Retreat from Social Control: Financial Deregulation Since World War II

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INTRODUCTION

The recent moves to grant licences to foreign banks are the culmination of a process that has been going on for more than 30 years. During and immediately after World War II, the Australian economy, and the financial system in particular, was subject to extensive social control. In the course of the post-war period this control has been steadily dismantled. The 'deregulation' mania of recent years is merely an acceleration of the trend.[1]

The retreat from social control has occurred in parallel with developments in mainstream economic thought. The sharp contrast between the dismal performance of capitalism in the Depression and the success of wartime planning had led many economists to question the faith in 'market forces' that had dominated the profession until the 1920s. The result was an interval of enthusiasm for interventionism. But from the 1950s economic thought gradually returned to its historical norm, with an increasingly strident advocacy of laissez-faire policies. This has had most effect in 'arcane' areas such as the financial market system, where popular opposition to the abandonment of social control can easily be dismissed as ignorance and superstition.

In this article, the process of financial deregulation since World War II is examined in more detail. Particular attention is paid to the relationship of this process to the general trends in economic thought. Thus, the article outlines these trends before moving on to consider the effects of deregulation in the area of monetary policy and the financial system. It also considers the current situation of generalised recession as well as the outlook for the future.

THE DEPRESSION TO 1945

The experiences of the Depression and the Second World War fostered a deep disillusionment with the free market system. People who had been told for years that mass unemployment was incurable saw it evaporate in the face of the demands of the war economy. This created a widespread demand for government intervention to maintain full employment when the war ended.

Economists were not immune. The period from the Depression to the end of the war marked a high point of interventionism amongst economists. It is true that the loss of faith in the self-stabilising 'invisible hand' had started well before the Depression. In the twenties, an influential school of expansionist economists (including Irving Fisher and John Maynard Keynes) had challenged the gold standard/passive monetary policy doctrine, and advocated an activist and discretionary monetary policy directed towards the stabilisation of the price level as the best means of promoting broader stability of output and employment. The Depression, however, both greatly extended the theoretical attack on the doctrine of macro-economic laissez-faire and swung the majority of economists in most developed countries over into the interventionist camp.

The loss of faith in the workings of unregulated markets at the aggregate level was followed by a challenge - more limited but nonetheless important - at the 'micro-economic' level. This challenge was the 'imperfect competition revolution', which drew attention to the prevalence of oligopoly, of structural discrimination and segmentation in markets, and of mark-up pricing policies and patterns of increasing marginal returns. All of this was a world away from the model of perfect competition (based, implicitly, on a primary production model). At a practical level, problems such as the structural impediments to new and small business in securing access to capital markets received a great deal of attention, as can be seen both in the MacMillan Report in Britain (1931) and in the Report of the Australian Royal Commission on Banking and Monetary Systems (1937).

Most striking, however, was the growth in the late thirties and early forties of support for micro-intervention with stabilisation policy rationales. This contrasted markedly both with the previously dominant Marshallian laissez-faire and with the 'bastard Keynesian' neoclassical synthesis that was to emerge during the fifties.

It is important to note that early Keynesianism was not characterised by a simple compartmentalisation of 'macro' and 'micro' economics. At many levels, the types of stabilisation policies that appeared necessary for the achievement and maintenance of high levels of employment raised major questions about the need for supportive interventions at the 'micro' level. Some of these interventions directly affected the balance of economic power. This issue remained a major area of ambivalance within the new expansionist school of economists, until the post-war boom 'resolved' the question in favour of a highly aggregative stabilisation policy involving only limited controls and interventions at the 'micro' level.

The neoclassical synthesis has involved a misrepresentation of Keynesianism as a theory of, and policy prescriptions for, short-run investment fluctuations alone. In fact, the role of long-term factors affecting the impetus to invest (or, more precisely, long-term consumption and investment trends in general) was at least as important. Economists like Keynes, Hansen and Colin Clark perceived the thirties as part of an historical epic characterised by chronic underinvestment. This stagnationist perspective had far-reaching implications for policy prescriptions - particularly in the early forties when it came time to draw up the post-war policy plans.

In the early forties there was a widely-influential belief that the distribution of income, interest rate policy and the base size of the public sector (in the sense of public final demand for goods and services, on both capital and current accounts) should all be closely attuned to long-run stabilisation policy. Concretely, responses to chronic underinvestment were seen as including:

- income redistribution to permanently raise the (average and marginal) propensity to consume
- low and stable interest rates to boost the level of investment activity (and, secondarily, to reduce the savings ratio)
- the maintenance of a large and growing level of public demand for goods and services on a secular basis.

The 'secular stagnation' thesis was presented by Keynes and Hansen in rather aggregative terms. At the same time, however, Schumpeter was drawing attention to the micro-foundations of successive epochs of secular strength and weakness in investment activity, particularly the role of innovatory drive and other supply-side factors in supplementing demand-side elements such as population growth and the development of new markets.

Short-run investment volatility was the other side to the coin of stagnation. Keynes pointed to the importance of the inherently speculative and psychological dimension to this problem. Again, his view was widely shared at the time. Partly for this reason, there was a loss of faith in the efficacy of broad brush policies, such as increases in interest rates, as a means of restraining investment booms. As Keynes put it in **The General Theory**: "a rate of interest, high enough to overcome the speculative excitment, would have checked, at the same time, every kind of reasonable new investment" (p.323). Even before the war, support started to develop for selective and discriminatory monetary policy aimed at directly restraining activity in speculative areas in the upswing of the business cycle. This dovetailed with the interest in selective policies aimed at assisting industries with difficulties in securing access to adequate capital.

The experience of the war and the needs of reconstruction - as well as the further growth of support for planning that imposed 'social priorities' on the market - led to a great extension of this approach, leading even in Australia to an (admittedly half-hearted) attempt at a more fully developed policy of controlling access to capital markets in general in accordance with a development plan.

The issue of short-run volatility drew attention to the business confidence aspects of fiscal stabilisation policies. Economists in the thirties were well aware that the net outcome of counter-cyclical public works expenditure and deficit financing depended critically upon the business response - and, more particularly, on the political mood and economic 'conventional wisdom' of business. For example, they regarded it as possible that fiscal stimulus might provide no net boost to the economy if there was reduction in business investment in response to fears aroused by an expansion of public spending. Such a response was identified by Keynesian economists as having occurred in response to stimulatory policy in the USA in the late thirties.

Reflecting this and other considerations, the debate in the forties concerning short-run stabilisation policies was far richer than the later textbook caricature of Keynesian options of public works versus tax cuts. For example, there was a good deal of discussion of the desirability of an extension of public enterprise as a means by which a more direct public influence for the stabilisation of business investment might be exerted. (This argument provided an important macro-economic rationale for the rapid extension of public sector housing construction in the early post-war period.) Writers such as the Australian economist G.L. Wood suggested that a more direct public power was needed to counteract the adverse reactions of business confidence, and therefore business investment, when

stabilisation policies were introduced.

The nature of business ideology - the very foundation of what was required to maintain business confidence - was in fact in the process of change in the thirties. A sense of assuredness concerning laissez-faire principles and 'balanced budget'/quantity theory orthodoxies, had characterised the twenties. But the thirties was a period of greater hesitancy, when even business opinion was affected by the way in which practical experience challenged received views on the efficacy of free markets, on the relation between monetary expansion and the price level, and on the implications of deficits. On the whole, establishment (business/conservative party political) opinion remained hostile to expansionist economics. There were, however, important exceptions, and there was an unprecedented degree of uncertainty even amongst the faithful. It has been argued that political revolutions are often preceded by a loss of confidence and sense of purpose on the part of the ruling class. This view has some applicability to the Keynesian 'revolution' in economics.

THE LONG BOOM

The Transformation of Economic Thought

The period from 1945 to 1973 was one of rapid growth and near-full employment throughout the developed world. Superficially, this growth and relative stability appeared attributable to the application of 'Keynesian' stabilisation policies. These policies did indeed play a very significant role. Important underlying forces were, however, also at work, making the task of stabilisation policy much easier than it might have been. Far from raising the spectre of stagnation, the secular or underlying trend was one of unprecedentedly powerful growth, reflecting the conjunction of a number of highly favourable technological and structural factors.

In addition, the constraints of business confidence were significantly loosened. This was in part a simple corollary of the underlying strength of the capitalist economy, which made 'technically' feasible a stabilisation policy requiring only very limited erosions of the prerogatives of capital at the level of the individual firm. At least as important, however, was the demonstration effect of successful war planning, which had a significant impact upon business attitudes to government intervention (notwithstanding the post-war anti-planning backlash).

The circumstances of the long boom had a powerful effect on mainstream economic policy and theory. Keynesianism was stripped of its radical aspects. The perceived role of business confidence and expectations in the workings of the economy was drastically played down. This was strikingly demonstrated in the mechanical IS/LM formulation, in which the powerful role of expectations in Keynes' liquidity preference and business investment analyses was almost entirely overlooked.

Business cycle theory and policy came to concentrate largely on the short-run (indeed, the focus shortened even further, with increased attention being paid to inventory cycles). Very little attention was paid, or importance attached, to long-run conditions. By the 1960s Keynesian policies had been largely transformed into a formula for intervention at a purely aggregative level, aimed at maintaining demand in the face of investment fluctuations by means such as public works and tax cuts. (Experience had, after all, shown that many of the war-time and post-war controls over the economy could be gradually removed with no apparent adverse effects.) It was assumed that long-run viability and equilibrium could, more or less, be taken for granted under such a policy regime. Gone was the notion that policy should consciously seek to address the (potentially changing) requirements of long-term equilibrium.

A particularly striking manifestation of the new approach was the great assuredness of

'Keynesian' economists with respect to the capacity of demand management to put an end to business cycles and to guarantee permanent stability. It was an optimism that had not been matched in degree by Keynes and other expansionist economists in the thirties.

This 'hydraulic' or 'bastard' Keynesianism was easily assimilated into orthodox traditions, within the framework of what has been called the 'neoclassical synthesis'. It permitted the easy division of economics into aggregative or 'macro' economics, on the one hand, and 'micro' economics, on the other hand. The neoclassical synthesis was founded upon a dichotomy, in which microeconomics and macroeconomics became two logically incompatible 'halves', rather than aspects of a 'whole' economics. With macroeconomic stability taken more or less for granted, economists turned their attention increasingly to microeconomic issues, which were treated purely from the perspective of allocative efficiency on competitive assumptions. Microeconomics was simply orthodox pre-Keynesian economics, though now more frequently presented in terms of highly sophisticated mathematics. The 'imperfect competition' revolution was allowed to wither on the vine. (One recent textbook, of 900 pages, devoted only half a page to the topic of oligopoly.) This gave full rein to the anti-interventionist free market traditions of economic thought, and orthodox economists - aided by the notable failure of some half-hearted 'planning' efforts - mounted increasingly vigorous denunciations of government interference with 'market forces'. While the macroeconomic side of the neoclassical synthesis yielded recommendations for intervention, the microeconomic side yielded the opposite.

Monetary Policy and the Financial System

These broad trends in economic thought were particularly relevant to the theory and practice of monetary policy and the regulation of the financial system. At the end of the war, Australia and many other countries instituted what were regarded as far-reaching controls over their national banking systems; so far-reaching, in fact, that a common retort to contemporary advocates of bank nationalisation was that the system of controls constituted a de facto nationalisation that made de jure nationalisation unnecessary.

The overriding goal of monetary policy in the initial post-war period was the maintenance of low and stable interest rates. As a direct consequence, discount policy and open market operations (which affect the availability of bank credit through interest rate charges originating from the central bank) fell into disfavour. Alternative instruments were required to achieve an adequate measure of control and influence over the volume of bank credit. (In Australia, there was of course the additional element of the relative shallowness of local financial markets, including in particular the secondary market for government bonds.)

The commitment to interest rate stability at low rates largely reflected fears of a re-emergence of secular stagnation. As it turned out, the maintenance of low rates in the face of a powerful investment surge placed an unnecessarily increased burden on other policy instruments. Some of the subsequent policy difficulties would no doubt have been lessened if there had been a willingness to pursue interest rate stability at somewhat higher rates.

The two major new policy instruments focussed upon controls over the direction of bank lending ('qualitative' controls) and controls over the size, composition and disposition of bank reserves. Qualitative controls were seen not only as a means of influencing the level of bank lending, but also - for the range of reasons mentioned earlier (such as discouraging speculation and directing growth away from less socially useful activities) - as a weapon for influencing the sectoral flow of funds. The second form of controls, on the other hand, operated through the Statutory Reserve Deposits (SRD, initially called the Special Accounts) and the Liquid and Government Securities ratio (LGS ratio), and were aimed at directly influencing the capacity of the banks to lend.

Experience with these policies followed a simple pattern. Inherent difficulties were compounded by the utterly half-hearted nature of the regulatory effort. Faced with difficulties, the favoured response was the progressive abandonment of the attempt at social control, with each level of disengagement creating additional pressure for subsequent further withdrawals of regulation.

The first stage was the abandonment of qualitative controls. While there have been subsequent attempts to push bank lending in various directions, using formal controls and 'moral suasion', qualitative controls ceased to be an important element of financial policy after 1952. The problems of making qualitative controls work partly reflected the inherent absurdity of supposing that unwilling private banks would be prepared to faithfully abide by central bank directives concerning the direction of their lending, when these directives could be avoided with ease. There were, however, other fundamental factors. While planning had been effective in allocating resources to maximise production for the war effort, it was not sufficently well-developed to handle the more complex social objectives of a peacetime economy. Traditions of non-intervention were

such that in both Britain and Australia only the most half-hearted effort was made to develop the sort of sectoral plans that are essential to the purposeful use of qualitative controls.[2]

In the next stage of deregulation, during the 1960s and early 1970s, the SRD/LGS approach to monetary policy was gradually supplanted by open market operations, i.e. the sale (or purchase) of government securities so as to reduce (or increase) the aggregate volume of liquid assets held by individuals. There were two main reasons for this development.

Firstly, as with qualitative controls, SRD/LGS could only be used as reliable and predictable policy instruments with the cooperation of the banks themselves. The problems of SRD policy have frequently been attributed in part to the absence of firm traditions on the part of the private banks governing their (voluntary) reserve ratios. Putting one aspect of this more bluntly, the banks could and did defy the wishes of the monetary authorities by running down their own (voluntarily-held) reserves in order to frustrate the restrictive intent of an increase in SRD requirements. Indeed, the new system involved Government guarantees for the banks, thereby changing the meaning and role of their reserves and permitting them to play 'chicken' with a central bank that they knew would not permit bank failures.

Secondly, SRD/LGS controls applied solely to banks. This prompted the growth of unregulated institutions such as building societies and finance companies (many of the latter being subsidiaries of the banks themselves). Thus, extensive use of controls tended to reduce their effectiveness by eroding the competitive position of banks. In this situation, two main alternatives were open. Governments could either extend controls to the unregulated sector (this was the intent of the never-proclaimed Part IVa of the Whitlam Government's Financial Corporations Act) or adopt more indirect methods of control. Economic orthodoxy strongly favoured the latter course.

There were a number of important ramifications to this pattern of receding control. At the macro-economic level, the shift to 'market oriented' policies both contributed to, and was facilitated by, a greater acceptance of interest rate variability and a re-emergence (in the neoclassical synthesis) of a more direct concern with the management of the money supply. At the micro-economic level, traditional themes of allocative efficiency and non-intervention were increasingly applied to the financial market. Orthodox micro-economics taught that 'the capital market is just another market' and applied standard efficiency arguments against intervention. (These arguments were presented in detail in the Campbell Committee Report.) The eventual result was the uneasy compromise of open market operations, in which the monetary authorities sought to control the financial system without 'interfering' in its workings. At both levels, the trends prepared the way for the policy developments that were to take place following the end of the long boom.

A Period of Receding Control?

The description of the long boom as a period of receding social control and advancing free market ideology may seem inconsistent with the massive expansion of government activity during this period. But the inconsistency merely reflects the peculiar balance in both the structure of policy and the dominant social views of the period. The key concept was that of the mixed economy, in which the dynamism of the free market produced the goods, while the government maintained stability through aggregate demand management and then ensured a fair distribution of the proceeds. Views of this kind were articulated by a wide range of writers, from the Cold War liberals in the US to the 'revisionist' socialists like Anthony Crosland in the UK. They all relied, more or less explicitly, on the belief that the government could guarantee full employment with only limited intervention.

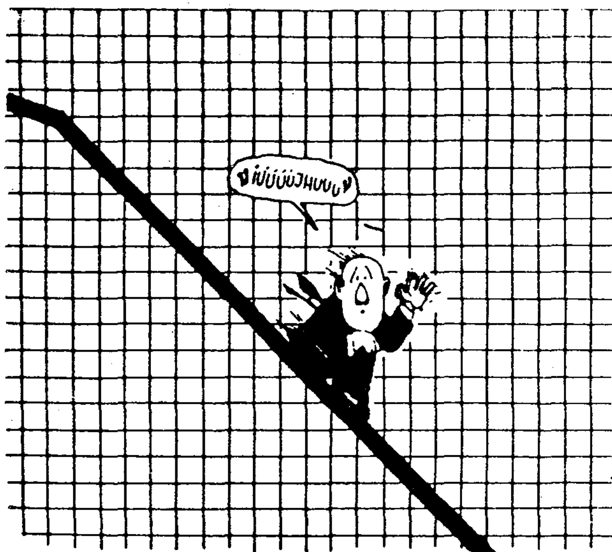
This in turn implied that social reforms could be undertaken without too many worries about adverse effects on business confidence. Admittedly, these social reforms could not be reconciled with the free-market ideology which was being used to justify the retreat from social control over the financial system; an ideology that asserted that unemployment benefits cause unemployment, that old age pensions destroy the incentive to save, and that health, education, and housing should be left to the free market. Nevertheless, as long as full employment was maintained, these contradictions could be ignored or papered over.

Although economists were concerned at the logical inconsistencies in the micro/macro framework, hydraulic Keynesianism remained largely invulnerable as long as it appeared to provide an effective guide to policy. However, with the end of the long boom in the 1970s, the stage was set for a return to nineteenth century ideology and an acceleration of deregulation.

AFTER THE BOOM

The end of the post-war boom is marked by the final collapse of the post-war international monetary order (the Bretton Woods system) in 1973. This breakdown reflected a number of factors. The post-war period had seen the rapid expansion of bank operations at the largely uncontrolled international level, together with a massive (and excessive) growth in international liquidity that was manifested in the rapid development of the Eurodollar markets

in the 1960s. (The growth of international banking was merely the tip of the iceberg in the undermining of the regulatory powers of national goverments, with multinational corporations wielding substantial and growing power to move funds at will regardless of government controls.) With the end of the post-war boom and the increased divergence and instability of national inflation and growth performances, defensive and speculative pressures made it impossible for currencies to maintain fixed values against each other, let alone against a 'real' base such as gold.



The breakdown of Bretton Woods heralded a major victory for the monetarist wing of the economics profession. They had long advocated both a system of floating exchange rates and an abandonment of discretionary demand management in favour of a policy of fixed rules governing the rate of growth of the money supply. This, they argued, would yield rapid control of inflation, without any significantly worse level of unemployment than would arise using the Keynesian approach. Once inflation was controlled, speculators would act to stabilise, rather than destabilise, exchange rates.

The shift in macro policy that followed from the increasing influence of monetarism was accompanied by an acceleration of the deregulation of financial markets. The latter development partly flowed from the strongly laissez-faire ideology associated with monetarism. However, it also had a momentum of its own. The removal or breakdown of some areas of social control over the financial system made other interventions increasingly untenable.

This momentum can be seen at work in the Australian case. The growth of largely unregulated finance companies in the post-war period undermined the effectiveness of the controls over banks. The failure to proclaim Part IVa of the Financial Corporations Act, together with increasing instability and high rates of inflation, made many of the existing controls over bank lending and interest rates difficult to maintain. The removal of the controls led to massive increases in bank profits, which were then used to justify the admission of foreign banks. Finally, the impending arrival of the foreign banks necessitated the removal of many of the remaining controls over the banking system.

Thus, the scale of regulation of the banking system has been dramatically wound back. It now appears likely that foreign banks will lead the way in breaking down restrictions on overseas ownership and investment.

A parallel and inter-related process was occurring in connection with exchange rate management. After 1972, the Australian dollar was effectively tied to the US dollar, although a basket of the currencies of major trading partners was also used. The increased instability of the post-1972 period made the maintenance of such a system increasingly difficult. The fact that Australia had permitted a massive takeover of its economy by multinational corporations started to tell heavily, with bursts of 'leading and lagging' directed against the currency. (A few other countries - notably Japan - have been far wiser and have drastically limited foreign entry into both their business ownership and their financial markets.) As in the case of the banking system, the Whitlam government sought to resist speculation through the imposition of stop-gap controls, notably the Variable Deposit Requirement (VDR), but it failed to develop a coherent planning approach. Controls were abandoned by its sucessors, with the result that any form of fixed rate became untenable. The fixed rate approach was dropped, initially in favour of a 'crawling peg' approach where exchange rates were set on a daily basis. Then, in 1983, severe bursts of speculative pressure triggered a move to a 'free float'.

Contrary to the expectations of its proponents, the initial result of the float was a significant fluctuation in the value of the dollar, with a fall being followed by a sharp rise against the $US, and then another fall. This fluctuation was blamed on the regulations limiting participation in the foreign exchange market. These regulations were therefore removed, and a large number of new foreign exchange licences issued, with no perceptible reduction in exchange rate instability. This step in turn increased the degree of integration of the Australian and world capital markets, once again increasing pressure for the removal of restrictions on foreign banks and other regulations.

In a more permanent sense, the float has formalised the subservience of government to international business confidence. It signals a

situation in which exchange rate stability can only be secured, if at all, through the strict maintenance of domestic economic policies which appear 'sound' and 'responsible' to the influential readers of **Euromoney**.

The end of the long boom has had other far-reaching effects on the economic policy environment. The initial response of governments, up to and including the 1974 slump, was the application of short term Keynesian demand maintenance policies. Faced, however, with a supply-side decline in the economy that had been underway since the mid-sixties, these policies were bound to be of limited value. The acceleration of inflation - itself principally the result of the slow adjustment of wage and profit expectations to a secular decline in productivity growth - completed the impression of macro-economic failure. This apparent 'failure' of Keynesianism swept away the last of the barriers to a full-blooded monetarist revival.

This discussion illustrates a number of points. First, in both financial markets and monetary policy, the retreat from social control has if anything contributed to the sharply increasing instability. Monetary targeting has not only been largely useless in controlling inflation, but, as a result of deregulation, which has broken down the concept of well-defined monetary aggregates, it has ceased to be even meaningful. Ironically, a major argument in favour of the float was the increase in the effectiveness of monetary targeting, at precisely the time when such targeting ceased to be meaningful. Deregulation has been associated with severe instability in interest and exchange rates, without obvious efficiency benefits. However, as the exchange rate example shows, the very failures of deregulation have just tended to lead to more deregulation. Even such an obvious result of free financial markets as the collapse of the Continental Illinois Bank has been blamed on the restrictions which 'forced' American bankers into the adoption of profitable but unsound lending policies. Currency instability following the float has played a similar role in Australia.

The retreat from social control has restored the importance of 'business confidence' for the welfare of the economy. Having lost (or abandoned) control over the level of economic activity, governments must be careful not to do anything that will offend business, and particularly anything that will arouse 'inflationary expectations'. This has been reflected in the obsession with the budget deficit that has played such a major role in economic debate in recent years. More significantly perhaps, the need to placate business has had major implications for the taxation and welfare systems. The burden of taxation has been shifted from business onto workers, and particularly lower-paid workers. This process has continued under the Hawke government with an expansion in indirect taxes in the 1983 budget and the likelihood of a major shift in this direction at the Tax Summit. The need to reassure business has even extended beyond the strictly economic areas, contributing greatly to the felt need to avoid foreign policies which might upset the US.

THE OUTLOOK FOR THE FUTURE

The outlook for the immediate future is undoubtedly bleak. The rapidly increasing integration of Australian and world capital markets makes the adoption of independent economic policies a virtual impossibility. (This fact has been noted, and welcomed, by orthodox economic commentators such as Maximilian Walsh.) Thus, Australia's economic fortunes will be determined mainly by world markets that are increasingly beyond the control of any government. Indeed, because of Australia's dependence on exports of minerals and agricultural commodities, which involve particularly sharp fluctuations, it is likely that our cycle of boom and slump will be more severe than that of the world as a whole.

It is vital for socialists to make these points and to argue for a return to social control over the economy. It is true that this involves many difficulties. Such arguments are unlikely to have much impact during periods of recovery like the present. During such periods the benefits of access to the international capital market are obvious. Even though the fragility and instability of those markets is readily apparent, especially in the light of the Third

World debt crisis, it is always possible to find plausible reasons for supposing that no real dangers are involved. Moreover, when a downturn does take place it is likely that the initial response will be a swing towards even stricter orthodoxy. The gloomy rule that the failures of the free market can be blamed on the remaining interventions in the economy has been followed repeatedly.

There are, however, some optimistic signs. Although the tide of deregulation continues to advance, the underlying ideas are beginning to lose ground as result of continued failures. This is particularly clear in the area of macroeconomics. Monetarism has been discredited on a number of fronts. Its major policy prescription, the control of money supply growth, is widely seen, at best, as inadequate even to control inflation, and, at worst, as meaningless. At the same time, its main theoretical development of recent years, the concept of 'rational expectations', has been a dead end, mainly because of its failure to explain, except in a totally ad hoc fashion, cyclical unemployment.

A more fundamental problem concerns the need for a thoroughgoing reassertion of social control over the economy, as opposed to a piecemeal restoration of the forms of intervention that have been dismantled in the post-war period. The evidence of the post-1973 period shows clearly that isolated interventions in the economy, however radical in form, are not sustainable in a context of uncontrolled and unstable capital markets.

It is clearly impossible to restore social control overnight. What is needed is a programme of intervention that can be self-sustaining and can develop the same kind of momentum as the process of deregulation has done. Important areas for immediate action include the restoration of control over international capital flows and the development of planning mechanisms for public and private investments. Such policies would imply a need for further interventions. In particular, the dominance of private investment and the stranglehold of 'business confidence' would have to be challenged, and Australia's dependence on foreign capital reduced.

There is no doubt that a reversal both of the process of deregulation and of the process of integration of Australian and world capital markets would involve significant costs, particularly in the short-term. Without this reassertion of social control, however, we must continue to bear the massive waste inherent in mass unemployment and the capitalist cycle of boom and slump.

NOTES

1. While it is clear that the overall thrust of deregulation is highly regressive, this does not, of course, imply that any and all forms of government intervention in the economy should be regarded as progressive. To examine this proposition would be to enter a complex debate on the 'role of the State'. Without entering this debate we will merely state that the argument here is based on the premise that social control of the financial system and of the general level of employment and activity is a necessary **pre-condition** for socialist change.

2. By contrast, in France, qualitative controls - the so-called **encadrement du credit** - survive to a significant degree even today, although the system is probably facing major deregulation in the near future by the Mitterand government. See <u>Business Week</u>, 12 November 1984.

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