J. Goodwin, Memo 3 October 1916, in Papers Re the Insurance Act of 1916, JUS 36/4001, QSA. Cf. the outraged reaction of the *Australian Insurance and Banking Record*, 21 September 1915, p. 865, and 21 October 1915, p. 950. The SGIO's conservative social darwinist philosophy was expressed in its journal *Insurance Lines*, e.g., January 1924, p. 5; 'Insurance is the handmaid of commerce and the guardian of finance'; or March 1924, p. 7, 'There are three classes of men—the retrograde, the stationary, and the progressive'.
- 54 Government Savings Bank: 'Royal Commission on Classification and Allowances for Officers of the Government Savings Bank', *Q.P.P.*, 1919-20 (2), p. 43, and for a scare about a run on the Bank, *Brisbane Courier*, 19 March 1918, and *Brisbane Daily Mail*, 23 March 1918. Workers Dwellings: cf. Randolph Bedford's comment at the Labour Convention in Townsville in May 1928—'The government had specialised in Workers Dwellings but in many cases as soon as the place was paid off the only person who benefitted in the long run was the cash order (hire purchase) shop because those homes had been mortgaged to pay the unnecessary'. *Queensland Grocer*, 8 June 1928 (Oxley Library).
- 55 J.D. Story, First Annual Report of the Public Service Commissioner, *Q.P.P.* 1921 (1), p. 33, and Eleventh Annual Report, *Q.P.P.*, 1931 (1), p. 16; First Annual Report of the Land Administration Board, *Q.P.P.*, 1928 (2), p. 1; Report of the Queensland Radio Service 4QG, *Q.P.P.*, 1928 (2), p. 1205.
- 56 E.g., as late as 1930, when Moore's government had been returned, the employers' representatives had not asked for a reduction in the state basic wage though the Court was prepared to grant it: *Queensland Industrial Gazette* 1930 (15), p. 208.
- 57 J.H. Portus, *The Development of Australian Trade Union Law* (M.U.P., Melbourne, 1958).
- 58 *Q.P.P.*, 1915 (120), p. 814.
- 59 E.g., the Commercial Travellers Association, *Queensland Grocer*, 8 September 1924 (Oxley Library). Arbitration: K. Buckley, 'Arbitration: Its History and Process', *Journal of Industrial Relations* (March 1971), p. 99; and cf. Parkin's comments on the accommodative nature of trade unionism: Frank Parkin, *Class Inequality and Political Order* (Paladin, London, 1972), p. 91.
- 60 J. Roe, 'Social Policy and the Permanent Poor', Wheelwright & Buckley, *op. cit.*, pp. 131-52.
- 61 Annual Reports of the Brisbane Charitable Organisation Society, 1914, 1933, (Oxley Library); J. Brazier, *The Brisbane C.O.S.* (B.A. Hons. Thesis, University of Queensland,

- 1973).
- 62 J.E. Hare, 'Report Upon the Question of Outdoor Relief in Queensland', 24 September 1900, COL/298 (13962), QSA; Report by the Public Health Department, 23 April 1908, COL/298 (05262), QSA.
- 63 Deputation of Townsville Meat Employees Union to Theodore, 23 January 1919, COL/298 (00773), QSA.
- 64 'Royal Commission on National Insurance, Second Report on Unemployment', *Commonwealth Parliamentary Papers* 1926-8 (4), p. 1426.
- 65 *Royal Commission on National Insurance, Minutes 1926-7* (Melbourne, 1927), p. 951.
- 66 For an important debate about the procedures involved in this kind of imputed class consciousness analysis see L. Goldman, 'Reflections on History and Class Consciousness', and T. Bottomore, 'Class Structure and Social Consciousness', pp. 49-65, in I. Meszaros (ed.), *Aspects of History and Class Consciousness* (Routledge, London, 1971), pp. 49-85.
- 67 This point is developed further in Glen Lewis, 'Violence and Australian Nationalism', *Arena* 43 (1976). See also my 'Violence in Australian History: the Queensland Experience', *Meanjin Quarterly* 3, 33 (September 1974).

# 5

## CAPITALISM, THE MIDDLE CLASSES AND THE WELFARE STATE

SOL ENCEL

THE EVENTS OF November-December 1975 are still seen by most people as a constitutional cataclysm in which the major issue was the personal role of the Governor-General. In another and perhaps more important aspect, Labor's election debacle which followed should be looked at as the local reflection of a world wide pattern of defeat or retreat by social-democratic parties in the face of intractable economic problems and social tensions.

In 1969, Ralph Miliband noted the 'profoundly destabilising forces' affecting capitalist society, and wondered how long the needs and purposes of advanced capitalism would remain compatible with a bourgeois-democratic political framework.<sup>1</sup> Radical thinkers have asked the same question off and on since the *Communist Manifesto* first appeared in 1848, and their answers have varied depending on temperament and on external circumstances. Miliband's answer was pessimistic. He did not see any strong likelihood of resolving the contradiction between the promise of human liberation implied in vast increases of material well-being and the inability of social institutions to fulfil that promise. Although politicians were conscious of the public discontent generated by this contradiction, they were unable to do much about it. Basic reform of the system was required to resolve the contradiction, and basic reform was impossible within the limits imposed by property rights and inequality of economic power, defended as they are by the institutions of capitalist democracy. The political alternatives were failure masked by repression under conservative governments, or failure accompanied by right-wing reaction under social-democratic governments. 'For the foreseeable future', he concluded gloomily, 'no formation of the Left will be in a position seriously to place the question of socialism on the agenda of most advanced capitalist countries'.<sup>2</sup>

Miliband's use of the term 'capitalist society' is significant. Giddens has recently argued that what distinguishes 'neo-capitalism' from the

system described by Marx is precisely the development of capitalist *society* beyond the confines of a set of *economic* relationships.<sup>3</sup> The political vicissitudes of capitalist society can only be elucidated by recognizing the crucial role of the state in regulating economic and social relationships, and its fluctuating success in doing so—fluctuations manifested in the ups and downs of employment, inflation, taxation, industrial conflict, social policy, and the occasional war. For the purpose of this essay, capitalist society will be looked at under three overlapping but distinguishable aspects: the structural features of neo-capitalism, the development of class relationships, and the interaction between state and economy.

### Some Structural Features of Neo-Capitalism

The portmanteau term 'neo-capitalism' has been used during the past fifteen years, especially by Marxists, to denote an economic situation dominated by giant corporations which have close links with government. Wheelwright defines it as 'a system where the classical market has been replaced by monopolistic and oligopolistic structures, with a complex apparatus of controlled, interlocking functions, in which the state assumes co-ordinating and command functions'.<sup>4</sup> This is a shorthand definition, which needs to be expanded to indicate the nature of the structures and relationships implied. For this purpose, ten particular features of the neo-capitalist economy may be briefly enumerated.

1. Reliance on advanced technology, which requires large-scale capital investment, a skilled labour force, research and development, and programs of retraining and redeployment, all of which involve state action. As Galbraith points out, technological advance involves continuing increases in capital outlay, and innovation becomes progressively riskier and more expensive of resources and organization. 'More even than machinery, massive and complex business organizations are the tangible manifestation of advanced technology.'<sup>5</sup> Dickson also emphasizes that technological change increases the 'external' costs of economic activity in the form of pollution, noise, obsolescence of plant and skills, and the provision of services which are paid for by the community rather than the entrepreneur. Because of its dependence on large-scale capital investment, it benefits those who are already in a strong position; and because its benefits are usually distributed unequally, it is a source of greater social inequality.<sup>6</sup> Amara notes that technology concentrates wealth both within and between countries because of economies of scale, the division of labour, and the growth of cartels. The growth of big industry also stimulates the growth of big government, precisely at a time when increasing social complexity demands decentralization and participation rather than centralization and concentration of power.<sup>7</sup>

2. Advanced technology is closely related to the massive use of energy, which has been doubling every ten to fifteen years in most of the advanced industrial countries. Energy use per head is closely related to G.N.P.

per head, partly because of industrial growth and partly because of high levels of consumption.<sup>8</sup> A notable example arises from the shift of metal production from ferrous to non-ferrous metals which characterizes the consumer economy; aluminium, the modern metal *par excellence*, requires fifteen times as much energy to produce as iron. The production of energy (especially in the form of electrical power) is a major responsibility of government in most countries, not excluding the U.S.A.

3. Large-scale exploitation of natural resources, including minerals, timber, petroleum, edible oils and fats, fibres, and rubber. This provides a major playground for multi-national corporations, and is the basis for the neo-colonialism which goes along with neo-capitalism.

4. Predominance of service industries, including transport, communication, education, welfare and administration. The growth of the 'information industry', for instance, is the major piece of evidence used to support the contention that we are moving from an industrial to a post-industrial society.

In the U.S.A., it is estimated that about 40 per cent of the work force is involved in the information industry; in Australia, D.M. Lamberton has calculated that the Australian figure in 1971 was 27.5 per cent (compared with 17 per cent in 1947). The role of the automobile industry, which accounts directly or indirectly for one-seventh of employment in the affluent industrial countries, is even more significant. Sweezy and Magdoff have pointed out that economic expansion in the U.S.A. has twice been sustained through 'automobilization', once before 1929, and again since 1945.<sup>9</sup> The development of the automobile, Sweezy has written elsewhere, is a classic illustration of the laws of capitalist accumulation. Of the fifty largest corporations in the U.S.A., twenty-two derive their main income from motor vehicles or road transport. (This of course includes the oil industry.) The 'automobile-industrial complex' also helps to set the pace for the rest of the economy by its demand for materials, its emphasis on capital-intensive production methods, and its development of advanced technologies which have revolutionized production in other sectors.<sup>10</sup>

In Australia, the motor vehicle has played a similar role as one of the main contributors to postwar economic expansion. Between 1945 and 1973, more than \$1000 millions was invested in the industry. In 1973, employment totalled more than 82,000 (6.5 per cent of all employment in manufacturing) and turnover was 7.9 per cent of all manufacturing turnover.

5. The social role of the motor car is closely related to the massive urbanization which is one of the most typical features of the 20th century. In 1900, there were only a dozen cities throughout the world with populations exceeding one million; now, there are almost 200. More than one-quarter of the world's population lives in 2000 cities with more than 100,000 inhabitants. In 1971, 83 per cent of the Australian population

was classified as urban. This massive expansion would not have been possible without the motor car, which has enabled geographical expansion on a large scale, proportionately greater than the number of people involved. Enormous areas of land have been taken up for housing, and tied together by high speed roads connecting various functional sectors. Demand for transport grew much faster than mass transit, and private car usage was correspondingly stimulated. Urban planning and transport policy have increasingly been dominated by the provision of facilities for the private car and by the problems of coping with its destructive 'external' effects.

Over-dependence on the motor car creates a series of related and paradoxical problems for the capitalist economy and for public policy. Now that the cost of the motor car, in both economic and social terms, has risen to the point where a reduction in this dependence is imperative, it is virtually impossible to achieve. A cutback in car production means a sharp increase in unemployment, not only in the motor vehicle industry but in its related industries and services. The dispersed character of the modern city makes it very difficult to use public transport as a substitute for the private car, whose flexibility is vastly greater. Even if these difficulties were overcome, the expenditure involved would be enormous because of the long period over which public transport has run down. In Sydney, for instance, government buses in 1974-75 carried only 26 per cent of the passengers they carried in 1944-45, despite the growth of the urban population and the great increase in the number of trips per head. In the five mainland State capitals, public transport usage fell from 327 trips per head in 1954 to 152 in 1971, although the population of these cities increased by 50 per cent. Between 1964 and 1973, moreover, public transport fares rose by 100 per cent, the consumer price index by 47 per cent, and the cost of private motoring by 38 per cent.<sup>11</sup>

The transport problem is only one example of the impact of large-scale urbanization, which generates far-reaching demands for goods and services, pushes up the costs of land, housing, and administration, and puts great stresses on the resources of government.

6. Expansion of professional and specialized occupations, which has far-reaching effects on the class structure, stimulates the growth of wage and salary differentials, and generates a large demand for specialized training and higher education. Professional, technical and related occupations grew from 5 per cent of the Australian work force in 1947 to 12.4 per cent in 1976. Educational expenditure grew from 1.8 per cent of G.N.P. in 1946-47 to 6.2 per cent in 1974-75.

7. A high level of military expenditure, which helps to sustain a wide range of activities and accounts for a significant level of employment. Since military procurement is highly profitable and totally insulated against risk, its value to capitalist industry is great. Even in Australia, with its modest defence establishment, about one-sixth of Commonwealth employment comes under this heading, and defence procurement

is a profitable sideline for big metal manufacturing companies and others. In addition, the military budget of the United States is a major reason for the enormous international deficits which that country has accumulated, so contributing to world-wide inflation. Sweezy and Magdoff have described this as the 'National Debt Economy'.

8. A mobile labour market which relies on the recruitment of special groups into the lower levels of the occupational structure, notably immigrants, women, and irregularly employed or part-time workers. In Australian manufacturing industry, more than 40 per cent of workers are migrants, compared with 27 per cent in the work force as a whole, and in some manual occupations (e.g. building) the proportion is considerably higher. Women accounted for 23 per cent of the work force in 1954, compared with 35 per cent in 1976. Married women accounted for 64 per cent of the female work force in 1976, compared with 30.5 per cent in 1965, and 12.5 per cent in 1933. Like migrants, women are also clustered in lower-paid occupations (migrant women most of all).

The importance of immigrant labour in this situation demands a special mention. Migrant labour has been a universal factor in the expansion of the capitalist economies since 1945. The authors of a major recent study estimate that, in 1970, more than 5 per cent of the population of Western Europe was composed of migrant workers and their families—nearly 11 million people in all.<sup>12</sup> Immigrant workers had been a structural necessity for the economic growth of their host countries, and their labour had provided a highly profitable aspect of capitalist development. They formed the lowest structure of the work force because they were willing, or constrained, to accept the least desirable jobs deserted by the indigenous work force. Labour migration, the authors conclude sardonically, had turned out to be 'a form of development aid given by poor countries to rich countries'.<sup>13</sup>

Most of these generalizations apply to Australian industrial development since 1945. According to the recent Jackson report on manufacturing industry, in many large factories there are over twenty ethnic and language groups. Migrants, notes the report, are concentrated in those sectors of manufacturing with the worst physical conditions, the worst pay and the jobs which are physically hard and contain the most menial tasks. In the capital-intensive sectors, by contrast, where working conditions were much better, there was a very low migrant population.<sup>14</sup> The important exception is the car industry, where 65 per cent of employees in 1971 were foreign-born.<sup>15</sup>

The economic impact of immigration is the subject of controversies which reflect varying situations in different countries. Some economists have argued that immigration is inherently inflationary because it demands social investment in excess of the income generated by the immigrant workers. A more accurate view is that which distinguishes short-term from long-term effects, whose best-known exponent is Charles Kindleberger. In his study of migrant labour in Western Europe, published in 1967, Kindleberger argued that immigration has the effect of

lowering labour costs so long as economic growth continues at a high rate, but once the rate of growth slackens it is likely to become inflationary as wages rise, profits fall, and the need for capital investment increases.<sup>16</sup> This argument was picked up shortly afterwards in Australia, where controversy about the economic benefits of immigration was provoked by a pseudonymous article by the businessman Paul Sharp in 1969.<sup>17</sup> His contention was that immigration and its demographic effects generated pressure on the environment and on public services which outweighed the contribution made by immigration to economic growth.

This contention is supported by estimates which show that immigration accounted for 75 per cent of population growth in Sydney, and 80 per cent in Melbourne, between 1947 and 1971.<sup>18</sup> A report made to the Department of Urban and Regional Development in 1973 declared that the rate of growth of the principal urban areas was putting excessive strains on resources and that the immigration program should be re-examined in this light.<sup>19</sup>

9. The mobility and fragmentation of the labour market generate a high level of industrial conflict, and the dependence of modern industry on small groups of key workers generates numerous opportunities for bargaining with employers over pay, hours, conditions and fringe benefits. Hence, wage levels and labour costs are never stable. Not only does this provide a component of inflation, but it compels a high degree of government involvement in industrial relations and constant attempts to develop incomes policies.

10. All neo-capitalist economies have moved towards some form of corporatism, in which the representatives of capital, labour and government make deals which are beyond the reach of the general public or the legislature. The classic description of this situation was given by Galbraith almost twenty years ago in *The Affluent Society*, although the emergence of corporatism had been foreseen (and welcomed) by industrialists like the German, Walther Rathenau, fifty years earlier. Ivan Illich has also diagnosed the situation and attacked it eloquently. He sees industrial society as a cluster of industrial enterprises, each organized as a public utility and each defining its output as a basic necessity, leading to a fundamental imbalance between industrial development, social justice and personal freedom.<sup>20</sup>

### **The Development of Class Relationships**

Class relationships under neo-capitalism are related to the 'techno-economic' structures described above, and provide the essential link between these structures and the political behaviour of electorates in the affluent industrial countries.

The expansion of the middle classes has been a major feature of the affluent society. As already noted, professional, technical and related occupations have expanded rapidly, growing (in Australia) from 5 per cent of the work force in 1947 to 12.4 per cent in 1976. This expansion

is clearly linked with the growth of higher education. In 1939, there were 13,000 university students at six universities; in 1976, 150,000 at nineteen universities. This represents a growth in the participation rate of the 18-21 age group, from 2 per cent in the 1930s to 7.5 per cent in the 1970s. In 1962, 12 per cent of young people aged 17 were still at school, compares with 30 per cent in 1975. In addition, enrolment at colleges of advanced education rose from nil in 1965 to 123,000 in 1975 (although at least half of this should be discounted as simply a transfer of teachers' college students to another classification). It may be noted, finally, that expansion has gone a long way towards levelling out sex differences in education. In 1962, 15 per cent of males and 9 per cent of females completed secondary school; in 1976, the proportions were 31 per cent and 29 per cent respectively. The proportion of female university students, which was static at around 25 per cent since the beginning of the century, rose sharply in the 1960s and was 38 per cent in 1975.

These changes are, of course, parallel to trends throughout the affluent industrial countries. It is worth noting, however, that the rate of social mobility in Australia has been one of the highest in the world, higher even than the United States, especially if 'circulatory mobility' (i.e. changes of occupation from father to son) is measured.<sup>21</sup> Social mobility is reflected in shifts of class identification (and its *alter ego*, voting behaviour) between generations. Electoral surveys carried out in the 1960s illustrate the extent of cross-class voting. A Gallup poll in 1961 found that one-third of those who called themselves 'middle class' voted for the A.L.P., and one-third of those who called themselves 'working class' voted Liberal. With almost perfect symmetry, one-third of respondents in manual occupations described themselves as 'middle class' and one-third in non-manual occupations called themselves 'working class'. These relationships were further confused by such constellations as the manual worker-working class-Liberal voter and the non-manual-middle class-Labour voter. Similar results were found in more intensive surveys of single electorates.<sup>22</sup> A later national survey, in 1967, also found that one-quarter of the sample voted across class lines. The effect of social mobility was illustrated in the fact that while 61 per cent of the sample had working-class parents, only 46 per cent described themselves as working-class. This study also found, contrary to some other evidence, that the youngest generation of voters were the likeliest to move away from a parental working-class allegiance by voting Liberal.<sup>23</sup>

Giddens has suggested that the class structure under neo-capitalism is the result of a fragmented labour market, and he identifies two axes along which fragmentation takes place: market capacity and the division of labour. Market capacity depends on the possession of 'marketable technical knowledge', and is high among professional and technical occupations as well as skilled manual groups. Groups with similar market capacities may be distinguished, however, by the division of labour which characterizes their occupations. Professional occupations manifest both high market capacity and comparatively little division

of labour. Varying combinations between market capacity, division of labour, and opportunities for occupational advancement generate different attitudes towards unionism, incomes policies, and participation in management, which contribute to fragmentation among the working class and also within the labour force at large.<sup>24</sup>

Neo-Marxist writers like Touraine have taken a similar view in formulating their own version of the 'post-industrial society'. Daniel Bell, the leading American exponent of the concept, frames it largely in institutional terms with industrialism and bureaucratization as the central moving forces of neo-capitalism. Touraine argues that class relations remain central, but that their quality has changed because of the impact of science and technology, so that the classes in post-industrial society should be defined by their relationships to change and the power to manage change. The dominant classes dispose of knowledge and control information; the dominated classes are alienated rather than exploited, because they lack information and are unable to participate in decision-making. Touraine describes this condition as 'dependent participation', and maintains that it will provide a basis for new forms of social conflict, as the dependent groups try to assert their rights to participation and control, or simply to resist changes which they dislike.<sup>25</sup>

Giddens also notes the element of fragmentation introduced by the recruitment of particular groups at the lower levels of the labour market, especially women and ethnic minorities. Some American writers have developed the concept of an 'underclass' of manual workers who remain in low-paid jobs without prospects. In the United States, this consists mainly of blacks, Mexicans (Chicanos) and Puerto Ricans, whose rates of unemployment are much higher than the average.<sup>26</sup> In France the Algerians, and in Britain the Asians and West Indians, play somewhat similar roles; in other European countries, a more transient underclass is imported in the form of immigrant workers. Giddens argues that the growth of neo-capitalism, especially in the shape of the highly mechanized firm, demands a stable labour force of skilled workers plus a disposable pool of unskilled labour (i.e. a new form of Marx's industrial reserve army). He describes the latter as a secondary labour market, whose existence is acceptable to the working class if it is culturally distinctive.<sup>27</sup>

A similar viewpoint about the role of immigrants in the Australian class system is expressed by Birrell, who believes that the building up of a stratum of unskilled workers from culturally diverse ethnic minorities will increase class tensions because it exaggerates differences between working class and middle class.<sup>28</sup>

It was the combination of economic affluence with class fragmentation which led to the prognoses of an 'end of ideology' and the erosion of social-democratic parties that became common in the late 1950s. These prognoses were falsified by a general swing to the left which made itself felt in the mid-60s, and by the accumulating evidence that the economic boom was slowing down and that its social costs were be-

coming unacceptably high. But the electorate which gave its support to social-democratic parties between 1964 and 1972, in a variety of permutations and combinations, was now a complex mixture of working-class and middle-class elements whose nature led to a new and precarious relationship between parties and voters. The political objectives of this voting coalition were virtually limited to redressing the *distributive* aspects of the neo-capitalist economy, since its productive capacities were not seriously in doubt. Poulantzas has expressed the matter in terms of a changing equilibrium between class interests which is reflected in a shift of state activity. The welfare state, he argues, is simply a cloak for the social policy of neo-capitalism (he prefers to call it state monopoly capitalism), which finds it possible and expedient to make economic sacrifices for the benefit of certain dominated classes without threatening the political power of the dominant classes. He attacks the work of Galbraith and other institutional economists who regard neo-capitalism as a social mutation; in effect, neo-capitalism is still capitalism, but with a new equilibrium of class relationships.<sup>29</sup>

It is not necessary to go the whole way with Poulantzas to recognize the force of his argument. Miliband, in particular, has attacked him for indulging in 'structural super-determinism' which ignores the complexity of the relationships between the state and the economy and devalues the importance of political action, but he does not disagree with Poulantzas' view about the practical significance of social-democratic policies.<sup>30</sup> If we overlook the more doctrinaire aspects of Poulantzas' analysis, we can see that neo-capitalism has developed because of commitments to economic growth, full employment, and welfare policies which are the outcome of the 1930s. As this pattern became firmly established in the 1950s, the political ground for social-democratic party activity was bound to shift, and it shifted into territory where the influence of middle-class rather than proletarian radicalism became increasingly important. Moral indignation is the traditional style of middle-class political expression, as Ranulf pointed out many years ago.<sup>31</sup> Parkin, in a detailed analysis of the Campaign for Nuclear Disarmament, one of the earliest and most characteristic manifestations of this newly important phenomenon, also contends that the radicalism of the middle class is directed mainly to social reforms which are basically moral in content and aimed to benefit society at large, rather than specific interest groups. He calls this 'expressive' politics which is concerned with issues or ultimate ends rather than the conquest of power. Although the middle classes are closely integrated into society and its major institutions, the bureaucratization of contemporary society cuts them off from roles they feel able to play.<sup>32</sup> In particular, middle class radicalism may be seen as a direct reaction to the growth of the corporatism described in the previous section of this essay. Corporatism makes possible the massive commitment of resources to enterprises of highly dubious social value (like Concorde) or massive disasters (like thalidomide) for which individual culprits cannot be identified, and it breeds a general distrust

of established political institutions.

The policies supported by left-wing alliances of working-class and middle-class groups have ranged over a wide area. Some of them attracted joint support, including anti-poverty programs, the expansion of welfare services (notably health), and the anti-Vietnam peace movement. In Australia, the most spectacular coalition, and one which is distinctively Australian, is the 'green ban' movement. In 1971 the trade union movement, in the shape of the Builders' Labourers' Federation, joined with a middle-class resident action group in Sydney to resist the destruction of an area of natural bushland (Kelly's Bush) on the shore of the Parramatta River. Other bans rapidly followed, and by 1974, at the height of the movement, there were 41 in effect, involving projects worth a total of \$3,000 million.<sup>33</sup> The secretary of the B.L.F., Jack Munday, became an international figure and was invited to England by the Centre for Environmental Studies in London. Although the green ban movement is currently at a low level of activity because of economic recession and because of internal politics among the building unions, its potential has been demonstrated. The movement is related to other cross-class alliances which spring from two of the structural features of neo-capitalism described above, i.e. its emphasis on rapid technological change and on massive urbanisation. Similar alliances have demonstrated their strength in relation to the building of the Newport power station in Victoria, the mining and export of uranium, and the maintenance of public health care. The campaign to 'defend and extend Medibank' illustrates the coincidence of working-class and middle-class interests. Its range of appeal is remarkably wide because it reflects the material interests of middle-class professionals at one end and, at the other, the link between poverty and medical expenses which was highlighted by Professor Henderson's inquiries into poverty and living standards. Public transport is another issue where one of the structural characteristics of neo-capitalism—its dependence on the private motor car—is likely to call forth an increasingly strong response from a variety of adversely affected groups.

The sacking of the Whitlam government in November 1975 produced another remarkable demonstration of the confluence of interests across classes. Donald Horne, whose writings and speeches made him the only begetter of the Citizens for Democracy movement, argues that the constitutional crisis of 1975 has provided Australians with a significant political legend of their own which will breed key concepts about politics, and in particular that it provides a focus of struggle for a democratic political system. The attack on Sir John Kerr and his institutional position is, for Horne, an attack on the symbols of a discredited power system which is monarchical in principle, repressive in practice, and dishonest in its public expression. Horne's writing constantly emphasizes the dangers of respectable conformism and employs an antideferential rhetoric ('bunyip oligarchs') to dramatize his argument.<sup>34</sup> The activities of Citizens for Democracy have brought together a wide spectrum of

people, some with well-established political positions, some with no history of political involvement. The level of public response to its meetings and manifestoes suggests a significant shift in the 'equilibrium' between classes to which Poulantzas refers.

Changes in the class equilibrium are also reflected in the increased salience of political issues which are predominantly middle-class in character. They include education, the environmental movement, the women's movement, racial discrimination, sexual permissiveness, drug laws, and public support for the arts. One of the most interesting political phenomena of the last twenty years is the penetration of these topics into the platforms of the A.L.P. and then into the policies of Labour governments—first in South Australia, then in Canberra, and most recently in N.S.W. These changes of direction are related to increased middle-class participation in party affairs and the emergence of highly educated professionals as party leaders—Whitlam in Canberra, Dunstan in Adelaide, Holding in Melbourne and Wran in Sydney (all barristers). In the 1969-72 Federal parliament, the Labor caucus included six lawyers and five doctors. A parallel shift has been the decline of Catholic influence in the A.L.P., manifested most dramatically in Victoria since the split of 1955, and related in its turn to the impact of affluence, higher education, and the general decline in the authority of religious institutions on the social structure, and political affiliations of the Australian Catholic community.<sup>35</sup>

The relation between the A.L.P. and the intelligentsia is expressed in an address given by Gough Whitlam to the Australian Society of Authors in 1975. Commitment to the arts, he declared, was not an extravagant gesture but an integral part of A.L.P. policy, which aimed to give Australia an international reputation as a country where the arts flourish and are valued. Labor's attitude to the arts, in particular, was consistent with its attitude to education. The arts could not thrive without an educated community, 'steeped in appreciation of intellectual values, grounded in respect for the whole process of learning and mental cultivation'. As an illustration, the Literature Board of the Australia Council, established in 1973, had awarded 269 fellowships to writers, compared with a total of 207 given by the Commonwealth Literary Fund between 1939 and 1972.<sup>36</sup>

The increasing appeal of social-democratic governments to the intellectual and professional middle classes has had the effect of increasing differences within the middle classes themselves. Many years ago R.E.N. Twopeny noted that, within the middle classes, lower-middle and upper-middle strata were much less distinct in Australia than in England, and reflected rather patronizingly that this was excellent for the former but not so good for the latter.<sup>37</sup> The distinction is probably much stronger today, and manifests itself particularly in relation to higher education and to 'permissiveness'.

This kind of disaffection has been intensively studied in the United States, where it continues to be of recurrent importance since the

McCarthy era and the attack on 'eggheads'. Some right-wing intellectuals currently identify support for government intervention in economic and social life, with the material interests of the intelligentsia who can expect jobs as a result. Irving Kristol, one of the so-called 'C.I.A. liberals', recently described the anti-capitalist left as the 'new class' whose political unrealism was demonstrated by such hollow successes as unseating Lyndon Johnson in 1968 or securing the presidential nomination of George McGovern in 1972. 'These are the people', he reflects bitterly, 'whom liberal capitalism had sent to college in order to help manage its affluent, highly technological, mildly paternalistic, "post-industrial" society'. Instead, they have engaged in a crusade against the corporations and poured scorn on the capitalist work ethic.<sup>38</sup> Daniel Bell alleges the same kind of 'cultural contradictions' between the permissive individualism of the younger generation, the technocratic society which has engendered them, and the political framework of capitalist democracy.<sup>39</sup>

In Britain and Australia, there has been a growth of middle-class protest groups with similar targets for their hostility. In Britain, a great deal of publicity was given in 1975 to the launching of an organization called the National Association for Freedom, which is taking the lead in the campaign for 'free enterprise' in collaboration with older groups such as the National Federation of the Self-Employed, British United Industrialists, and Aims for Freedom and Enterprise.<sup>40</sup> *Free Nation*, the journal of the N.A.F., specializes in stories about 'pornography in schools, scroungers in clover, Lefties in the unions and Russians at the gate'.<sup>41</sup> One of the most popular demands of these groups, expressed also by such 'respectable' Conservative spokesmen as Sir Keith Joseph, is for a Bill of Rights, especially such things as the right to private education and to private medical care. In the process, the whole ideology of a service society has come under attack, together with a feeling that there are too many service professionals and that the old bourgeois qualities of entrepreneurship, thrift and productive enterprise should be revived.<sup>42</sup>

The best-known Australian exponent of these views is the Workers' Party. Its propaganda describes governments as committing 'legalized robbery' in the form of taxation to support politicians and bureaucrats. Paper money is legalized counterfeiting and bank credit is legalized fraud. The problems of inflation, monopolies, cartels, price fixing, industrial unrest and shortages are all caused by government interference. The platform of the Workers' Party, as published in 1975, declares that its objective is 'to offer an intelligent and practical alternative to socialism as practised and preached by the Labor and Australia Parties and as practised by the Liberal and Country Parties'. It also declares that the fundamental principle of the party is non-interference, which means that 'no man or group of men has the right to initiate the use of force, fraud or coercion against another man or group of men'. The appeal of these sentiments to businessmen opposed to 'creeping socialism'

is obvious, and the business-oriented character of the party is reflected in its organization, whose executive members are called 'directors' and 'governing directors'. The directors comprise a 'board', which appears to be totally in control of the party's affairs, although the document refers to a federal conference to be held in 1978. Four governing directors are named in the platform: John Singleton, Duncan Yuille, John Whiting, Robert Howard. It is interesting that two of these men (Whiting and Yuille) are doctors who have been vocal opponents of a national health service, while John Singleton is one of the best-known advertising agents in the country, and is almost certainly responsible for the provocative name of the party. Not much has been heard of it since the Liberal election victory of 1975, but any return to 'creeping socialism' may well revitalize it.

One other aspect of the class situation, less serious but possibly indicative, is the widely publicized phenomenon of 'Ockerism'. The use of the word 'Ocker' to denote a vulgarian is of recent coinage (it does not appear in Sidney Baker's *The Australian Language*, whose latest edition was in 1966). The contention that Australia is being swept by a wave of 'Ockerism' is an invention of the mass media, to which we owe many other alleged social phenomena like the brain drain, the generation gap, the permissive society, and swinging London. It first came under notice because of the success of television advertising and variety programs which used the image of an uninhibitedly vulgar, vaguely working class, brash and expansive 'dinkum Aussie'. The one-time TV cigarette commercials of Paul Hogan were an important example of the genre, which was developed to its widest extent by the advertising agent John Singleton (whose attachment to brash individualism is also indicated by his leading role in the Workers' Party). The newspaper columnist Max Harris, one of the oldest trend-spotters in the business, was quick to pounce on this new phenomenon. While it undoubtedly exists, it is neither particularly novel nor particularly Australian. The big breweries have long used a similar style of advertising for beer. Ocker-type characters have been a staple of comic strips for many years. Paul Hogan's use of the image harks back to a long tradition of vaudeville. In Britain and the United States, there are well-established figures of a broadly similar type—Alf Garnett, Andy Capp, Archie Bunker and many others.

In a serious form, a similar development of anti-intellectual reaction among working-class 'hardhats' has received considerable attention in the United States. Seymour Lipset, a leading student of working-class political attitudes, points out the high level of white working-class support for the reactionary populism of ex-Alabama governor George Wallace, and sees it as a negative response to the 'intellectual, WASP and Jewish elite' who have moved away from the interests of the working class in favour of Communist-inspired anti-colonial movements, black civil rights, feminism and permissiveness.<sup>43</sup>

'Ockerism' is best interpreted as the surface froth of a real phenomenon

which parallels the American situation. There are important social changes taking place in Australia to which some kind of backlash can be expected. They include the expansion of higher education, the growth of feminism, the movement towards cultural pluralism, the increase of sexual permissiveness, and the greater role of intellectuals in politics, especially in the A.L.P. It is probably more relevant to notice that Mr Malcolm Fraser has gone to considerable trouble since he became Prime Minister to deny that he was a Philistine, and to affirm his intention of maintaining Labor's policy of support for the arts. It is reasonable to assume that Mr Fraser noticed the strength of the support shown for the A.L.P. by the intellectual community during the election campaign of 1975.

### **The State and the Economy**

Thirty years ago, the economist Kapp described capitalism as an 'economy of unpaid costs' which were not accounted for in entrepreneurial outlays but shifted to the community as a whole.<sup>44</sup> With considerable prescience, he foresaw that these costs were likely to increase as society became more concerned with non-monetary values such as health, safety, pollution, leisure, conservation, education, and working conditions. Orthodox equilibrium theories of economics were defective because they assumed that a competitive equilibrium meant a state of maximum aggregate satisfaction. In reality, social returns were not reflected in private returns, and entrepreneurial outlays did not measure the true costs of production. The competitive equilibrium was based on a highly wasteful utilization of resources based on a maximization of profits and an accompanying minimization of entrepreneurial outlay.

It is noteworthy that Kapp concluded his book with the call for a 'new science of political economy' in which social costs and social returns would be incorporated into economic concepts.

Following Kapp, it can be argued that a continuing high rate of economic growth will increase social costs until they unbalance the economy, and the resulting decline in economic growth makes it more difficult to pay the accumulated bills, which can only be met by an accelerated inflation of the currency. This point is taken up by Gamble and Walton in their analysis of the inherently inflationary character of neo-capitalism. The social costs of the postwar boom were met by state action, which was used to damp the business cycle, maintain a high level of effective demand, and transfer the external costs of economic growth to the public sector. 'The massive expansion of public spending since the Second World War has been a marked feature of all capitalist countries. Public spending both underpinned the boom and permitted the construction of a welfare consensus which created a political context for instrumental bargaining and the integration of the working class into the political system. For a long time, therefore, the creation of the mixed economy aided rather than hindered capitalism.'<sup>45</sup>

The growth of the public sector was sustainable until the long post-war

boom began to slacken as its inherent weaknesses accumulated. One of those weaknesses, evident in all the welfare states, was the persistence of high levels of economic and social inequality, which stimulated trade union pressure for higher wages and greater fringe benefits. A decrease in the capacity to provide these, combined with even the moderate rate of inflation required to maintain economic growth, increases union pressure and contributes to the familiar spiral. As Gamble and Walton perceptively note, the posture of the trade-union movement in many countries has been a consistently instrumental one. The apparent reduction of class conflict in the 1950s and 1960s was due to the commitment of all governments to full employment and the steady rise of incomes. 'Class inequality is more acceptable in a period of expansion than of recession. The labour movement has shifted to the left in the United Kingdom, driven by the same instrumentalism which previously encouraged compromise. The cash nexus at the centre of the unequal exchange between capital and labour remained unaltered throughout the 1950s and 1960s. In the 1970s, the smoke screen of affluence has disappeared.' Conservative parties supported neo-Keynesian policies, and acquiesced in growing public expenditure and rising wages, so long as profits remained high. Slackened economic growth and accelerating inflation have reduced profits, with a consequent shift to the right in which there is a joint attack on wages *and* public expenditure. If these policies succeed, they will do so at the price of cutting back demand and hence reducing business activity. The dilemma is intractable because the state 'has to expand and contract at the same time'.<sup>46</sup>

It is, however, over-simple to speak of a massive growth of public spending since the second world war. Galbraith wrote *The Affluent Society* to point out that the public sector had been allowed to run down in favour of private affluence. In an article published in the same year, John Vaizey showed that welfare expenditure in Britain had maintained almost the same ratio to national income for two generations, and that rises in some fields had been matched by falls in others.<sup>47</sup> A recent report by the British Central Statistical Office confirms the point. In 1961, social services took 9.5 per cent of G.N.P. in Britain, compared with 9.9 per cent in 1951, and public expenditure as a whole was 26.3 per cent of G.N.P. in 1961 as against 28.7 per cent in 1951.<sup>48</sup> In Australia, the figures are even starker. In 1968, welfare expenditure was only 7 per cent of G.N.P. Pension rates dropped from 25 per cent of average weekly earnings in 1946 to less than 20 per cent in 1970. This placed Australia, which was among the top five countries in terms of G.N.P. per head, thirteenth in terms of expenditure per head on health and welfare.<sup>49</sup> It is particularly noteworthy that expenditure on income maintenance programs among the member countries of O.E.C.D. rose, on average, from 6.8 to 8.6 per cent of gross domestic product (G.D.P.) between 1962 and 1972: in Australia, during the same period, it fell from 4.7 to 4.0 per cent.<sup>50</sup> Housing, an important criterion of prosperity and welfare, was similarly affected. Owner-occupied dwellings which

had risen to 69.9 per cent of all dwellings in 1961, fell to 67.3 per cent in 1971.

The upward trend of social expenditure in the 1960s was the result of a combination of factors sketched above. Its impetus came largely from middle-class radicalism which was concerned with the social costs of economic growth, with health and education, with redistribution, planning, urban improvement, the elimination of poverty, and a general emphasis on the 'quality of life'. The results were spectacular. In the U.S., for instance, the government's share of G.N.P. rose from 25 per cent in 1960 to 33 per cent at the time of Richard Nixon's resignation, not because of the Vietnam war but because of increased civil expenditure. Non-defence expenditure rose from 20 per cent of G.N.P. in 1965 to 25 per cent in 1971 and 27 per cent in 1974. In Britain, public expenditure rose from 26.3 per cent of G.N.P. in 1961 to 30.6 per cent in 1971, reflecting the impact of the Labour government of 1964-70; it continued to rise under the Conservatives, reaching 32.4 per cent of G.N.P. in 1974. Expenditure on social services rose from 9.5 per cent of G.N.P. in 1961 to 12.4 per cent in 1971 and 14.6 per cent in 1974. The reasons for a lag in social expenditure in Australia during the 1960s are complex. Three major factors for its divergence from the world-wide pattern may be cited. One was the effect of a built-in electoral bias which deprived the A.L.P. of victory on several occasions between 1954 and 1969, the period of the so-called 'Ming dynasty'. A second was the split in the A.L.P., followed by a long period of ineffectual leadership under Evatt and Calwell. In addition, employment levels were so high that they blunted the edge of demand for re-distribution through social services. In New Zealand, somewhat similar factors produced a similar fall in social expenditure.

By 1969, however, Australia had caught up with the general trend. The large swing to the A.L.P. at the 1969 federal election following a campaign devoted to the issues already described, generated a flurry of activity on the conservative side in an attempt to recapture the middle-class voters who had been attracted by Mr Whitlam's policy speeches (We should pause to note that the real swing to Labor took place in 1969 not in 1972, but it was insufficient to overcome the inherent bias of the electoral system.) Following the 1972 election, the size of the public sector rose from 25 per cent of G.N.P. where it had been static for a number of years, to 31 per cent in 1975—an increase achieved without tax increases because of inflation. Wages and salaries, which had never risen above 55 per cent of G.D.P. since the 1950s, increased their share to 60 per cent in 1974.<sup>51</sup> Government expenditure on health rose from 2.1 per cent of G.D.P. in 1971-72 to 2.98 per cent in 1974-75, and on education from 4.08 per cent to 5.73 per cent in the same period.<sup>52</sup>

The success or otherwise of these policies is now, and will be for a long time, a topic of controversy. What is abundantly clear is that a significant section of the electorate rejected them, and as will be seen in the next section, the pattern of rejection was much the same in a number

of countries.

### **The Failure of Social-Democratic Governments**

The political vicissitudes of social-democratic parties in the last five years range from the fall of old-established regimes in Denmark and Sweden to the short, meteoric careers of the Whitlam government in Australia and the Barrett government in British Columbia. In Denmark, where the Social Democrats had been permanent members of the governing coalition since 1918, inflation, high taxes and 'permissiveness' became political issues in 1972. Mogens Glistrup, a tax lawyer, formed the Progressive Party on an anti-tax platform and called for the abolition of all taxes on incomes below \$10,000 (U.S.) and large cuts in the extensive Danish welfare system. He was joined by Jakobson, a former Social-Democratic deputy, who was opposed to taxation on home owners. At the elections of December 1973, the two anti-tax groups gained 24 per cent of the votes. The former coalition, led by the Social Democrats, was replaced by a minority government of Liberal Democrats, who doubled their representation at the subsequent election in 1975. Commentators attribute the downfall of the Social Democrats to a basic distrust of the welfare state by large sections of the middle class concerned about taxes, government spending, inflation, and losses of real income.<sup>53</sup>

In Sweden, where the Social Democrats had been in power either alone or in coalition for forty-four years, a swing of the pendulum might well be expected. Their defeat was evidently due to the same factors as in Denmark, and middle-class discontent was symbolized by two leading intellectuals, Ingmar Bergman and Astrid Lindgren. Bergman, the film director, announced that he could no longer afford to make films in Sweden. Astrid Lindgren, author of children's stories, declared that she would have to leave the country because she was being asked to pay more than 100 per cent of her income in taxes. A large number of voters clearly shared their discontent.

At the other end of the spectrum, the short history of the New Democratic Party government in British Columbia is instructive. The NDP, Canadian equivalent of the A.L.P., has held power only at the provincial level—since 1944 with one interruption in Saskatchewan, since 1969 in Manitoba, and from 1972 to 1975 in British Columbia. The leader of the NDP in British Columbia, David Barrett, was a spectacular figure whose sweeping reform program earned him the title of 'Allende of the north'.<sup>54</sup> The NDP government's policies included public ownership of natural resources, guaranteed minimum income, a land commission, worker participation in management, an extension of public health care, and a child care subsidy program. In December 1975, the NDP government was resoundingly defeated; although its vote remained almost static, the right-wing vote was consolidated behind the Social Credit party, which gained a majority of seats. A local political columnist attributed the NDP's defeat to the fact that the electorate had been unsettled by the rapidity of the changes attempted

by Barrett's government.<sup>55</sup> Inflation, unemployment in the timber industry, and a worldwide slump in copper prices were no help either.

In New Zealand, where Labor was out of office from 1949 to 1972, with only one break from 1957-60, the parallels are extremely close. Even the election slogans of 1972 were borrowed from Australia.<sup>56</sup> In 1975, the N.Z. National Party had acquired a new and aggressive leader—like the Australian Liberal Party—who campaigned on the issues of inflation, the high cost of welfare, and the power of the trade unions.

Between these extremes lies the case of Britain, which was one of the early gainers from the leftward movement of the 1960s. Labour came to power with the sonorous intent of remaking Britain in the 'white heat of the scientific revolution'. The turning point, as we can see from the diaries of Richard Crossman, came with the sterling crisis of July 1966.<sup>57</sup> After that it was virtually downhill all the way. The forced devaluation which took place over a year later, the growth of unemployment and an attempt to impose an incomes policy on the unions, all contributed to Labour's defeat in 1970. Ironically, Edward Heath's Tory government also came to grief because it, too, relied on union-bashing to overcome similar problems. In his second coming, Harold Wilson managed to achieve an incomes policy through the 'social contract' with the unions, but success in this line was soon over-taken by the now familiar yoke-fellows of inflation and unemployment.

The social-democratic successes of the 1960s were due to a rallying of support from both working-class and middle-class voters. Equally, the defeat of social-democratic governments in the 1970s is due to desertion from both quarters. In Australia, for instance, a study of voting intentions before the 1975 election showed that the working-class vote for the A.L.P. had dropped from 69 per cent to 55 per cent since the 1974 election. It is remarkable that this swing was greater than among middle-class voters. Those who called themselves 'lower middle' dropped from 53 to 41 per cent; 'middle' from 44 to 33; 'upper middle' from 29 to 18 per cent. On an occupational basis, the movement of votes was also similar between strata; support among blue-collar workers fell 13 per cent, among white-collar workers 15 per cent.<sup>58</sup> The relative strength of middle-class support indicates the validity of the assumptions that A.L.P. policies have attracted large sections of the middle classes, and that the dismissal of the Whitlam government by Sir John Kerr had a significant effect in rallying middle-class voters behind the A.L.P. Obviously, its impact on working-class voters was much smaller, and it is probably safe to infer that working-class desertions had taken place before the dismissal and were relatively unaffected by it. This view is supported by Douglas, who examined public opinion poll data from 1956 to 1972 and found that the most important factor to influence voting was the level of unemployment in the period before the election—more important than wage levels or inflation.<sup>59</sup> By failing to develop policies able to curb unemployment, the Whitlam government alienated its

working-class supporters.<sup>60</sup>

At the same time, the Labor government also embarked on an anti-inflationary strategy which involved the reduction of public expenditure, thus offending some of the middle-class groups who owed their social position to the expansion of the welfare state. This point has aroused considerable attention in the U.S.A., where its implications are expressed in a quasi-serious 'law' of public income distribution, formulated by the economist George Stigler and named by him after a deceased economics writer, Aaron Director.<sup>61</sup> This 'law' declares that public expenditure primarily benefits the middle classes, e.g. in education, urban redevelopment, health, and social security. Government social programs provide employment for social workers without necessarily benefiting the poor. Health services raise the incomes of doctors without improving the quality of medical care. The growth of urban planning raises the incomes of planners without necessarily producing useful plans. The American political scientist James Wilson suggests that the middle classes, which originally welcomed these programs, have now found that their inflationary effect is greater than their value, and attributes middle-class disaffection to this realization. 'Almost every government accumulates policies the total cost and underlying irrationality of which only slowly become apparent. That is to say, almost every government responds to the demands of the middle classes. Some have responded more rapidly and fully than ours, and the bitter but probably ineffectual reaction against that process is now evident in Denmark and Sweden'.<sup>62</sup> In Australia, disaffection was clearly shown by a group of 'swingers' who changed their votes between 1974 and 1975, and named 'inefficiency and mismanagement in government' as one of the three main issues in the 1975 election.<sup>63</sup> Jones, in an analysis of the Labor government's social programs, reaches much the same conclusions as Wilson, i.e. that they assist the professionals who run them but do little for the people at whose problems they are directed.<sup>64</sup>

### **The Prospects for Social Democracy**

The internal contradictions of neo-capitalism are such that no government, conservative or social-democratic, can resolve them. We may therefore expect fairly continuous alternation of governments in the capitalist democracies as they strive to cope with inflation, unemployment, resource problems and industrial trouble. Broadly speaking, governments generally try to do three things: stimulate the private sector to increase employment; expand the public sector to raise consumption levels, redistribute income, and also increase employment; and thirdly, to control inflation. These three objectives are bound to collide. Conservative governments try to resolve this problem by omitting the second objective, but still fail because the first and the third are also liable to collide. Social-democratic governments, which try to realize all three, are in a more difficult situation, which they do not improve by excessively modest expectations. Bill Hayden, in the article already quoted, em-

phasized the need for modest objectives in relation to social security, and in the same volume Jim Cairns wrote that it was unrealistic to expect a Labor government to achieve much of a socialist character.<sup>65</sup> The fundamental unwisdom of excessive modesty has been argued at length by Stretton, who maintains that public control of resources is inevitable, and that we can choose in which form it will come—gentle or savage, equal or unequal, free or unfree.<sup>66</sup> In the Australian political context, he argues, there are three possible scenarios for the future—the Fraser/Bjelke-Petersen scenario, the Whitlam/Hawke future, or an egalitarian, socialist future.<sup>67</sup> He foresees the third as coming about through the collapse of the first, but like any sensible prophet he is somewhat vague about the processes of transition. It is the nature of these processes, involving not only the distributive aspects of society but also the framework of production and the structure of political institutions, which should continue to engage our attention.

## NOTES

- 1 Ralph Miliband, *The State in Capitalist Society* (Weidenfeld and Nicolson, 1969), pp. 264-7.
- 2 *Ibid.*, p. 275.
- 3 Anthony Giddens, *The Class Structure of the Advanced Societies* (Hutchinson, 1974), pp. 287-93.
- 4 E.L. Wheelwright, 'Concentration of Private Economic Power', in J. Playford & D. Kirsner (edd.), *Australian Capitalism* (Pelican, 1972), p. 74.
- 5 J.K. Galbraith, *The New Industrial State* (Pelican, 1974), Chapter 2.
- 6 David Dickson, *Alternative Technology* (Fontana, 1974), Chapter 1.
- 7 Roy Amara, 'The Interaction of Technology & Society', *Futures* (December 1975), pp. 515-17.
- 8 J.P. Darmstadter, P.D. Teitelbaum & J.G. Polack, *Energy in the World Economy* (Johns Hopkins Press, 1971).
- 9 Paul Sweezy & Harry Magdoff, 'The Economic Crisis in Historical Perspective (1)', *Monthly Review* 26, 10 (1975).
- 10 Paul Sweezy, 'Cars and Cities', *Monthly Review* 24, 11 (1973).
- 11 Commonwealth Bureau of Roads, *Report on Roads in Australia*, 1973; John Black, 'Technical Aspects of Urban Transportation Studies', in G.R. Webb & J.C. McMaster (edd.), *Australian Transport Economics* (Australia & New Zealand Book Company, 1975).
- 12 S. Castles & G. Kosack, *Immigrant Workers & Class Structure in Western Europe* (Oxford University Press, 1973), p. 4.
- 13 *Ibid.*, p. 8.
- 14 *Policies for Development of Manufacturing Industry* (Australian Government Publishing Service, 1975-76) Vol. IV, commissioned studies, p. 20.
- 15 Industries Assistance Commission, *Passenger Motor Vehicles* (Australian Government Publishing Service 1974), p. 54.
- 16 C.P. Kindleberger, *Europe's Postwar Growth* (Harvard University Press, 1967).
- 17 'A Herd of Sacred Cows', *Nation*, 18 October 69; Australian Institute of Political Science, *How Many Australians?* (Angus & Robertson, 1971).
- 18 I.H. Burnley & C.Y. Choi, 'Population Components in the Growth of Cities', in I.H. Burnley (ed.), *Urbanization in Australia* (Cambridge University Press, 1974).
- 19 Quoted by R.J. Birrell, 'Population', in A.F. Davies, S. Encel, & M. Berry (edd.), *Australian Society* (3rd edn, Longman Cheshire, 1977).
- 20 Ivan Illich, *Tools for Conviviality* (Calder & Boyars, 1973), Chapter 2.
- 21 L.E. Hazelrigg & M.A. Garnier, 'Occupational Mobility in Industrial Societies', *American Sociological Review* 41 (1976), pp. 498-511; Leonard Broom & F.L. Jones, 'Father-to-Son Mobility', *American Journal of Sociology* 72 (1969), pp. 33-42.
- 22 A.F. Davies & S. Encel, 'Class & Status', in Davies & Encel (edd.), *Australian Society* 1st edn, Cheshire, 1965), pp. 37-9.

- 23 D. Aitkin & M. Kahan, 'Australia', in Richard Rose (ed.), *Comparative Electoral Behaviour* (Free Press, 1972).
- 24 Giddens, *op. cit.*
- 25 Alain Touraine, *The Post-Industrial Society* (Random House, 1971), pp. 61-81.
- 26 S.M. Miller, 'The New Working Class', in A.B. Shostak & W. Gomberg (edd.), *Blue-Collar Worlds* (Prentice-Hall, 1965).
- 27 Giddens, *op. cit.*, pp. 219-20.
- 28 R.J. Birrell, 'Special Report: Populate or Perish', *Habitat* 3, 3 (1975).
- 29 Nicos Poulantzas, *Political Power & Social Classes* (New Left Books, 1973), pp. 192-3, 263-74.
- 30 Ralph Miliband, 'Poulantzas & the Capitalist State', *New Left Review* 82 (1973).
- 31 Svend Ranulf, *Moral Indignation & Middle Class Psychology* (Copenhagen, 1938).
- 32 Frank Parkin, *Middle Class Radicalism* (Manchester University Press, 1968), pp. 3-17.
- 33 Jack Munday, 'Green Bans & Grass Roots Political Action', in Margaret Smith & David Crossley (edd.), *The Way Out* (Lansdowne, 1975), pp. 134-7.
- 34 Donald Horne, articles in *Nation Review*, August-November 1976.
- 35 S. Encel, *Equality & Authority* (Cheshire, 1970), pp. 166-83; D.C. Hickman, 'Religion', in Davies, Encel & Berry, *op. cit.*; F. Lewins, 'Ethnic Diversity within Australian Catholicism', *A.N.Z. Journal of Sociology* 12, 2 (1976).
- 36 *The Australian Author* 8, 1 (1976).
- 37 R.E.N. Twopeny, *Town Life in Australia* (London, 1883), p. 90.
- 38 Irving Kristol, in *The Public Interest* 41 (1975), special number on 'The American Commonwealth 1976', p. 134.
- 39 Daniel Bell, *The Cultural Contradictions of Capitalism* (Basic Books, 1976).
- 40 Neill Nugent, 'The Freedom Groups', *New Society*, 2 September 76.
- 41 Christopher Hitchens, 'An Occupied Country', *New Statesman*, 27 August 76.
- 42 Krishan Kumar, 'The Salariat', *New Society*, 2 October 76.
- 43 S.M. Lipset, in *The Public Interest* 41, *loc. cit.*
- 44 K.W. Kapp, *The Social Costs of Private Enterprise* (Harvard University Press, 1950), p. 231.
- 45 Andrew Gamble & Paul Walton, *Capitalism in Crisis* (Macmillan, 1976), pp. 168-9.
- 46 *Ibid.*, p. 189.
- 47 John Vaizey, 'The Theory of Social Expenditure', *Administration* 5, 4 (1958).
- 48 H.M.S.O., *Social Trends 1975*.
- 49 Bill Hayden, in John MacLaren (ed.), *Towards a New Australia* (Cheshire, 1972).
- 50 O.E.C.D., *Public Expenditure on Income Maintenance Programs* (Paris, 1976).
- 51 M.A. Jones, 'Social Policy', in Davies, Encel, & Berry, *Australian Society* (3rd edn).
- 52 Australian Bureau of Statistics, *Social Indicators* Number 1 (1976).
- 53 J.G. Rusk & Ole Borre, 'The Changing Pace in Danish Voter Perceptions 1971-73', *European Journal of Political Research* 2 (1974), pp. 329-61
- 54 Peter Barnes, 'Socialist Experiment in Canada', *New Republic*, 13 October 73.
- 55 Vancouver *Globe & Mail*, 13 October 75.
- 56 Nigel S. Roberts, 'Trans-Tasman Twins', in Henry Mayer (ed.), *Labor to Power* (Angus & Robertson, 1973), pp. 144-51.
- 57 Richard Crossman, *The Diaries of a Cabinet Minister* Volume 1. 1, Hamish Hamilton & Jonathan Cape, 1975), pp. 567-611.
- 58 *The Age Poll*, No. 17 (1976); John Helmer, 'What's Left After Social Democracy?', *Dissent* 34 (Melbourne, 1976).
- 59 Rober Douglas, 'Economy & Polity in Australia', *British Journal of Political Science* 5 (1975), pp. 341-61.
- 60 John Helmer, 'The Sociology of Inflation', in Henry Mayer & Helen Nelson (edd.), *Australian Politics: A Fourth Reader* (Cheshire, 1976).
- 61 George J. Stigler, 'Director's Law of Public Income Redistribution', *Journal of Law & Economics* 13, 1 (1970).
- 62 James Q. Wilson, 'The Riddle of the Middle Class', *The Public Interest* 39 (1975), pp. 125-39.
- 63 Jean Holmes, 'Swingers & Stayers', *Politics* 11 (1976), pp. 47-53.
- 64 M.A. Jones, *loc. cit.*
- 65 Jim Cairns, in *Towards A New Australia*, *loc. cit.*, p. 95.
- 66 Hugh Stretton, *Capitalism, Socialism, & the Environment* (Cambridge University Press, 1976), pp. 1, 5.
- 67 Hugh Stretton, 'The Road Ahead—Australia's Options', in Australian Institute of Political Science, *Who Gets What?* (Hodder & Stoughton, 1976).

## 6

# TOWARDS A POLITICAL ECONOMY OF HOUSING

COLIN BELL

THERE IS A sociological consensus that one of the most important events in modern urban sociology was the publication in 1967 by John Rex and Robert Moore of their study of Sparkbrook, in Birmingham, England, *Race, Community and Conflict*.<sup>2</sup> It was in this study that the notion of 'housing class' was introduced. Their important statement was that 'central to the sociology of the city... is a class struggle over the use of the houses and that this class struggle is the central process of the city as a social unit' (p. 273). Despite the vocabulary the approach is more Weberian than Marxian as the authors consistently refer to life chances (and styles) built upon different *market* situations. However, in this emphasis upon *consumption* in the city, there is a convergence with a number of increasingly influential French marxists—the most important of whom is Manuel Castells.<sup>3</sup>

Castells recently delivered a paper to the American Sociological Association with the title 'Towards a Political Urban Sociology'.<sup>4</sup> In summary what Castells is suggesting is the following:

- (a) Advanced capitalism is increasingly concerned with the realization of surplus value and that problems concerning the consumption processes are of key importance.
- (b) Increasing spatial and social concentration of management and of the means of producing leads to a concentration of the population and of distribution processes and growing interdependency between them. As a result the organization and management of the goods and services that the population consumes (such as housing, education, health services, commerce, leisure, etc) are themselves increasingly centralized and concentrated and the pattern and conditions of provision of this 'collective consumption' determines

---

This essay was provoked by reading Engels on *The Housing Question*<sup>1</sup>. I would like to thank Christina Cordero who bought me that copy of Engels in the first place. I have been helped by being able to discuss an earlier version of this chapter with Jocelyn Bell, Michael Bittman, Sol Encel, June Huntington, Howard Newby and Henrietta Resler.

the structure of residential space—or the territorial division of labour.

- (c) These consumption processes (especially the processes of collective consumption) give rise to new social contradictions. These are a consequence of the shift of the key economic contradictions towards the sphere of consumption referred to in (a) above. 'Urban social movements' are generated by this situation and these movements' affect the dynamics of the transformation of society because they involve social strata (such as the middle class) which have not previously been parties to the social conflicts which underlie this transformation.
- (d) As the means of collective consumption is increasingly managed by public authorities (i.e. the state), the entire urban perspective becomes politicised. Also, as these means of collective consumption increasingly determine the nature of everyday life the state becomes, through its arrangement of space, the real manager of this life. As a result urban conflicts become even more politicised and the urban social movements which then arise become one of the axes of social change in advanced capitalist societies.

This approach is proving to be an important theoretical revitalization for urban sociology as it has brought it back to the central sociological concerns of power and the state. It has moved urban sociology beyond the sterile wastelands of mere descriptive empiricism. It will be shown below that such an approach is applicable not just to advanced capitalist societies but also to state socialist societies. Castells is laying the foundations of a genuinely comparative urban political economy. Further, there is a recent study<sup>5</sup> that specifically examines another sphere of collective consumption, namely educational provision, which gives additional empirical support to Castells' argument.

This then is the current intellectual climate for a re-reading of a foray by Engels in the 1870s into an analysis of one sphere of consumption. That urban sociologists are currently very interested in the processes of collective consumption is, of course, not the only reason that *The Housing Question* repays close attention—it is an important socialist text in its own right.

## Engels on The Housing Question

### *The background*

Since Engels on the 'housing problem' appears not to be very well known some exposition will be necessary here along with a little of the background to these three (originally) newspaper articles. The purpose of the articles is quite clear: they were written to defend the German Social Democratic Party from the, by then, past threat of anarchism and the, then still, future threat of reformism. Like so many of Engels', and Marx's for that matter, newspaper and journal articles they are by way of being polemics against opponents. This was a frequently chosen

medium used to support 'practical socialism', i.e. as opposed to various forms of idealist utopianism and anarchism. Practical socialism consists of 'a correct knowledge of the capitalist mode of production from its various aspects' (p. 100). The articles were written to help provide the German working class movement with such correct knowledge, on the housing question in this case, for 'a working class which knows what's what in this regard, will *never* be in doubt in any case as to what social institutions should be the objects of its main attacks, and in what manner these attacks should be executed' (p. 100). That is to say, they will not be misled by various Proudhonists and revisionists.

In 1872, when the first of these articles appeared in the organ of the German Social Democratic Party, the Treaty of Frankfurt, that concluded the Franco-Prussian War, had just been signed. This War was followed by a short sharp boom in economic conditions—a boom that lasted only three years and was followed by a longer period of crash and depression for the rest of the '70s. In his preface to the 1887 edition, Engels reflects on recent German economic history and relates one aspect of urbanization; i.e. housing, to the course of industrialization in Germany and demonstrates their intimate relationship.

The pamphlet consists, after the later-written preface, of three parts. The first is an attack on Proudhon, called 'How Proudhon solves the Housing Question'. The Frenchman is still very much the *bête noire* of the Second International, anarchists having destroyed the First. Engels is particularly acute, and harsh, on the anti-industrial nostalgic utopianism that he discerns in Proudhon's ideas. The second part is based on a review of Emil Sax's *The Housing Conditions of the Working Classes and Their Reform* and is called 'How the Bourgeoisie Solves the Housing Question'. The book review is a medium to attack philanthropic, charitable, self-help and state attempts to solve the housing problem. These two articles stimulated what was obviously a lively debate for Engels was moved to reply particularly to A. Mülberger's articles. Engels calls Mülberger a Proudhonist throughout his reply which is the third part and is called 'Supplement on Proudhon and the Housing Question'.

There are two main *political* themes in these articles—one is that mentioned above, and concerns Engels' ceaseless desire to stamp out anarchism. The second looks forward to, and in fact foreshadows, the debates that were eventually to destroy the Second International. Engels is concerned already in the early 1870s, to point out the dangers of what he variously refers to as, petit-bourgeois socialism, revisionism, reformism and ironically *Kathedersozialismus*, or bourgeois reformism disguised as socialism preached from university chairs, or *Katheders*. These debates have continued and still have relevance.

And of course, in addition to attacking anarchism and reformism, Engels assures us that these articles are 'also a presentation of our own (i.e. his and Marx's) conception' (p. 10). Indeed these short articles do provide an easy introduction to some central positions in Marxism: on

industrialization, exploitation and the class struggle.

*The arguments*

Engels states clearly that the 'essence' (p. 11) of both 'the bourgeois and petit-bourgeois utopias, would give each worker the ownership of his own little house and thus chain him in semi-feudal fashion to his particular capitalist' (p. 17). After a careful analysis of the 'peculiarities' of the German industrial situation—in particular the persistence of a continuing high proportion of industrial production based on domestic industry by what would now be called 'worker-peasants', Engels stresses that so many answers to the housing question depend on the worker *owning his own* house. It was to counter this solution, in its various forms that the articles were written.

There is only *one* way to end this housing shortage Engels told his readers, and that was 'to abolish altogether the exploitation and oppression of the working class by the ruling class' (p. 18). Yet the housing shortage had clearly been aggravated by industrialization—it was a 'system of the industrial revolution' (p. 8). Engels, here as in his much earlier great work, *The Condition of The Working Class in England*, is writing on the close relationship of urbanization and industrialization. For though the working class generally lives in bad, overcrowded and unhealthy dwellings, their condition was much aggravated by industrialization under the capitalist mode of production. In an important sentence Engels writes that, 'the housing shortage from which the workers and part of the petit-bourgeoisie suffer in our modern big cities is one of the innumerable *smaller*, secondary evils which result from the present day capitalist mode of production'.

In the introduction to this essay it was pointed out that current sociological practice, since Rex at least, has a marked tendency to treat the inequalities of the labour market as analytically separable from the inequalities of the housing market; that each has a dynamic and a logic of its own. Yet, following Engels, it would seem that the correct practice would be to relate *both* to the capitalist mode of production.

In discussing the development of the city under capitalism, Engels has a passage that is startling in its contemporary relevance—the 'spirit of Häussmann' to which he refers below can still be found, in the inner areas of most large cities, say in Woolloomooloo, Notting Hill and in Morningside Heights. This passage is certainly worth quoting in full:

The expansion of the big modern cities gives the land in certain sections of them, particularly in those which are centrally situated, an artificial and often enormously increasing value; the buildings erected in these areas depress the value, instead of increasing it, because they no longer correspond to the changed circumstances. They are pulled down and replaced by others. This takes place above all with centrally located workers' houses, whose rents, even with the greatest overcrowding, can never, or only very slowly, increase above a certain maximum. They are pulled down and in their stead shops, warehouses and public buildings are erected. Through its

Haussmann in Paris, Bonapartism exploited this tendency tremendously for swindling and private enrichment. But the spirit of Haussmann has also been abroad in London, Manchester and Liverpool, and seems to feel itself just as much at home in Berlin and Vienna. The result is that the workers are forced out of the centre of the towns towards the outskirts: that workers dwellings and small dwellings in general, become rare and expensive and often altogether unobtainable, for under these circumstances the building industry, which is offered a much better field for speculation by more expensive dwelling houses, builds workers' dwellings only by way of exception. (p. 20)

Engels comments here on the activities of the 'building industry' should be especially noticed—that we would regard urban building as being determined by the speculative action of capital. Indeed since Engels wrote, capital—or what he frequently calls the big bourgeoisie, has hardly been interested at all in building dwellings. As he tells us (p. 57), 'capitalists won't invest in workers' houses because more expensive dwellings bring in still greater profits for their owners'. The petit-bourgeoisie has been interested though, and through their 'credit-worthiness' have syphoned large amounts of capital into domestic building—on an individualistic basis. The failure of capital to invest in dwellings for the working class has led, in most capitalist societies to fairly massive state intervention in this direction. And here it is worth pointing out that there is a considerable divergence of view as to the political and theoretical significance of state intervention in the housing market. Rex, in places, sees this as a consequence of the organized (and reformist) political activities of the working class whereas, Castells, in places, sees this as another indication of the state acting in the interests of the bourgeoisie—put crudely, housing the proletariat cheaply, so allowing wages to remain low and removing from capital the direct obligations of investing in the infrastructure.

However, the focus of Engels' attack in his first article is the following quotation (taken from someone he calls 'our German Proudhonist'): 'The *tenant* is in the same position in relation to the *house-owner* as the *wage-worker* in relation to the *capitalist*' (p. 20). It is with the refutation of this that much of Engels activity is taken up, and allows us to grasp an important critique of the whole notion of 'housing class' that has so dominated recent urban sociology. The quotation above is very similar to Rex's position which is usually referred to as a 'neo Weberian' position—perhaps henceforth it should be called 'neo-Proudhonist'! Engels emphasises that the relationship between tenant and landlord is 'a simple commodity sale; it is not a transaction between proletariat and bourgeois, between worker and capitalist'. This implies that it would be nonsense to talk about 'housing classes'—housing is not the basis for a class position but is rather, a *commodity*. To echo earlier debates about changes in the class structure (when David Lockwood uttered the original 'a washing machine, is a washing machine, is a washing machine'), a house, is a house, is a house. The whole thrust of recent urban sociology

has been thought to suggest that it is more than a house—for instance, it is a location that determines consumption of that provided by the infrastructure (education, social services and so on) which so vitally affect life chances. It might also be the basis for political action—a ‘social base’ to use Castells/Pickvance’s terminology for a ‘social force’.<sup>6</sup> However, this commodity does lead to community and even occasionally to communion.<sup>7</sup> Housing too clearly plays an important role in what has been called ‘the new urban politics’.<sup>8</sup> This has tempted some sociologists to believe that ‘housing classes’ can become ‘housing class conscious’—classes not only in themselves but for themselves. Following Engels though, it would be far better to see such action as the activity of a consumer group—in the process of collective consumption. If the washing machine is too trivial, then consider whether motorists are a class—just because they own cars. Is the A.A. or the N.R.M.A., equivalent to the T.U.C., the German Social Democratic Party of the 1870s, the Bolsheviks or what?

Engels tells us that it would be ‘a complete misrepresentation’ (p. 21) to consider relationships between landlord and tenant as in anyway equivalent to the relationship between worker and capitalist. ‘On the contrary, we are dealing here with a quite ordinary commodity transaction between two citizens, and this transaction proceeds according to the economic laws which govern the sale of commodities in general, and in particular the sale of the commodity, “landed property”’ (p. 22). In his attack on the Proudhonist position Engels clearly states that:

the pivot on which the exploitation of the worker turns is the sale of his labour power to the capitalist and the use which the capitalist makes of this transaction, the fact that he compels the worker to produce far more than the paid value of his labour power amounts to. It is this transaction between capitalist and worker which produces all the surplus value afterwards divided in the form of ground rent, commercial profit, interest on capital, taxes, etc., among the diverse varieties of capitalist and their servitors. (p. 29)

Engels proceeds to ridicule the idea that each worker, petit-bourgeois and bourgeois can become first part-owner, then complete owner, by paying instalments on his dwelling. He does this because, first of all, of the amount of multi-occupation of dwellings—but appears to feel that ownership *might* be a possibility, if there were one family per dwelling. He would have been impressed at the ingenuity shown a century later in New South Wales by elements of finance capital that allowed them, as Alex Kondos has recently described, to frame laws to sell pieces of air—the Strata Titles Act.<sup>9</sup> Secondly, though he feels that under the capitalist mode of production the proletariat necessarily were too mobile—he has a spectacular (and fictional) case study. Again, Engels failed to realize that with the rise of the Building Society movement housing finance could be lent to *individuals* who could move their capital from dwelling to dwelling. The housing market has become much more fluid

since the nineteenth century though as Engels pointed out in his objections to mass house ownership, 'it rests on the peculiar error that if someone wants to sell a commodity, he will necessarily find a buyer for its full value' (p. 30). Engels did not anticipate the great growth, as agents of the bourgeoisie, of a whole series of professions: solicitors, estate agents and so on, that would facilitate house ownership on the 'instalment plan' and accommodate its demands to those of the capitalist mode of production. The characteristic form of 'house-ownership' under capitalism: the long-term mortgage or bank-loan is a fine example of the adaption of the process of collective consumption, in this case, housing, to the needs of the capitalist mode of production e.g. labour mobility. Capital is endlessly inventive—and in ways that we can hardly condemn Engels for not foreseeing. Yet even he realized that the Proudhonist solution to the housing question of house ownership, may well be of direct interest to the petit-bourgeoisie.

Engels knew that it was to them and not the proletariat that the nascent Building Societies would lend money. He could then scathingly refer to the efforts of the Building Societies to solve the housing problem as only a drop in the ocean and as 'miserably futile' (p. 51). This is all part of his attack in the second part of his pamphlet on bourgeois solutions to the housing question. It is a small part of a much larger argument that was to excite the German Socialist movement for years, and was to be later of vital concern to Lenin. Engels is centrally attacking, through a discussion of the housing question, the notion that there is any possibility of any harmony of interest between capital and labour. For instance, as evidenced by capitalists assisting their workers to obtain suitable dwellings.<sup>10</sup> As he writes, 'bourgeois philanthropy has expended large sums of money to prove this harmony by building model institutions' (p. 46).

Sax, the author of the book Engels is criticising, suggest that 'the worker "becomes a capitalist" by acquiring his own house'. Engels retorts eloquently (but not consistently with his earlier attack on Proudhonists):

Capital is the command over the unpaid labour of others. The little house of the worker can therefore become capital only if he rents it to a third person in the form of rent. But the house is prevented from becoming capital precisely by the fact that the worker lives in it himself, just as a coat ceases to be capital the moment I buy it from the tailor and put it on. The worker who owns a little house to the value of a thousand talens is, true enough, no longer a proletarian, but it takes Herr Sax to call him a capitalist. (p. 48)

Is there some difficulty with the idea of no longer being a true proletarian *merely* through owning a house, i.e. not by changing positions in the labour market, let alone relationships to the means of production? Engels argument here *would* appear to give considerable credence to the advocates of 'housing classes'—yet may not it be better to consider

divisions *within* classes, class fractions, to use a much later terminology, or even status groups without in any way moving away from a materialist analysis? In his attack on the efforts of Building Societies, Engels notes that when a worker is associated with such societies he belongs 'to the aristocracy of his class' (p. 61)—and this he feels will only be true of the smaller societies, for the larger ones' 'chief aim is always to provide a more profitable mortgage investment for the savings of the petty-bourgeoisie at a good rate of interest and the prospects of dividends from speculation in real estate' (p. 62).

He analyses the introductory literature of one such society—the Birkbeck Building Society, and comments in terms that are still *directly* applicable to present day Building Society policy:

There is no mention of workers, but there is of people of limited income, clerks and shop assistants, etc., and in addition it is assumed that, as a rule, the applicants *already possess a piano*.<sup>11</sup> In fact, we do not have to do here with workers at all but with petty-bourgeois and those who would like *and are able* to become such; people whose incomes gradually rise as a rule, even if within certain limits, such as clerks and similar employees. The income of the worker, on the contrary, at best remains the same in amount, and in reality falls in proportion to the increase of his family and its growing needs. In fact only a few workers can, by way of exception, belong to such societies. On the one hand their income is too low, and on the other hand it is of too uncertain a character for them to be able to undertake responsibilities for twelve and a half years in advance. The few exceptions where this is not valid are either the best paid worker or foremen. (p. 63)

All the evidence would suggest that this is still true—only that the size of the labour aristocracy has increased, so increasing the relative and absolute deprivation of those left behind. It is, of course, for them that redistributive 'welfare statism' housing policy was developed. Engels also attacks state assistance over housing which he naturally sees as just as bourgeois as the Building Societies for it was to him 'perfectly clear that the state as it exists today is neither able nor willing to do anything to remedy the housing calamity. The state is nothing but the organized collective power of the possessing classes, the landowners and the capitalists, as against the exploited classes, the peasants and the workers' (p. 67-8).

If that is still so (and it is a matter of considerable debate among sociologists not only whether it is so, but also if it is so, in what way this 'organized collective power' is expressed),<sup>12</sup> the massive state intervention in housing provision since Engels wrote is very significant indeed. As was suggested above, seen in this light, the provision of, say council housing in Britain or Housing Commission in Australia has been in response to demands of the capitalist mode of production: but mediated through the state. When Engels tell us that as far as solving the housing problem 'the capitalist *will* not and the worker *can* not' (p. 61) and further that 'capital does not *want* to abolish the housing shortage'

(p. 59) he is raising for us the whole problem of the explanation, within a materialist frame, of state provision to the infrastructure, that adds to *real* incomes. Reformism has been a matter of successive compromise for both capital and labour, yet the basic structure and inherent contradictions within the capitalist mode of production have persisted—to capital's advantage. 'The increasing role of the state is basically serving the interests of capital in maintaining the existing system of exploiting labour',<sup>13</sup> as Ivan Szelenyi has recently stressed.

For Engels, just as anarchism provided no solutions to the housing question, neither can the bourgeois solutions of charitable philanthropy, self-help, Building Societies or State Assistance. The Socialist solution proposed by Engels to the housing question will be discussed below. But before that, it is worth considering some of his remarks in the third part of the pamphlet especially when he writes about 'Haussmann'. These comments must be some of the earliest analyses of what would now be called 'urban renewal'. In a very astute passage he writes:

By the term 'Haussman' I do not merely mean the specifically Bonapartist manner of the Parisian Haussman—breaking long, straight and broad streets right through the closely built workers' quarters and lining them on both sides with big luxurious buildings, the intention having been, apart from the strategic aim of making barricade fighting more difficult, to develop a specifically Bonapartist building trades' proletariat dependent on the government and to turn the city into a luxury city pure and simple. By 'Haussman' I mean the practice, which has now become general, of making breaches in the working class quarters of our cities, particularly in those which are centrally situated, irrespective of whether this practice is occasioned by considerations of public health and beautification or by the demand for big centrally located business premises or by traffic requirements, such as the laying down of railways, streets, etc. No matter how different the reasons may be, the result is everywhere the same: the most scandalous alleys and lanes disappear to the accompaniment of lavish self-glorification by the bourgeoisie on account of this tremendous success, but they appear at once somewhere else, and often in the immediate neighbourhood. (p. 71)

This has been a common experience in the hundred years that have passed since Engels wrote that—and only recently in inner-urban areas all over the world are fractions within the working class fighting back—with varying degrees of success, for example in Sydney.<sup>14</sup> He goes on to examine what happened to the 'abolished' Little Ireland that he wrote about nearly forty years before in *The Conditions of The Working Class in England*—they and it (this inner-urban community) had not in fact been abolished, but merely shifted. 'This is a striking example of how the bourgeoisie settles the housing question in practice. The breeding places of disease, the infamous holes and cellars in which the capitalist mode of production confines our workers night after night, are not abolished: they are merely *shifted elsewhere!* The same economic necessity which produced them in the first place produces them in the next place

also' (p. 73-4). Remembering what was written above about increasing state intervention in housing since Engels wrote, it is now reasonable to suggest that the capitalist mode of production also shifts workers up high rise blocks of flats and to dreary suburban developments. This gives rise to new tyrannies of distance—and as will be argued below this is also the case under state socialism.

There is a solution of course: total and broad—though in Engels' pamphlet embarrassingly short on detail. For 'as long as the capitalist mode of production continues to exist it is folly to hope for an isolated settlement of the housing question or of any other social question affecting the lot of the workers', i.e. there are no solutions in reformism. 'The solution lies in the abolition of the capitalist mode of production and the appropriation of all the means of subsistence and instruments of labour by the working class itself' (p. 74).

Indeed, it is by 'appropriation' that Engels sees a socialist solution to the housing question. It turns out on close examination, that Engels is equivocal about whether in fact there really is a housing shortage under the capitalist mode of production at all. Throughout these articles he writes as if there demonstrably is such a shortage, yet on pp. 32-3 can write that:

there is already a sufficient quantity of houses in the big cities to remedy immediately all real 'housing *shortage*' provided they are used judiciously. This can naturally only occur through the expropriation of the present owners by quartering in their houses homeless workers or workers overcrowded in their present homes. As soon as the proletariat has won political power, such a measure prompted by concern for the common good will be just as easy to carry out as are other expropriations and billetings by the present day state.

### *Difficulties*

Appropriation was indeed the immediate Soviet solution to the housing question and this also occurred on a widespread scale behind the Red Army in Eastern Europe. There are though, two crucial, and inter-related difficulties with this Socialist solution to the housing question. (This is saying hardly anything about whether it is empirically true that even with appropriation there is no housing shortage, i.e. are there really enough houses and are they in the right place for the proletariat?)

Firstly, there is the problem of the future of industrialization and its relationships to urbanization after the revolution. Marx and Engels always assumed that the revolution would take place in the most industrially advanced societies and so avoided what turned out to be the most important question for the new socialist regimes: namely how to industrialize under socialism. And secondly, how will the processes of collective consumption *really* be handled under socialism: just how will a scarce and highly valued commodity such as housing (or education, or cars, or for that matter washing machines) be distributed under socialism?

Engels, in his diatribe against Proudhonists, equated the conception that a worker should *buy* his dwelling as both a reactionary and a nostalgic outlook that would push the clock back and undo industrialization (p. 31). This would never do, as it was through further industrialization that the revolution would occur as the contradictions within the capitalist mode of production deepened. Yet later he writes the following—totally utopian—passage:

to want to solve the housing question while at the same time desiring to maintain the modern big cities is an absurdity. The modern big cities, however, will be abolished only by the abolition of the capitalist mode of production, and when this is once set going there will be quite other issues than supplying each worker with a little house of his own. (p. 51)

Now, that may well be satisfactory if there really was an adequate housing stock for the whole population in existence at the time of the revolution. Actually there was not. Which has meant that the second difficulty, that of distribution under socialism mentioned above, has become very important indeed.

#### 'State Socialism'

This is not the place to cross the minefield that surrounds the true definition of socialism and to engage in the debate over whether 'state socialism' is true socialism. However, the analyses by eastern European sociologists, such as Szelenyi, and Konrad<sup>15</sup> in Hungary, Musil<sup>16</sup> in Czechoslovakia, and Wesolowski<sup>17</sup> in Poland, suggest that just as the state is far from neutral in capitalist societies, so is it in state socialist societies. Szelenyi, in a recent paper,<sup>18</sup> has analysed socialist redistribution in Hungary and in so doing highlights some of the difficulties with Engels' formulation. Precisely because 'the revolution' took place *prior* to industrialization there was a desperately incomplete infrastructure in Eastern Europe—a phenomenon Szelenyi calls under-urbanization (as opposed to the over-urbanization of many third world cities with *barrios*, *bustees* and shanty-towns).<sup>19</sup> There has been 'a delayed infrastructural development compared with industrial growth' (p. 11)—manifested perhaps most centrally by a continuing housing shortage. Indeed, industrial investment was quite deliberately at the expense of infrastructural investment. It would not be a travesty of Szelenyi's position to say that he is suggesting that the situation of the proletariat during industrialization under socialism was actually *worse* than under capitalism: the worker was first of all exploited in just the same way as within the capitalist mode of production, yet there at least, the existence of 'the market' allowed for, and indeed encouraged, investment in the infrastructure too (and this is not to mention the explicitly redistributive character of much social policy in reformist, or welfare statist capitalist societies). Under socialism the worker has been *doubly* exploited as there has been such a delay in infrastructural growth.

Szelenyi sees 'under-urbanization as one alternative answer to the

challenges of growth at a certain stage of economic development' (p. 39). This was not, and perhaps, could not, have been foreseen by Engels. And what is more, underurbanization is a socially selective process—as Szelenyi writes: 'During the period of socialist extensive industrialization, the most striking structural change can be described in terms of the creation of a new working class out of the previously under-employed agricultural population, and basically it is this new class of industrial workers, due to the economic forces which delayed urban growth, which is kept out of cities' (p. 39); they are forced to commute long distances and denied access to what little infrastructural development, e.g. housing, that there has been in the cities. 'The working class is generally disadvantaged in the allocation of state-built and owned housing (concentrated almost exclusively in cities)' (p. 41). There remains under socialism as under capitalism, Szelenyi argues, a basic distinction between those who directly *produce* the surplus and those who *dispose* of it and *redistribute* it. The implications of this for state socialism is that 'urban residence becomes a privilege of those who are higher in the social hierarchy and assures them a better share from the surplus allocated to infrastructural development by the redistributive regional management system' (p. 42). There are, it would seem, tyrannies of distance suffered by the proletariat under state socialism as well.

These arguments do not invalidate Engels' approach to the political economy of housing: there are contained within his approach, for instance, in his emphasis on the commodity nature of housing, the beginnings of an analysis that could lead to an examination of the processes of collective consumption under *any* mode of production. Szelenyi's imaginative research goes much beyond Engels' thought, and invites all sorts of comparisons with the role of the state under other modes of production—for instance, under the capitalist mode.

### *Advanced Capitalism*

David Harvey's recent paper 'The Political Economy of Urbanization in Advanced Capital Societies—the case of the United States'<sup>20</sup> provides such a comparison and has a degree of concreteness and specificity that compares favourably with much writing on the city and on housing—including that of Castells. Harvey shows dramatically, in the case of Baltimore, that 'the financial superstructure serves to coordinate the urbanization process in a particular locale with the overall aggregative push towards stimulating effective demand and facilitating capital accumulation' (p. 24), and that there was indeed, as Engels claimed a century earlier, 'an intimate connection between financial superstructure and the shape and form taken by the urbanization process' (p. 45). Harvey concretizes Engels' suggestive remarks about the role of Building Societies for instance.

Harvey's analyses, of urbanization within the capitalist mode of production, can be compared with Andrew Jakubowicz's recent description of what has been happening in Sydney, 'The City Game: urban

ideology and social conflict'.<sup>21</sup> Jakubowicz writes about 'the actors in the changing game of urban decision-making' (p. 329), and yet immediately refers to 'interests' and thereafter conflates 'actors' and 'interests'. 'Interests' we are told, 'can be seen in the relationships of the groups to the idea of property'. Why 'idea' and not reality, it might well be asked? Engels, in his pamphlet, actually does warn that 'the economic relations of a given society present themselves in the first place as interests' (p. 86). The interests that Jakubowicz discerns in Sydney are seven-fold: developers, state service bureaucracies, politicians, professional planners, old working class, migrants and the new working class. Jakubowicz, like so many sociologists, treats social class as *behaviour*: so he can write of 'the planning game', rather than using it to refer to particular kinds of *relationships* in society. If class is used as a relational concept—as it was by Engels, Szelenyi and Harvey—then it is necessary to understand the *structure* of, for example, the housing or the labour market. Then it is necessary to go on to discover the consequences for one group in society of the determined efforts of another group to achieve its own goals. Seen from this point of view, differential location in the housing market among differential social groups are the product of competition for scarce resources and sometimes the product of conflict.

### Conclusion

The lessons to be learned from Engels, and from later sociologists, and various neo-marxist critiques, is that there is indeed a socio-spatial system and that this reflects the distribution of real incomes in any society. Rex reawakened sociologists' interests in spatial distributions—in this case of housing. This analysis can be extended to other societies, as both Harvey and Jakubowicz in their very different ways have shown, and to other modes of productions, as Szelenyi has shown. In their new book, *The Poverty of Education*, Byrne, Williamson and Fletcher,<sup>22</sup> extend the argument to another facility valued by society, namely education. They write strongly that:

What is required is a recognition that the structural notion of class implies relationships between groups in society who are differentially placed to realize life chances. Such groups are in a constant state of conflict although they may not realize the conflict situation in which they are implicated. Political processes, even at a local level, can often be seen as processes of conflict, sometimes institutionalized, in which class groups are activated either to protect or to enhance their *real* incomes. (p. 42)

They want to use the term *social* income for any gains that do not come directly from the consequences of participation in the labour market (this is very similar to Szelenyi's usage of infrastructure and infrastructural investment above). And as they write: 'in modern welfare capitalist societies, important components of an individual's incomes are transmitted through bureaucratic allocation procedures. Some of this "income" is in the form of cash, such as national insurance, unemployment bene-

fits and family allowances. However, a major part of this social income is in kind; health care, local authority, housing and education can be described in this way' (p. 68). David Harvey also wrote a book called *Social Justice and the City*<sup>23</sup> and Byrne, Williamson and Fletcher echo his title when they conclude their study with 'what (it) revealed was territorial injustice and the strong effect which such injustice has in explaining social class differences in educational attainment' (p. 72). But, of course, it is social class that explains this territorial injustice in the first place—as Engels in *The Housing Question* so clearly shows. That is why he is still worth reading.

There do remain, though, some significant problems in a materialist analysis of the city. For instance, at times it would seem that Castells denies that there is anything specifically urban at all—or anything beyond the spatial consequences of the needs of capital. Harvey's position differs in that he maintains that there are indeed social consequences derived from what he would call fixed and immovable capital investment. Harvey's position is a defence of the urban, or of pure territoriality. Distance or space is seen as potentially leading to social action.

It is here that there are some final difficulties—just what is the significance of the new urban micro-politics—to use David Donnison's phrase.<sup>24</sup> Have we often moved, as Castells would have us believe from social base to 'social force'—from being an inner-urban tenant say, to joining a social movement? Many of these movements splutter briefly and then fade away. They are short-term and populist—they have great promise but little sustained staying power. Popular local action all too frequently does direct resources to particular areas, but of necessity also away from others who either have not or cannot mobilize.<sup>25</sup> There is a communal basis for the new urban politics, and it is frequently derived from the housing market, but as has been seen in the Sydney Green Ban movement, for example, its development and growth into urban class consciousness remains problematic and uncertain.

#### NOTES

- 1 See notes 1 and 2 to the Progress Publishers Moscow 1975 edition (first printing, 1954). All page references refer to this edition. It was first published in the Leipzig *Volksstadt*, May 1872—January 1873, and revised by him in London and re-published in Zurich in 1887.
- 2 Oxford University Press, London 1967. See too John Rex's important paper 'The Sociology of a Zone of Transition' in Colin Bell & Howard Newby (edd.), *The Sociology of Community* (Cass, 1974). Criticisms of Rex's formulations can be found in R.E. Pahl, *Whose City?*, and his *Patterns of Urban Life* (both Longmans, London, 1970); R.F. Haddon, 'A Minority in a Welfare State Society', *New Atlantis* 2, 1 (1970); J.G. Davies & J. Taylor, 'Race, Community and No Conflict', *New Society* 16, 406 (1970); Colin Bell & Howard Newby, *Community Studies* (Allen and Unwin, London, 1971); in J.R. Lambert & C. Filkin, 'Race Relations Research', *Race* 12, 3 (1971); and more recently, Mary Couper & Timothy Brindley, 'Housing Classes and Housing Values', *Sociological Review*, 23, 3 (1975). John Rex has replied to some of his critics in his essays, *Race, Colonialism and the City* (Routledge and Kegan Paul, London, 1973). On the agreement on the importance of the Rex/Moore formulations, see the above as well as Rosemary Mellor, 'Urban Sociology in an Urbanized Society', *British Journal*

- of *Sociology* 26, 3 (1975), and the proceedings of the Conference on *Urban Change and Conflict*, 1975, edited by Michael Harloe, Centre for Environmental Studies. An interesting 'reflection' on doing the Sparkbrook research by Robert Moore is forthcoming in Colin Bell & Howard Newby (edd.), *Doing Sociological Research* (Allen and Unwin, London).
- 3 There is a selection of Castells' work in C.G. Pickvance (ed.), *Urban Sociology: Critical Essays* Methuen, London. Pickvance has also provided an exposition of Castells' views in 'On the Study of Urban Social Movements', *Sociological Review* 23 (1975), and in 'From "Social Base" to "Social Force"', in Harloe *op. cit.* Pickvance summarizes Castells' *La Question Urbaine* (Maspero, Paris, 1972), in 'Towards a Reconstruction of Urban Sociology', *American Journal of Sociology* 80, 4 (1975). Mellor, *op. cit.*, is also useful.
  - 4 Montreal, August 1974. This summary is taken from Harloe *op. cit.* The whole paper itself will appear in *Captive Cities*, edited by Michael Harloe (Wiley, London and New York, forthcoming).
  - 5 David Byrne, Bill Williamson, Barbara Fletcher, *The Poverty of Education: A Study in the Politics of Opportunity* (Martin Robertson, London, 1975).
  - 6 See note 3 above.
  - 7 See Colin Bell & Howard Newby, 'Class, Communion, Community and Community Action, the social basis of the new urban politics', in David Herbert (ed.), *Social Areas in Cities: Spatial Perspectives on Processes and Politics* (Wiley, London, forthcoming).
  - 8 See note 7 for several empirical examples.
  - 9 On the background to this remarkable piece of legislation see Alex Kondos, *The Sociology of Housing* (PhD. thesis, School of Sociology, University of New South Wales).
  - 10 An important area where the capitalists do still provide an increasing amount of the housing stock is on British agriculture. See Howard Newby, 'Agricultural Workers in the British Class Structure', *Sociological Review* 20, 3 (1972) and Colin Bell & Howard Newby, 'Capitalist Farmers in the Class Structure', *Sociologia Ruralis* 14 (1974).
  - 11 This is reminiscent of Humphrey McQueen's comments on pianos in *A New Britannia* (Penguin, Australia, 1970), chapter 9.
  - 12 An introduction to this debate can be found in Ralph Miliband, *The State in Capitalist Society* (Weidenfeld and Nicholson, 1969), and Nicos Poulanzas, 'Political Power and Social Classes', *New Left Review* (1973). A debate between them can be found reprinted in both *Power in Britain*, edited by John Urry and John Wakeford (Heinemann, 1973) and *Ideology and the Social Science* edited by Robin Blackburn (Fontana, 1972). Originally the papers by Miliband and Poulanzas were in *The New Left Review* 58 (1969) and 59 (1970).
  - 13 Ivan Szelenyi, Regional Management and Social Class: the case of Eastern Europe (unpublished paper prepared for Centre for Environmental Studies, October 1975), p. 32.
  - 14 See as a popular account *Green Bans: the Story of an Australian Phenomenon*, by Marion Hardiman and Peter Manning (Australian Conservation Foundation Publication, Melbourne, 1975), or more critically, Leonie Sandercock, 'The BLF, Urban Politics and Inequality', in Henry Mayer & Helen Nelson, *Australian Politics, A Fourth Reader* (Cheshire), pp. 294-5. More academically see Jakubowicz, ref. 21 below and Eva Cox & Pat Howard, 'If we're all heroes, who are the villains: conflict and change in the Sydney Rocks', *A.N.Z.J.S.* 9, 2 (1973).
  - 15 See Szelenyi, *op. cit.* and Szelenyi & G. Konrad, Under-Urbanization in Eastern Europe (unpublished), and Konrad's novel *The Case Worker* (Hutchinson, London, 1974). See also *Sociological Review* Monograph No. 7, 1972: *Hungarian Sociological Studies*, especially the paper by Szelenyi, 'Housing System and Social Structure'.
  - 16 J. Musil, 'Economic Development and Urbanization Socialist Countries', *Sociologia* (1973).
  - 17 W. Wesolowski, *Social Stratification in Poland* (translated by G. Kolankiewicz, forthcoming).
  - 18 Szelenyi, 1975, *op. cit.*
  - 19 See Alison MacEwen, 'Kinship and Mobility on the Agriculture Pampa', *Ethnology* XII (1973), and 'Stability and Change in a Shanty Town', *Sociology* 6, 1 (1972).
  - 20 Published by The Johns Hopkins University Centre for Metropolitan Planning and Research, 1974.
  - 21 In Don Edgor (ed.), *Social Change in Australia* (Cheshire, 1974).
  - 22 *op. cit.*, see note 5 above.
  - 23 Arnold, London, 1973.

- 24 David Donnison, 'Micro-Politics of the city', in David Donnison & David Eversley (edd.), *London: Urban Patterns, Problems and Policies* (Heinemann, 1973).
- 25 This argument is elaborated in Colin Bell & Howard Newby, 'Class, Communion, Community and Community Action: the social basis of the new urban politics', see note 7.

# SHOOT THE BOLSHEVIK! HANG THE PROFITEER! RECONSTRUCTING AUSTRALIAN CAPITALISM, 1918-21

HUMPHREY McQUEEN

*I have just lunched with W.S. Robinson. . . He is deeply pessimistic about the future of Australia—and the present too!—and apparently would like to see many people hanged.*

Theodore Fink to Keith Murdock

7 June 1921<sup>1</sup>

ON EVERY COUNT, the war of 1914-18 brought major changes to Australian economic life. The transfer of shipping to war purposes, and its sinking by German raiders, meant that by 1917-18 the total volume of overseas shipping which entered and cleared Australian ports was less than half that in 1913.<sup>2</sup> This disruption to imports and exports led to increased prices and to substantial levels of unemployment: from a base figure of 1000 in 1911, the cost of living had risen to 1362 in 1918 while real wages had fallen to 932.<sup>3</sup> Although the total volume of industrial production rose only slightly, there were important changes within the manufacturing sector. For example, Broken Hill Proprietary commenced its iron and steel making at Newcastle on the eve of the landing at Gallipoli, thus providing another, and perhaps stronger, reason for claiming that Australia was born as a nation on 25 April 1915. Rural production suffered from export difficulties and drought, as well as from labour shortages, before its marketing arrangements were reshaped under government direction. The workforce was disrupted when 400,000 men (30 per cent of the males aged between eighteen and forty-five) joined the armed forces. The transition from war to a totally unexpected peace clearly presented great problems of economic management.

But these economic disruptions could not be separated from the political upheavals provoked by the war—both at home and abroad. Government intervention in primary industries brought farmers together to provide an organisational basis for the Country party. Unemploy-

ment and falling real wages led to a number of major strikes, the most important being the Great Strike of 1917 which spread from the New South Wales railways to involve nearly 100,000 workers throughout Australia. Attempts in 1916, and again in 1917, to introduce conscription for overseas military service split the Labor party, and Australia generally, into two warring camps. Rebellion in Ireland and revolution in Russia added to the political consciousness of Australian workers. The combination of these economic and political problems promised Australian capitalism its severest testing yet.

In contrast to contemporary bourgeois economics, political economy has always been distinguished by its recognition that problems of economic management are never cut off from politics. Marx's 'Critique of Political Economy' (*Capital*) went further by conceptualising the nature of those politics as a class struggle between wage-labour and capital. He showed that capital is a special form of ownership which is maintained through varying combinations of violence and ideas. Of course, this power relationship (capital) does not exist for its own sake. Rather it enables capitalists to take some of the labour power of the working class for their own use. Class struggle occurs over the right to control the workers' labour power, and is therefore not confined to particular and spectacular events like strikes or revolutions, but is present in every act of production within capitalism, continuing every hour of every day.

From the standpoint of the capitalist, the two essential features of the class struggle are:

1. The need to reproduce the situation in which people are obliged to sell their labour power in return for wages, that is, to submit to expropriation. This essay discusses this need in relation to:
  - (a) preparations for counter-revolution (violence);
  - (b) anti-Bolshevik propaganda (ideas).
2. The need to increase the rate of expropriation of labour power, or at least to prevent its decrease. The essay discusses this need in relation to:
  - (c) the use of State apparatuses against strikers (violence);
  - (d) the production of the anti-profiteering campaign (ideas).

In sum, the essay first discusses the preservation of capitalist property relations before examining how the rate of expropriation was maintained or expanded.

While the class struggle can be studied at any moment of capitalism's existence, there are sound reasons for picking out 1919 for special attention. The immediate post-war period gave rise to many of the forces which shaped Australia for the next fifty years: the Country Party, the RSL, the Communist Party and the Greene tariffs—one could fairly claim that modern Australia was spawned in 1919. More important the attempts to put Australian capitalism back together again in 1919 laid bare features of the class struggle for which it is often impossible to find quotable evidence.

Before exploring the four areas of the class struggle set down above, two disclaimers need to be made:

—the examples provided are not the full range of instances available, a fuller treatment would permit the introduction of many more instances of each of these four;

—the four areas chosen are not the only ones available. Here again a fuller treatment would include tariffs, soldier settlement, the Country Party and Imperialist rivalry.

As presented in this essay, capitalism assumes a somewhat fragmented appearance; in a full-length book, the exact inter-connections could be spelled out, more fully.

### **The Need to Maintain Capitalism**

Prime Minister Hughes announced that there would be a second conscription plebiscite on the same day as news arrived of the Bolshevik revolution. From this moment onwards both sides reshaped their arguments about the war around their respective images of Bolshevism. The labour movement gave critical support and looked anxiously to Russia as the starting point of a new world order. This response was neatly put by Maurice Blackburn, editor of *Labor Call*, who told the 1919 Victorian Labor Conference that while 'the great bulk of them were in sympathy with the Russian revolution...the methods of the revolution might cause a considerable difference of opinion'.<sup>4</sup> This reserve over methods in no way lessened Blackburn's enthusiasm for the revolution, whose third anniversary he celebrated in an a lyrical editorial.<sup>5</sup> To the left of Blackburn, groups such as the One Big Union were even more fulsome in their endorsement of Bolshevism and worked towards a similiar system of soviets in Australia.

Thus, well before the war ended in November 1918, Australian capitalism perceived a new threat: international communism. On 23 January 1919 an editorial in the *Industrial Australian and Mining Standard* claimed that 'there is now proceeding throughout the Commonwealth a huge, subtle, and most sinister agitation to undermine the foundations... of society...'. Eight months later, a *Bulletin* editorial compared the situation to the Commune of 1871.<sup>6</sup> Whilst Bolsheviks were seen as the embodiment of disorder, there was widespread agreement that it had been the war which had loosened society's bonds. With a typical flourish, the Prime Minister paraphrased thousands of editorials when he declared in his election policy speech: 'The burning blasts of war have shrivelled, blackened, and destroyed the world we once knew'.<sup>7</sup>

A major source of disruption had been the removal of over 300,000 Australian troops from the capitalist relations of production for periods ranging up to four years. The question was: would they return to the pre-war situation or would they follow the example of so many European soldiers and throw in their lot with the Bolsheviks? Unlikely as it seems to us today after more than fifty years of the RSL, in 1919 returning soldiers were not looked on as a total blessing by the capitalists.<sup>8</sup> Any

inkling of Bolshevik influence brought forth swift retaliation as in the case of the so-called 'mutiny' on H.M.A.S. *Australia*.<sup>9</sup> A major problem facing the capitalists was how to reproduce the wages system for the bulk of the returning AIF. This did not simply mean finding employment for them. More important, it involved the re-establishment of all those physical and ideological disciplines essential for the purchase of labour power and for its profitable exploitation. In addition, the workers who had remained in Australia were showing signs of restiveness with the existing relations of production. The One Big Union gained support and the A.L.P. adopted a socialisation objective in 1919. Ideological and physical restraints had to be reproduced and expanded for these workers as well.

Brisbane's Roman Catholic Archbishop, J.J. Duhig, noted that 'injustice to labour on the part of capital is so severely condemned by the Scriptures that it needs no human words to emphasize its perfidy'. Ineffable dread was not sufficient to dissuade labour from its antagonism to capital, and His Grace was obliged to spend a good deal of his 1919 Lenten Pastoral urging the workers to replace their Bolshevism with sobriety and thrift.<sup>10</sup> The fundamental requirement was the maintenance of the private ownership of the means of production. In the practical situation of 1919 this meant the preparation of counter-revolutionary strategy and tactics; and engaging in the struggle for ideological hegemony.

#### *Preparations for counter-revolution*

When the Fisher Labor government introduced the War Precautions Act early in 1915, the party's more progressive members condemned it for making 'martial law supreme over civil law'.<sup>11</sup> This was no exaggeration, and the War Precautions Act became the main legal weapon in capitalism's fight for survival, providing a legal cover for the emergence of an open bourgeois dictatorship. Offences under the Act included:

- Exhibiting the red flag.
- Advocating action calculated to prevent the production of warlike material for purposes connected with the war.
- Making statements prejudicial to recruiting.
- Tearing down recruiting posters.
- Exhibiting disloyalty or hostility to the British Empire.
- Making statements likely to cause disaffection to His Majesty.
- Publishing or printing matter which had not been previously submitted to the Censor.
- Printing matter in such a way as to suggest that the omissions indicated had been due to the action of the Censor.
- Having in possession prohibited publications.
- Making false statements likely to prejudice the judgment of voters in connection with military service referendum.
- Disturbing referendum meetings.
- Showing, in printed matter, alterations made by the Censor.<sup>12</sup>

As the Solicitor-General, Sir Robert Garran, later noted: 'The regulations were mostly expressed widely to make sure that nothing necessary was omitted, and the result soon was that John Citizen was hardly able to lift a finger without coming under the penumbra of some technical offence against the War Precautions Regulations'.<sup>13</sup> These regulations remained in force until the signing of the Peace Treaty in July 1919, when they were mostly duplicated by other specific laws.<sup>14</sup> The War Precautions Regulations allowed the authorities to open and seize mail passing through the Post Office: the evidence of these activities rests today in the 'Suspected Persons' files in the Australian Archives.<sup>15</sup> Telegrams were copied, virtually as a matter of course.<sup>16</sup> The government's intelligence network was nothing if not thorough.

Well before the end of fighting in Europe made it harder for the authorities to use the law against political dissenters, a pattern of semi-official anti-subversive agencies was set up. When the Defence Department's Special Intelligence Bureau suggested the establishment of 'Propaganda and Intelligence Bureaux', Acting Prime Minister, W.A. Watt, presided over a meeting of 'picked citizens' to prepare a scheme for propaganda and for intelligence work.<sup>17</sup> The leading industrialist and erstwhile organiser of the Deakinites, Herbert Brookes, took charge and formed the Australian Defensive League, later known as the Australian Protective League.<sup>18</sup> Brookes kept in touch with F.C. Urquhart, the Queensland Police Commissioner,<sup>19</sup> and with M.H. Ellis<sup>20</sup> who supplied him with information about the dangerous condition of Queensland.<sup>21</sup> Brookes paid agents to infiltrate the Melbourne Trades Hall, the One Big Union, the Victorian Railways Union and the Victorian Police Department.<sup>22</sup> In Queensland, Urquhart had planted a police spy, Richard Brown, in the One Big Union movement,<sup>23</sup> and had someone inside all the executive meetings of the red-flag marchers.<sup>24</sup>

One of the most substantial pieces of evidence of counter-revolutionary preparations for the post-war period refers to a conference held on 18 January 1919, when the Chief of the General Staff, the Inspector of Police in New South Wales and the acting Chief Commissioner in Victoria met to consider the Bolshevik threat. They agreed 'That arrangements should be made quietly for the rapid increase of Police Forces by enrolment of additional and special constables, and by preparation of lists of suitable citizens in every police district...'. The Chief of the General Staff warned that, in the initial stages of any outbreak of Bolshevism, the Army could not be relied upon for any more than

- (a) military material;
- (b) small groups of picked men with machine guns, and
- (c) a few aeroplanes with improvised bombs.

Cabinet approval for recommendations (a) and (b) was obtained three days later.<sup>25</sup> Because Australia's peace-time army has never been very large, volunteers have acquired an important role in all counter-revolutionary planning, as can be seen from the report just quoted. In addition, there were countless appeals to the so-called 'middle-class' to get or-

ganised. *Smith's Weekly* led the way with weekly articles on what it called 'The Leaderless Legion', and even published a 'Coupon' which asked people to sign their names and addresses beneath the statement 'I am prepared to support an organised middle class'.<sup>26</sup>

Far more important was the actual organisation of para-military forces. During the red-flag riots in Brisbane on 23 and 24 March 1919, an anti-Bolshevik Society was launched at a mass meeting of ex-soldiers.<sup>27</sup> A week later, Lt Keith Murray told a Bundaberg meeting that a vigilance committee had been formed in Brisbane and was backed by people with money; £15,000 was available 'tomorrow if needed'.<sup>28</sup> On 6 April 1919, the R.S.S.I.L. organised a returned soldiers' army of 2,000 in Brisbane which was divided into suburban units.<sup>29</sup> During the July riots in Melbourne, the Mayors of Coburg and Brighton called meetings to enlist special constables.<sup>30</sup> Although documentary evidence is not available, it is possible that the 'White Guard', under the command of General White, was formed at this time. In Perth late in 1920, General Sir Talbot Hobbs declared that returned soldiers there were organised, ready and willing to deal with any seditious challenge.<sup>31</sup>

One of the tactics employed to quell the three days of riots in Melbourne, 19-21 July 1919, was the calling of a parade of ex-servicemen in the gardens opposite Victoria Barracks in St Kilda road. Here the men were formed into their old platoons and drilled by their sergeants, while their Generals walked from section to section urging the men to uphold law and order. This is a particularly significant event in regard to the need to reproduce constantly the relations of production. Many of the returned soldiers had not yet returned to work. Others were out of work because of strikes. All had been outside the capitalist relations of production for some time because of their war service. This meant that they had been free of the day-to-day adjustments demanded by the very fact of working for wages. To make up for the loss of work discipline, the discipline of the parade ground was called upon. This emergency measure revealed a good deal about the system whose 'normal' functioning it momentarily replaced.<sup>32</sup>

Whenever soldiers clashed with 'Bolsheviks', their efforts were cheered on by the press. The Brisbane *Courier* enthused over the soldiers who attacked the offices of the Labor party's *Daily Standard* under the headlines of 'Exciting Street Scenes' and 'A Lesson in Respect'.<sup>23</sup> Whenever such soldiers came before the courts, the sentences passed on them were the lightest possible. After the red flag riots in Brisbane, thirteen 'Bolsheviks' were sentenced to the maximum of six months for carrying red flags. Three anti-Bolsheviks were charged with crimes including the attempted shooting of a policeman, but were acquitted or merely fined.<sup>34</sup> At Ararat, six soldiers pleaded guilty to a charge of common assault after they had tarred and feathered an ex-Labor member of parliament whose anti-Boer War poem had been reprinted in 1915.<sup>35</sup> In sentencing the men, 'His Honor [Judge Williams] said he was very sorry to see the young men in the position they were. He intended to deal as leniently

with them as possible, as the accused had acted under great provocation ...'.<sup>36</sup>

Thus, from the few files which are open and accessible, it is clear that Australia's state apparatuses were fully geared to deal with any possible insurrectionary movement. Police spies and paramilitary bodies backed up the alerted organs of class repression—the courts, the police and the armed forces: there was no doubt in the minds of capitalism's ruling strata that political power was preserved through a gun barrel.

### *The Struggle for Ideological Hegemony*

Bourgeois ideologues were particularly keen to combat the near-universal sympathy for the Bolsheviks that existed within the Australian labour movement, which was itself far more militant than usual and hence open to revolutionary influences. In addition, Bolshevism had to be explained to the bourgeoisie and petit-bourgeoisie. Inevitably, the anti-Bolshevik propaganda intended for these classes became mixed up with that directed towards the labour movement. In general, anti-Bolshevik material portrayed Bolsheviks as dehumanised, disloyal and destructive. Binding all these together was their threat to property. Frequent references were made to soap as a cure for Bolshevism,<sup>37</sup> with an overseas article reprinted here describing Trotsky as 'Dirty, unkempt, with coal black nails, a ragged collar, and hair which suggested that it had not been combed for a year...'.<sup>38</sup> An editorial in Perth's *Sunday Times* identified Bolshevism as 'the refuge of the unfit, the hope of the loafer and the gin-case orator...'.<sup>39</sup> An essential part of this style of argument was the continuous allegation that Bolsheviks regarded women as national property and had abolished celibacy in the interests of class equality by setting up bureaux of free love staffed by the daughters of the middle-class for the pleasure of the lowest social elements.<sup>40</sup> Far from being crude misrepresentations, such charges appealed to that sense of decency which the bourgeoisie associated with their own dominance, and to which 'the better type of worker', and especially his womenfolk, were encouraged to aspire. By picturing Bolsheviks as unwashed, bourgeois ideologues played upon the just demands of the working class for improved living and working conditions. Dismissing such propaganda as 'irrational' misses the whole point of how capitalism has tried to identify itself with all that is wholesome and moral.

The quest for horrible ways in which to present Bolshevism led several writers to compare it with the 'Spanish Flu' epidemic as a terror of equal proportions. One noted that, in the past, epidemics of disease coincided with moral and social upheavals: just as today 'the mysterious physical poison of influenza' appeared at the same time as 'a vast deluge of moral and physical poison, under the name of Bolshevism'.<sup>41</sup> The magazine, *Soldier*, carried this seemingly more light-hearted piece:

Bolshevik pneumonia is a disease of the brain...[and] is a great danger in crowds, where pieces of red rag become impregnated with anti-billhughes

gas inhalant, causing a violent irritation of the articulatory glands, which produces a sneezing effect, and makes the sufferer appear to be talking Russian.<sup>42</sup>

Ridicule was especially effective because it depended on an identifiable if concealed rationality. Ideas attacked in this way were disadvantaged from the start by being cut off from their intellectual bases; they are thus defined as insane, ludicrous and bizarre. The main aim of political satire is not to gain converts, but to reinforce the certainty of the converted, and to approve the use of violence against those ridiculed because they are beyond the reach of logic. To understand what was meant by 'Disloyal' it is necessary to realise what it meant to be 'British' and what the 'Empire' meant. All three were well explained during a 1915 series of War Lectures given for the public by professors at Melbourne University. Germany was not condemned outright; rather its vices were seen as virtues mishandled because Germans lacked the one essential virtue of being 'British'. According to the Classics Professor, T.G. Tucker, 'British' was 'a universal virtue which, if carried out to the full, would supersede all the law and prophets, and render all government injunctions and prohibitions unnecessary and all social codes futile...'.<sup>43</sup> Just as the Empire did not stop with political and economic considerations, so too did it extend beyond the ethical into personal relationships and daily habits. In a contrast of British and German ideas, the Professor of Physiology, W.A. Osborne, claimed to recognise the deficiency of the German 'in his table manners, and his conduct of war, in his literary criticisms and in the formalism which constricts his educational system, in his person, in his home and in his morals'.<sup>44</sup> Frederic Eggleston bore witness that 'The Empire is not merely a racial or a national fabric—its strength is that it performs for its citizens and for the world generally certain indispensable social and ethical services'. Its maintenance was 'the hope of progress towards more justice in human relationships, and away from the barbarism and tyranny of the past ...'. Eggleston endorsed the view of Empire as a law of social gravity by calling it 'a stabiliser of contending forces' since its 'gigantic system of freedom and peace...[was]...not enjoyed by the Empire alone', but extended all over the world.<sup>45</sup>

Bolshevism had betrayed this grand design by making a separate peace with Germany early in 1918. Sinn Fein had stabbed the Empire in the back with its Easter Uprising in 1916 and its subsequent rebellion. The links between atheistic communists and Papists were obvious once the common denominator of their 'Disloyalty' to the Empire was recognised, as it was by men like Herbert Brookes, a leading political and business figure, who decided in 1918 to devote half of his waking life, backed by his considerable fortune, to the Protestant cause because 'Everything we hold dear for our children's sake is at stake. The genius of England, Scotland and Wales for freedom, justice and fair play is challenged, is endangered'.<sup>46</sup> Brookes financed a weekly paper, the

*Vigilant*, and a group of Loyalist Leagues throughout Australia to oppose the 'Bolshevism' of Mannix and his crew. 'Loyalty', like 'Disloyalty', extended far beyond considerations of international politics. From their very beginnings in 1918, the propaganda of the Loyalty Leagues was specifically anti-Bolshevik, for as their Victorian secretary assured Brookes, 'the Bolshevik and the Sinn Fein organisations are out against all constituted authority and primarily their method is the murder of the wealthy people and confiscation of their possessions'.<sup>47</sup>

From this definition of 'Disloyalty' it was no distance to deciding that Bolshevism was the unchaining of Anarchy with its watchword 'Destroy!' And the target of this destruction was capital, in place of which, a prominent parson claimed, Communism would put theft, plunder, chaos, collapse and destructive revolution.<sup>49</sup> To Sir Henry Braddon, past-President of the Employers Federation, 'the communist's main desire was to wreck society, in the hope of securing something for himself in the scramble'.<sup>50</sup> At a time when the dominance of capital was so blatantly threatened, there was little point in always concealing what capitalism was trying to defend. Consequently, its propagandists were often surprisingly frank in their defence of private property as the cornerstone of civilisation. The despised ethic of materialism took the place of appeals to freedom, reason and morality in more than one sermon.

Anti-Bolshevik material was directed almost entirely against domestic Bolsheviks even when the news item dealt with events in Europe. Though not always referred to openly, the consistent charge against Bolshevism was its attack on property. According to an editorial in the *Industrial Australian*, 'The appeal of the Bolsheviks...is exclusively addressed to the cupidity and ignorance of the "have-nots"...They are out to appropriate, to ruin, to destroy every man who owns a cottage or "uses a tooth brush"'.<sup>51</sup> For the Brisbane *Courier*, Bolshevism was an attack on 'political equality, the freedom of speech, the law and order, the security of life and limb, and the control of individual possessions—the workman's cottage, not less than the rich man's mansion...'.<sup>52</sup>

When the New South Wales Presbyterian weekly editorialised against the Bolsheviks it made perfectly clear its equation of 'social order' with the defence of 'private property in the soil and in the means of production'.<sup>53</sup> This near-explicit distinction between productive and non-productive property was very unusual and occurred only because the leader writer had just been quoting from Soviet documents. Further indication of the 'defence of property' theme was provided in the reassuring articles in *Punch* and the *Bulletin* that the Australian workers possessed too many household Gods to go Bolshevik.<sup>54</sup> Anti-Bolshevik propaganda was designed to provide an ideological defence for the private ownership of productive property.

### **Maintaining the Rate of Exploitation**

The reason for securing capitalist relations of production is not for any intrinsic sense of power. It is so that the expropriation of surplus

value can continue at as great a rate as the workers are prepared to tolerate, or are incapable of resisting. The testing ground for the rate of exploitation is initially the point of production where disputes arise continuously over issues such as the length of tea breaks, sojourns to the toilet and the speed of production generally. From here they can be reproduced as struggles over wages, or they can erupt in their own right. Wages and conditions are really two faces of the one coin since both determine the rate of exploitation of labour power. Capitalists necessarily depend on the apparatuses of the state to make sure that the rate of exploitation is maintained. The state does this by providing capitalists with a range of legally violent sanctions and ideological defences. Some of the specifics of these are the object of our enquiry for the rest of this essay.

### *Governmental strike breaking*

When strikes occur the real relations of production are broken, although not destroyed. For as long as workers refuse to sell their labour power there can be no expropriation, no surplus value, no capital accumulation, no profits, no bonus shares. Since the withdrawal of labour power hits at the very basis of capitalism, the Commonwealth government's belief in 1919 that insurrection would grow out of a strike<sup>55</sup> was sound enough, even if its reasoning was fallacious. It was obliged to confront strikers with state violence, extra-legal as well as legal. The single most important fact to recognise is that there were more days of strikes in 1919 than in any other year in Australian history till the 1970s. In 1919, the total days of strikes amounted to 6.3 million. By contrast, the two years—1917 and 1929—which come closest to the 1919 record, totalled only 4.5 million each. Yet 1919 cannot be artificially isolated from the years around it. To appreciate fully the capitalists' concern at this time, it would be necessary to consider the continuing militancy from 1916 onwards. Other writers have discussed particular strikes in detail and they need not be repeated here.<sup>56</sup> Instead, this segment will concentrate on the essential features of capitalism's responses—open violence and legal repression.

Like so many disputes in the post-war period, the 1919 Fremantle strike had its origins in circumstances which predate 1919. There had been a strike at Fremantle in 1916 which left wharf labourers working for about 25 shillings a week in 1919—a sum which was less than a third of the basic wage. The West Australian government at first tried to break the 1919 strike by using scabs glorified with the title 'Nationalist Unionists'. Pickets fought to keep these gentlemen off the wharves, and the government decided to erect barricades behind which the scabs could work in safety. Naturally the barricades had to be erected by scab labour, and to this end the Premier himself led a contingent of his political supporters from Perth to Fremantle on the morning of Sunday, 4 May.

Their procession was delayed by a barrage of missiles and when

they assembled they were soon driven back until mounted police intervened to hold the line. The pickets regrouped and drove the scabs and their police protectors back once more. Finally, the Premier agreed to take his supporters back to Perth and not to attempt to work the wharves that day. There had been thirty-three casualties — twenty-eight police and seven pickets. Strike meetings promising further physical resistance to the scabs and the police were held in Fremantle and Perth on Sunday afternoon. The fears of the bourgeoisie were well captured in the editorials of the *West Australian* for Monday and Tuesday. Instead of the usual demand for a strong hand against the workers, there were pleas for moderation by the government and for compromise by the ship owners. Perth, the newspaper reasoned, was two days sail from the nearest reinforcement of Commonwealth troops. The strike was settled on the Wednesday, in the strikers' favour.<sup>57</sup> The state apparatus, through the Premier, had organised the bourgeoisie into an assault on the strikers. When this failed the police were called in. When this failed the local state apparatuses were forced to compromise because they were too far from the aid of the army. The Fremantle battle is a most instructive case study of the state as the repressive arm of the capitalists, because it shows both its essential nature and the limitations which it faces.

Open extra-legal violence of the type shown at Fremantle is less successful than the violent sanctions inherent in laws. To this end, the Conciliation and Arbitration Act 1920 brought in amendments which all limited the workers' room for legal manoeuvre. The definition of striking—already illegal—was extended to include unreasonable refusal to accept employment on award terms which meant that it was a crime to strike for improved conditions. The Arbitration Court was given power to alter awards before they expired, that is, to cut into existing standards. A reduction in the standard hours of weekly work henceforth required the deliberations of three judges, not one, which was designed to hamper Higgins. Amendments to the Immigration Act permitted the exclusion or deportation of anarchists, revolutionaries and other trouble-making strike leaders who had not been born in Australia.<sup>58</sup> All these moves were designed to disorganise the working class whilst simultaneously organising the employers around the state apparatuses.

The immediate necessity for further strengthening the capitalists' hand arose from the steep rises in the cost of living in 1919 and 1920. After an enormous leap in 1915, costs were relatively stable for the next three years. But in 1919 and 1920 they rose by about 15 per cent each year.<sup>59</sup> Under the procedures established in 1912, these price increases should have been translated into wage increases. Consequently, the employers argued openly for an end to the assumptions underlying the Harvester judgement. Their representatives on the 1920 Royal Commission into the Basic Wage, hastily submitted a minority report which called explicitly for an end to the system by which the basic wage was tied to the cost of living: in practice, this meant a cut in real wages.<sup>60</sup>

The concern which this Royal Commission caused the bourgeoisie was evident on every hand, especially after its report appeared. Herbert Brookes, President of the Board of Trade, wrote to a colleague: 'We feel here that we are dwelling on the edge of a volcano now that the Basic Wage Commissioner's report has been published'.<sup>61</sup> The government was so perturbed that the Nationalist Party caucus met three times in one week to discuss their attitude.<sup>62</sup> Although a substantial part of the recommended increase in the basic wage was granted, and real wages were higher than in any year since 1900,<sup>63</sup> Australian capitalism was saved from the full force of the Basic Wage Royal Commission because the workers' power to fight was being undermined by unemployment in excess of 11 per cent,<sup>64</sup> and by changes to the industrial laws.

Employers' attitudes towards working class militancy changed as the relative fortunes of each class rose and fell. In general, capitalists moved from tremulous conciliation in 1919 to outright aggression by 1921. W.L. Baillieu was so 'frightfully disturbed about the Socialist and Bolshevik outlook'<sup>65</sup> that, on 26 February 1919, a letter from him appeared on the front page of the Melbourne newspaper, the *Herald*, which he owned. Baillieu suggested that Hughes should call for co-operation between Labor and Capital as part of the Peace settlement; in particular, he sought consultative councils of employers and workers. The scheme was enthusiastically taken up by other capitalists and by various state apparatuses,<sup>66</sup> but was rejected by the labour movement.

Once the returned soldiers had shown themselves to be anything but Bolsheviks, and the election results had demonstrated the safe political temper of the population at large, the bourgeoisie felt confident enough to adopt more aggressive tactics. Throughout 1920, the major problem facing the Commonwealth government was how to get rid of Mr Justice Higgins<sup>67</sup> whom they rightly feared would grant a forty-four hour week and increased margins. As a High Court judge, Higgins had life tenure, but his Presidency of the Arbitration Court was due to expire in 1922. The capitalists could not afford to wait two years,<sup>68</sup> and so their agents amended the industrial system in ways so offensive to him that he took no new cases after September 1920, preparatory to quitting the Arbitration Court entirely in the following June. The awards that he brought down in the final months of his Presidency were quickly watered down by his successor, Mr Justice Powers. In 1925, Powers wrote to the Attorney-General asking for a knighthood and specifically mentioned his blocking of the Basic Wage Royal Commission's findings, his restoration of the forty-eight hour week and his cutting of 12/- per week off fitters and turners' wages:

All these were very unpleasant duties but necessary in the interests of the Commonwealth...Imagine for 11 years refusing requests to increase the basic wage...Where men have families of more than two it is hard work to insist on them getting only the basic wage...<sup>69</sup>

Powers unavailingly pleaded that such devoted public services, and the

worry which they had caused him, more than warranted the reward of a knighthood.

Even the replacement of the independently-minded Higgins with the totally lick-spittle Powers could not satisfy the capitalists' needs, as they encountered the post-war depression in 1921. Their solution was to 'abolish the Arbitration Court for a period',<sup>70</sup> a solution to which Hughes was tempted.<sup>71</sup> Under the leadership men such as BHP's retired managing-director, G.D. Delprat, a Single Purpose League was established with the aim of abolishing compulsory arbitration.<sup>72</sup> Most political representatives of the capitalists preferred to fight the class struggle within the confines of a state apparatus (the Arbitration system), rather than have to slog it out in open conflict. To this end, the Commonwealth spent a good deal of its energies in the 1920s devising means of stacking the legal deck in the employers' favour.

### *Producing the 'profiteer'*

So far, numerous instances showing the immediacy of class struggle have been presented. These illustrate the economic, political and social features of the post- Great War period, and simultaneously serve as the necessary prerequisite for an investigation of the production of an ideological defence of the rate of exploitation, namely, the 1919-21 campaign against the elusive 'profiteer'. For a particular piece of ideology to be understood correctly, it must be reinserted into the social practices through which it developed. Our analysis of this particular instance of ideological production will be organised under four headings:

1. The governments' anti- profiteer campaign;
2. The etymological and social origins of profiteering;
3. Profiteering's congruence with longer-standing ideological defences of capitalism;
4. The dominance of the manufacturing fraction at the political level.

### THE GOVERNMENT'S CAMPAIGN

The campaign against the profiteer was woven into every political activity. Long before its first public endorsement by the Prime Minister tied it to anti-Bolshevism, 'profiteers' were presented as the root cause of Bolshevism.<sup>73</sup> Anti-profiteering legislation was enacted in each of the five mainland states; and it was the central argument advanced for the alteration of the Constitution to give the Commonwealth government temporary power over prices.<sup>74</sup> According to the leader of the Federal Parliamentary Labor Party, Frank Tudor, profiteering was the 'most vital question' of the 1919 election;<sup>75</sup> his party had moved several censure motions and amendments on the question.<sup>76</sup> The Inter-State Commission prepared twelve reports on wartime price-fixing and profiteering.<sup>77</sup> In 1919, Hughes wanted to set up a Royal Commission and, in 1920, a Court of Commerce, to investigate and deal with the problem, but was frustrated by opposition from within his own government.<sup>78</sup>

The Victorian government appointed a Royal Commission in August, 1919, which prepared five reports before the end of the year.<sup>79</sup> Much of this investigative work was a surrogate for hard action, but the need for so many diversions is a testament to the depth of public concern at the rising cost of living.

#### THE ORIGINS OF PROFITEERING

So what was a 'profiteer'? There are two possible answers. First, there is the definition used by the framers of legislation where a typical form of words alleged that 'profiteering' was the charging of:

A price far in excess of the amount which might reasonably be claimed (after due allowance for abnormal conditions), having regard to the ratio of profit customarily asked or expected by fair traders or dealers in the case of a like article or commodity prior to the 31st day of July, One thousand nine hundred and fourteen.<sup>80</sup>

What this meant in practice was almost always vaguely defined. Indeed, vagueness was central to the campaign. The reason for this deliberate imprecision will be clear once a different way of defining profiteering is employed. This definition will not be a dictionary-style one, but one derived from the reasons for the production of this particular piece of ideology. This second definition is the crux of this final segment of the essay.

Before proceeding, it is important to point out that this segment is not concerned with the truth of allegations about profiteering. That would require another essay entirely. What concerns us here is the ideology of 'anti-profiteering', not the practice of profiteering itself. There are two ways of pursuing the origins of the 'profiteer' as an ideology. One is to trace the appearance, spread and adaptation of the word in question. This approach has value, but largely only in so far as it elucidates the second method of pursuit, namely, the identification of the exact social practices with which 'profiteering' was expected to cope. Though 'profiteer' first appeared during the wars of the 1790s the word fell into disuse, and did not regain currency until the latter half of the Great European War.<sup>81</sup> For example, it was not used in 1915 when it would have enabled politicians to avoid circumlocutions such as 'the rapacity of the cornerers of food supplies' and 'the takers of high profits'.<sup>82</sup> 'Profiteering', as an expression, started to become popular in 1917. One measure, *The Times Index*, shows it having a fitful existence of fewer than a dozen mentions in 1917 and not really becoming a major heading until 1919. Its first appearance in the Caucus Minutes of the Federal Parliamentary Labor Party was on 2 August 1917, and it was sprinkled through parliamentary debates in 1918.<sup>83</sup> *The Argus Index* lists three references for the last third of 1918 and then no more until July 1919, when Hughes promised to shoot the 'profiteer'. Certainly, speakers in the Victorian parliament of late 1919 remarked upon its novelty, as well as upon its recent ubiquity. One member claimed that

profiteer had replaced the pre-war term 'speculator',<sup>84</sup> while another noted that it had 'become a household word...used in every part of the globe'.<sup>85</sup> From even this fleeting examination of the re-emergence of the word 'profiteer', it is clear enough that it was the product of a particular conjuncture. To define 'profiteer', it will be necessary to locate the features of that conjuncture in more detail than the preceding three segments have done already. Nonetheless, it remains a partial account.

Briefly, the most important single feature was that the cost of living in Australia had risen by 62 per cent between 1913 and 1920, while wages had increased by only 51 per cent. More particularly, between March 1919 and January 1920, the wholesale price index rose by nearly 20 per cent.<sup>86</sup> One line of descent from these facts to the ideology of 'profiteering' was spelled out in Hughes' policy speech where it was argued that 'profiteering' and industrial unrest both arose from the 'lack of wealth' for which the cure was more production, but this could come only from industrial peace, and so a Royal Commission into the Basic Wage was to be established since wage demands were caused by price increases.<sup>87</sup> Or, as Hughes put it in his speech to the House of Representatives on the Constitution Alteration Bill:

So we see that these three things—industrial unrest, the high cost of living, and the scarcity of raw materials and other necessities, that is to say, of wealth—are intimately related one to the other. Each reacts on the others. Each is the cause of both the others, and an effect of both the others. The high cost of living helps to cause industrial unrest; industrial unrest is fatal to production, and helps to cause the high cost of living. The scarcity of necessities contributes to the high cost of living, and to industrial unrest, and so on in a vicious circle, and in and out through the warp and woof runs the trail of the profiteer, who takes unfair advantage, for his personal greed, of the abnormal and unsettled condition of the world.

Despite the web which Hughes wove, he did not leave matters at this confused aetiology, and within another two paragraphs he had selected a determinate cause: 'So we come back again, by whatever road we travel, to the central problem of all—the problem of industrial peace'.<sup>88</sup>

Victoria's Premier, Lawson, was even more explicit when he introduced his Necessary Commodities Control Bill. Noting the impact of war on production, he argued that lower production had resulted in shortages which the 'greedy' take advantage of, before stressing the need for increased production through industrial peace, that is, no strikes.<sup>89</sup> E.W. Greenwood, MLA for Boroondara, and acknowledged spokesman in the Legislative Assembly for the commercial fraction, defended his fellow traders against allegations of criminal profiteering with an attack on 'another crime against any community which is as serious, and that is the number of strikes which are occurring'.<sup>90</sup> So, as well as defending capitalists from charges of profiteering by segregating capitalism from 'profiteers', the 'anti-profiteering' campaign was a stalking horse for intensifying legal attacks upon the working classes' defence of their real wages.

To sum up: the purpose of all bourgeois ideology is twofold—to help defend the property rights of the Capitalists, and to assist in their expropriation of surplus value. ‘Anti-profiteering’ did both simultaneously at a time when property rights were under pressure from Bolsheviks, and when inflation was undermining real wages, thus forcing the proletariat into increased demands. The need for a target other than the capitalists themselves was consequently very much in evidence. ‘Profiteering’ was presented as a very special category of economic activity, and despite its name did not refer to the normal practice of making a profit, but was presented as something external to the normal functioning of the capitalist system. The ‘profiteer’ supposedly exploited the capitalist just as much as he exploited the worker or the parson’s widow. In Premier Lawson’s words, ‘There are black sheep in every flock, and we are introducing this Bill to get at the black sheep’.<sup>91</sup>

#### CONGRUENCE WITH LONGER-STANDING DEFENCES

Attacks on ‘profiteers’ fitted into both populist objections to capitalism, and into the Marshallian school of economic thought. This was not because disembodied ideas fitted together, but because all three ideas were part of the mystification of capitalist relations of production. The persuasiveness of ‘anti-profiteering’ was partly due to its ability to reproduce such widely accepted propositions as populism, and marginal utility, in a concrete situation. Broadly speaking, populism assured the endorsement of ‘profiteering’ by the labour movement, and marginal utility by the Right. Necessarily difficult to define, the pre-eminent characteristic of a populist appeal is its rallying of the overwhelming majority of the people into an undifferentiated alliance against a tiny handful of enemies. Profiteers temporarily took over from the ‘money power’ in Labor’s rhetoric.<sup>92</sup> Typical was the pre-election advertisement headed ‘The People’s Manifesto’ which pictured ‘The strong right arm of every honest man and woman’ using their franchise to write: ‘Down with the Profiteer!’—where else?—in the sky.<sup>93</sup> Tudor’s endorsement of ‘profiteering’ as the ‘most vital question of the present election’ did not signify his satisfaction with the way the Nationalists proposed to deal with it, and a special Federal Labor Conference in October 1919 declared that ‘the referendum proposals...are merely intended to mislead the electors’.<sup>94</sup> Yet neither did Labor’s firmer resolve to end profiteering extend to ending profit-taking as such, no matter how fondly this may have been desired by the party’s more radical spirits. Although the Labor leaders expanded the definition of profiteering to include a large body of well-known capitalists, Labor’s plan for them stopped well short of their expropriation.<sup>95</sup>

The relationship between the ideology of ‘profiteering’ and the ideology of marginal utility was less direct than it was for populism. Despite one member’s attempt to remind the Victorian Legislative Council that ‘the Law of supply and demand is inexorable’ against Sir Frank

Clarke's 'never-ceasing astonishment' at its 'apparent failure',<sup>96</sup> the contribution of the marginal utility school to 'anti-profiteering' was not at the level of articulate debate, but rather in the way in which marginal utility presented price as being determined solely in the processes of distribution. 'Profiteering' was seen as a dislocation of this natural process which required Government intervention to restore. Even Bruce Smith, that paragon of *laissez faire*, supported the Constitutional Amendments because he believed that 'profiteering' resulted from 'the hysterical condition of the people' which prevented them from seeing the true value of commodities to the extent that they actually revelled in paying exorbitant prices.<sup>97</sup> Marginal utility thinking also assisted in making 'anti-profiteering' more amenable to the interests of the manufacturing fraction of the bourgeoisie, precisely because it concentrated on prices being determined in the realm of distribution, and not in production.

Showing something of the connections between 'anti-profiteering', and populism and marginal utility analysis, reveals the nature of Marxist intellectual history which treats ideas, not as disembodied figments that move from brain to brain across the centuries picking up footnotes as they go, but on the contrary, as being in need of constant reproduction through social practices. Consequently, there is no such thing as a Marxist history of ideas, since ideas cannot have a history: it is the relationship of ideas to social practices which has a history.

#### POLITICAL DOMINANCE OF THE MANUFACTURING FRACTION

One of the important things to note about the anti-profiteering campaign was that it received the endorsement of segments of the state apparatuses. One might almost go so far as to say that it was produced there. Although most ideology was then produced outside the state apparatuses in Australia, 'anti-profiteering' became an official ideology of the capitalist state. It was not a wild left-wing protest. To appreciate why this was the case, it is essential to consider which fraction of the dominant capitalist class was dominant at the political level around 1919-1921. Although it cannot be proven in the space available here, there are very strong reasons for arguing that the manufacturing fraction was temporarily dominant. Since 'profiteering' had its direct impact on the purchaser, while its most obvious beneficiary was the retailer, manufacturers were better able to hide behind the notion of the 'profiteer' than was the commercial fraction, which was by far the most outspoken in its opposition to the whole campaign. The future Prime Minister, S.M. Bruce, made the distinction between the various fractions of the capitalist class perfectly clear in a long letter to Hughes in which he (Bruce) expressed his strong support for dealing harshly with the 'profiteer':

The great primary industries I would leave unfettered...the secondary industries we should also leave alone...In respect to the distributing traders

and middlemen, I say that immediate action should be taken and that these traders, who are only the servants of the Nation as a whole should be made to carry on their operations on the lines of a reasonable return to them and a fair deal to the people—their masters.<sup>99</sup>

A discussion of tariffs could show that their introduction indicated that the manufacturing fraction was dominant. This is given further confirmation by the nature of the ideology—‘anti-profiteering’—that was endorsed by the Commonwealth sectors of the state apparatuses; not to mention Hughes’ warm relationship with manufacturers such as W.S. Robinson.<sup>100</sup> The special interest of the manufacturing fraction against ‘foreign profiteers’ was momentarily recalled by Greene in the second reading speech of his Tariff Bill,<sup>101</sup> and more concretely by the New South Wales Labor Attorney-General, E. McTiernan, when BHP’s Delprat called to obtain ‘exemption from Price Fixing for new industries’, and ‘had a very sympathetic reception’.<sup>102</sup> Once the alarm of 1919 abated, even the manufacturing fraction was anxious to disentangle itself from ‘anti-profiteering’ and to get on with the business of making ‘big profits’ which were once more defended as ‘indispensable to industrial progress’.<sup>103</sup>

Dominance by the manufacturing fraction at the political level was not universal throughout the States of the Commonwealth. Tasmania’s Legislative Council rejected anti-profiteering legislation entirely, and Victoria’s Control of Necessary Commodities Bill—a weak affair to start with—was amended almost beyond recognition in committee, and one Councillor claimed at the outset that he could not recall ‘a Bill coming into this House in regard to which honourable members had so little belief’.<sup>104</sup> As Theodore Fink explained to Keith Murdoch. ‘...a Profiteering Court has been created in Victoria, which will go into the retail price of sardines, but leave gas, meat, oil, and all the big things of life severely alone; in fact, there will be complete immunity to any group that subscribes £1,000 for Hughes’ fighting funds. The Labour gibes are quite true’.<sup>105</sup>

So it is important to realise that the ‘profiteer’ was not merely a defensive ideology for capitalism as a whole but was more suited to the fraction of the bourgeoisie which was dominant at the Commonwealth political level; namely, the manufacturers. Even at moments of greatest alarm, the bourgeoisie cannot completely forget its internal divisions. Acute contradictions between classes do not result in an automatic decrease in the contradictions within classes, since the one can intensify the other as the various fractions scramble to survive, and/or prosper.

## Conclusion

To appreciate fully the class repression which grew out of the Great War, it is necessary to recognise the intimate relationship that exists between class struggle, Imperialism and war. Imperialism is the final stage of capitalism, monopoly capitalism; in its efforts to survive, Imperialism necessarily generates wars abroad and reaction at home.

Thus, the demands of war were not separate from the requirements of class struggle. Political, industrial and ideological repression increased during and after the Great War because of the changed nature of capitalism. Naturally, there were peculiarly Australian contours to this striving for reaction at home. The working class had been smashed during the strikes and lockouts of 1890—1894, until it was left with virtually no independent organisation—industrial or political. It is not generally recognised how complete this destruction was. The rebuilding did not even commence until the late 1890s and most of it took place in the decade after 1902. In organisational terms, the working class then outstripped its opponents—with the powerful exception that the Imperialists still had all the state apparatuses, such as arbitration tribunals, police and army. (Capitalism does not have a party, it has the state). In the war years, these state apparatuses were updated to outflank the recent organisational gains of the working class. And the state apparatuses organised around themselves a series of voluntary bodies recruited from the bourgeoisie and petit-bourgeoisie. The war was not an ‘excuse’ used by the Imperialists to tighten the screws on the working class. The economic laws which produced the war were simultaneously driving Imperialism to more open forms of dictatorship, and eventually to fascism.

## NOTES

- 1 N.L.A. MS 2823/46.
  - 2 Colin Forster, ‘Australian Manufacturing and the War of 1914-18’, *Economic Record* 29 (November 1953), p. 216.
  - 3 Ian Turner, *Industrial Labor and Politics* (A.N.U. Press, Canberra, 1965), p. 252.
  - 4 *Labor Call*, 8 May 1919.
  - 5 *Labor Call*, 11 November 1920.
  - 6 *Bulletin*, 21 August 1919.
  - 7 *Argus*, 31 October 1919.
  - 8 See my ‘The Social Character of the New Guard’, *Arena* 40, pp. 81-2.
  - 9 Robert Hyslop, ‘Mutiny on H.M.A.S. *Australia*’, *Public Administration* 24, 3, pp. 284-96.
  - 10 *Freeman’s Journal*, 20 May 1919.
  - 11 *Labor Call*, 20 May 1915.
  - 12 Ernest Scott, *Australia During the War* (Angus & Robertson, Sydney 1936), pp. 145-7.
  - 13 Sir Robert Garran, *Prosper the Commonwealth* (Angus & Robertson, Sydney, 1958), p. 222.
  - 14 G. Sawyer, *Australian Federal Politics and Law, 1901-1929* (M.U.P., Melbourne, 1956), pp. 166-7, 195-6.
  - 15 See, for example, Australian Archives, CP 447/2, SC 292.
  - 16 For example, A.A., CP 447/3, SC 5(1).
  - 17 W.A. Watt to W.M. Hughes, 30 May 1918, N.L.A. MS 1538/133/4.
  - 18 N.L.A. MS 1924/17, and Rohan Rivett, *Australian Citizen* (M.U.P., Melbourne, 1965), p. 57.
  - 19 H. Brookes to F.C. Urquhart, 12 February and 28 June 1919, N.L.A. MS 1924/1 6219, Letter Book, pp. 48, 78.
  - 20 H. Brookes to M.H. Ellis, 29 March 1920, N.L.A. MS 1924/1/6219, Letter Book, p. 143.
- Ellis told the 1949 Victorian Royal Commission into Communism that his career as an anti-communist student began in 1918 at the request of the Commonwealth Directorate of War Propaganda. Cited in V. Rastrick, *The Victorian Royal Commission on Communism 1949-50* (M.A. Thesis, A.N.U., 1973), p. 128.

- 21 Hume Cook recorded that Hughes claimed in 1930, that he had been so fearful of a radical uprising in Queensland, towards the end of the war, that he had dispatched rifles and machine guns, concealed in piano (!) and furniture cases, to loyalist elements there. N.L.A. MS 601/3/76; my thanks to Peter Cochrane for this reference. Kevin Fewster drew my attention to a file on T.J. Ryan's alleged disloyal associations, in which the conservatives' fear of a radical 'conspiracy' to seize power in Queensland late in November 1917 is spelt out. A.A., B 197 2021/1/270.
- 22 N.L.A. MS 1924/17.
- 23 Constable A.E. Shersby to E.G. Theodore, 25 March 1919, Gall Papers, Q.S.A., cited in T. Botham, *The Red Flag Riots: Conservative Reactions* (B.A. Hons Thesis, A.N.U., 1975), p. 10n.
- 24 A.A., CP 447/3, SC 5 (1).
- 25 A.A., CP 447/2, SC 294.
- 26 *Smith's Weekly*, 12 July, 9 August and 'Editorial', 22 November 1919.
- 27 *Courier*, 24 March 1919.
- 28 *Courier*, 2 April 1919. It is more than probable that the organisation had been established before the red-flag riots, and that it in fact engineered them. See F.C. Urquhart to H. Brookes, 23 February 1919, N.L.A. MS 1924/1; and A.A., CP 447/3, SC 5(1), Capt. Stable to W.A. Watt, 9 February 1919.
- 29 *Courier*, 7 April 1919.
- 30 *Argus*, 23 July 1919.
- 31 *Western Argus* (Kalgoorlie), 16 November 1920, cited by Tony Baker, Hugh Mahon's Expulsion from Parliament (B.A. Hons. Thesis, A.N.U., 1967), p. 19.
- 32 *Argus*, 24 July 1919.
- 33 *Courier*, 26 March 1919.
- 34 *Courier*, 21 May 1919; *Worker*, 10 April 1919.
- 35 *Labor Call*, 14 January 1915.
- 36 *Ararat Advertiser*, 12 February 1920.
- 37 *Punch* (Melbourne), 2 January 1919 and *Australasian*, 5 July 1919.
- 38 *Freeman's Journal*, 20 March 1919.
- 39 *Sunday Times*, 13 April 1919.
- 40 *Messenger*, 23 May 1919; see also *Nationalist Speakers Handbook*, No. 1 (Melbourne; probably printed 1919), p. 34, and *Triad*, March 1920, pp. 44-6.
- 41 B. Hoare, *The Two Plagues* (Progressive and Economic Association, Melbourne, 1919), pp. 1-2; see my 'The Spanish Influenza Pandemic in Australia, 1918-19', in Jill Roe (ed.), *Social Policy in Australia, Some Perspectives, 1901-1975* (Cassell, Melbourne, 1976), pp. 131-47.
- 42 *Soldier*, 14 February 1919.
- 43 *Melbourne University in War Lectures*, (George Robertson, Melbourne 1915), pp. 5-6.
- 44 *ibid.*, pp. 70-71.
- 45 *ibid.*, pp. 29, 32, 34.
- 46 Cited in R. Rivett, *op. cit.*, pp. 69-71.
- 47 E.D. Patterson to H. Brookes, 8 March 1920, N.L.A. MS 1924/21.
- 48 Captain Thos. W. White to W.M. Hughes, N.L.A. MS 1538/118/5 and *Messenger*, 23 May 1919.
- 49 T.E. Ruth, *Playing the Game*. (Constable, Sydney, 1925), p. 221. Later in this sermon, Ruth defended capitalism by pointing out that even Christ 'had a treasurer in his little company', but forgot to say that his name was Judas Iscariot.
- 50 Sir Henry Braddon, *Essays and Addresses* (Angus & Robertson, Sydney, 1930), pp. 178-9.
- 51 *Industrial Australian and Mining Standard*, 23 January 1919.
- 52 *Courier*, 18 March 1919.
- 53 *Messenger*, 23 May 1919.
- 54 *Punch*, 23 January 1919, and *Bulletin*, 3 April 1919.
- 55 A.A., CP 447/2, SC 294.
- 56 G.E. Caiden, 'The strike of Commonwealth Public Servants in 1919', *Public Administration* 21, 3 (September 1962), pp. 262-74; and 22, 3 (September 1963), pp. 295-9; John Iremonger *et al.*, (edd.), *Strikes* (Angus & Robertson, Sydney, 1973), pp. 51-127; Julius Roe, *Companies, Prices and Pressures: The Broken Hill Strike 1919-1920* (B.A. Hons. Thesis, A.N.U., 1974); and Ian Turner, *op. cit.*, pp. 182-202.
- 57 *West Australian*, 5-8 May 1919; *Daily News*, 5 May 1919; and *The Fremantle Wharf Crisis of 1919*. (Western Australian Worker, Perth, 1920); B.K. de Garis, 'An Incident at Fremantle', *Labour History*, 10 (May 1966), pp. 32-7.
- 58 G. Sawyer, *op. cit.*, pp. 195-6.

- 59 D.B. Copland, 'The Economic Situation in Australia, 1918-1923', *Economic Journal* 34, 1, (March 1924), pp. 32-51.
- 60 C.P.P., 1920-1, IV, pp. 589-590.
- 61 H. Brookes to Mr White, 6 December 1920, N.L.A. MS 1924/1/6219, Letter Book, p. 241.
- 62 N.L.A. MS 213/12/1; see also Cabinet discussions, N.L.A. MS 1538/155/1.
- 63 D.B. Copland, 'The Trade Depression in Australia in Relation to Economic Thought', *A.A.A.S. Report* (1923), p. 574n.
- 64 A.A., C.R.S. A 457/P 303/4.
- 65 T. Fink to K. Murdoch, 2 April 1919, N.L.A. MS 2823/50.
- 66 The Australian Chamber of Manufacturers held a Special Conference on 'Profit-Sharing and Co-partnership' on 15 August 1919, N.L.A. MS 1924/15; W.A. Watt to W.M. Hughes, 22 March 1919, A.A. C.R.S. A2/1920/763.
- 67 It should not be assumed that Higgins was a traitor to his class. His differences with Hughes were over the best tactics for preserving capitalism. He was particularly opposed to Hughes' willingness to give in to strikers in order to gain some short term advantage. As one of Gramsci's 'organic intellectuals', Higgins was concerned to maintain the rule of law. See H.B. Higgins, *A New Province for Law and Order* (W.E.A., Sydney, 1922), pp. 78, 85-6, 93.
- 68 See, as examples, Hughes' outburst in C.P.D., H. of R., 91, 28 April 1920, p. 1532; the letter from the general manager of Adelaide's Municipal Tramways Trust claiming that Higgins had 'prostituted his position as a judge', W.G.T. Goodman to W.M. Hughes, 6 May 1920, N.L.A. MS 1538/136/9; *Argus*, editorials 24 February and 17 March 1920.
- 69 Chas Powers to L. Groom, 16 April 1925, N.L.A. MS 236/2/851-4. Sir Owen Dixon, CJ, remarked that it was not until he heard Powers, J. deliver a judgement on Constitutional law that he, Dixon, fully grasped the meaning of *ultra vires*.
- 70 *Courier*, 21 December 1920, cited by Glen Lewis, *A History of the Ports of Queensland*. (University of Queensland Press, St Lucia, 1973), p. 321.
- 71 Cabinet Minutes, 13 April 1920, N.L.A. MS 1538/155.
- 72 P. Mawson, *A Vision of Steel* (Cheshire, Melbourne, 1958), pp. 216-19.
- 73 *Messenger*, 11 April 1919; *Smith's Weekly*, 1 March 1919; Rev. E.N. Merrington, 'The Greatest Australian Interest', *Australian Journal of Psychology and Philosophy* (1923), p. 54; cartoons in *Smith's Weekly*, 6 July 1919 and *Bulletin*, 3 July 1919. *Smith's Weekly*, 27 September 1991, ran a doggerel 'The Bolshveer and Profitik'.
- 74 B. Berzins, 'Symbolic Legislation: Nationalists and Anti-Profiteering', *Politics* 6, 1 (May 1971), pp. 42-52; Conrad Joyner, 'W.M. Hughes and the 'Powers' Referendum of 1919: A Master Politician at Work', *Australian Journal of Politics and History* 5, 1 (May 1959), pp. 15-23.
- 75 *Argus*, 6 November 1919.
- 76 Patrick Weller (ed.), *Caucus Minutes, 1901-1949* (M.U.P., Melbourne, 1975). vol. 2, 1917-1931, pp. 81, 85, 93-4, and 102.
- 77 C.P.P., 1917-19, V, pp. 77-502.
- 78 A.A., C.R.S. A2 1919/3638; T. Fink to K. Murdoch, 25 August and 20 September 1919, N.L.A. MS 2823/51.
- 79 V.P.P., 1919, II, pp. 373-437.
- 80 *ibid.*, p. 374.
- 81 *Shorter Oxford English Dictionary* (Clarendon Press, Oxford, 1973); and *Encyclopaedia of Social Sciences* (Macmillan, New York, 1954), vol. 11, pp. 492-5.  
The pursuit of 'keywords' for historical investigation is rare in English speaking countries, and especially so in Australia. This reluctance is grounded in the positivist approach to sources which treats the written word as 'the fact' and is hence incapable of interrogating its historical status. Some guidance can be obtained from R. Williams, *Keywords* (Fontana, London, 1976), and Lucien Febvre, *A New Kind of History* (Harper and Row, New York, 1973), pp. 208-67. Australian 'keywords' worthy of investigation include the inter-changeability of pal, mate, cobber and digger; home (referring to England); and suburban (in its derogatory cultural sense).
- 82 P. Weller, *op. cit.*, vol. 1, 1901-1917, p. 406, and *Daily Standard*, 13 August 1915.
- 83 Ernest Scott claimed that its first recorded mention in the Commonwealth parliament was not until 17 April 1918, see his *op. cit.*, p. 653; cf. *N.S.W. P.D.*, 71, 20 June 1918, pp. 234 and 242 where it is used in passing puzzlement.
- 84 *V.P.D.*, Leg. Council, 153, 19 November 1919, p. 2432. Some years earlier, another Councillor observed: 'When a man enters into a speculation in a business way he is on a higher plane than a man who merely bets'. (*ibid.*, 114, 27 September 1906, p. 1759).

- 85 *V.P.D.*, Leg. Ass., 153, 28 October 1919, p. 1975.
- 86 Copland, 'The Trade Depression in Australia in Relation to Economic Thought', *A.A.A.S. Report* (1923), pp. 573-4, 563.
- 87 *Argus*, 31 October 1919.
- 88 *C.P.D.*, H. of R., 90, 1 October 1919, p. 12845. See also *Home* editorial, September 1920.
- 89 *V.P.D.*, Leg. Ass., 153, 21 October 1919, pp. 1803-4.
- 90 *V.P.D.*, Leg. Ass., 153, 28 October 1919, p. 1969.
- 91 *V.P.D.*, Leg. Ass., 153, 21 October 1919, p. 1812.
- 92 See my 'Glory without Power', in John Playford & Doug Kirsner (edd.), *Australian Capitalism* (Penguin, Ringwood, 1972), pp. 365-7.
- 93 *Worker* (Brisbane) 27 November 1919, and editorials for 2 October, 13 November and 4 December 1919.
- 94 *ALP Special Conference Report*, 1919, pp. 10-12.
- 95 *Q.P.D.*, 123, 22 October 1919, pp. 1494-1507.
- 96 *V.P.D.*, 153, 25 November 1919, p. 2559 and 11 November 1919, p. 2186.
- 97 *C.P.D.*, H. of R., 90, 2 October 1919, p. 12949.
- 98 M. Dobb, 'The Trend of Modern Economics', in E.K. Hunt & Jesse G. Schwartz (edd.), *A Critique of Economic Theory* (Penguin, Harmondsworth; 1972), pp. 39-82.
- 99 S.M. Bruce to W.M. Hughes, 17 October 1919, N.L.A. MS 1538/136/1.
- 100 W.S. Robinson, *If I Remember Rightly* (Cheshire, Melbourne, 1967), pp. 80-96. The Hughes papers are full of long letters from 'W.S.' who presumably collected most of the £25,000 gratuity which Hughes received in 1920.
- 101 *C.P.D.*, H. of R., 91, 24 March 1920, p. 704.
- 102 Diary entries, 2, 13 and 15 November 1920, N.L.A. MS 1630/15.
- 103 *Industrial Australian and Mining Standard*, 27 July 1920.
- 104 *V.P.D.*, Leg. Council, 153 19 November 1919, p. 2437.
- 105 T. Fink to K. Murdoch, 20 January 1920, N.L.A. MS 2823/51.

## NOTES ON CONTRIBUTORS

COLIN BELL is Professor of Sociology at the University of New South Wales. Before he came to Australia, he was Reader in Sociology at the University of Essex. Author of *Middle Class Families*; co-author of *The Disruption of Community Life and Community Studies*; co-editor of *The Sociology of Community* and *Doing Sociological Research*.

BOB CATLEY took a Ph.D. at A.N.U. in 1967 and is now Senior Lecturer in Politics at Adelaide University. Co-author of *From Tweedledum to Tweedledee* and a frequent contributor to *Arena*.

SOL ENCEL is Professor of Sociology at the University of New South Wales. Before 1966, he was Reader in Political Science at A.N.U. Author of *Cabinet Government in Australia* and *Equality and Authority*; part-author or editor of *Australian Society, Women and Society*, and *The Art of Anticipation*.

DARRYL FOSTER studies Social Science at Adelaide University.

ANDREW HOPKINS, a graduate of A.N.U. and the University of Connecticut, is Research Fellow in Sociology at A.N.U. He classifies himself currently as a sociologist of the law and is writing a book on the sociological sources of Australian anti-trust law.

GLEN LEWIS took a Ph.D. at Queensland University and was a member of the History Department there for some years. He is now Lecturer in the Department of Communication Studies at Kuring-gai College of Advanced Education. He is author of *A History of the Ports of Queensland*, and is writing a book on violence and Australian society.

HUMPHREY MCQUEEN is a freelance writer living in Canberra. Author of *A New Britannia, Aborigines, Race and Racism, Social Sketches of Australia 1788-1976*, and *Australia's Media Monopolies*. His study of modern painting and poetry in Australia from 1915 to 1945 will be published late in 1977.

E.L. (TED) WHEELWRIGHT is Associate Professor of Economics at the University of Sydney. Author of *Ownership and Control of Australian Companies, Industrialization in Malaysia*, and *Radical Political Economy*; co-author of *The Highest Bidder, The Anatomy of Australian Manufacturing Industry*, and *The Chinese Road to Socialism*; editor of *Higher Education in Australia*; co-author of *Readings in Political Economy*.

